

## 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 specula-

tors 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.

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### Nino Galloni

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### 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



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

given back to them, then both the quantity and quality of good and services will increase.

### **Three Obstacles to ‘Pay as You Go’**

The debate about mandatory pay-as-you-go pension systems (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.

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Jan Carnogursky

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## **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

in their study curriculum, but study of the “dialectic” had to be perfectly mastered. This study of Hegel through Marx was undertaken in order to explain things which were unclear.

For better or worse, I am also turning back to the dialectic today, because I don’t know any other way out. I have heard about Osama bin Laden, that the American CIA protected him and helped him create his organization as a fighting force against the Soviet occupation of Afghanistan, and I recall that I myself stood on the side of the Afghan resistance. I rejoiced over each victory of the Afghan mujahideen over the Soviet Army. Therefore, I also stood on the side of bin Laden, as I hear today. During the Vietnam War I stood on the side of the Americans and denounced the American students who demonstrated at the universities against the policy of Richard Nixon. Therefore I was against John Kerry, who turned into an opponent of American involvement in Vietnam, as I read today.

My attitude against the student movement in West Germany in the 1960s and the German extraparliamentary opposition also requires some dialectics. In the Winter of 1968-69, Rudi Dutschke and his left-wing friends visited Prague. I was then a student in Prague. The leftist enthusiasm and the oath of the essay by Herbert Marcuse about repression, at the time drew from us—a couple of months after the occupation of Czechoslovakia by the Warsaw Pact military—a laugh of incomprehension.

Since then communism has fallen and all of us in the former Eastern Europe have begun to build up capitalism. At first our people learned how to recognize the traps of the new social system, and to many it was just like Radio Yerevan. Again I—on their side, but in the face of questions about why it has gone so badly for them—must turn back to the fight against communism. I remind myself of the theoretical and practical daily appearance of communism, and I must confirm with a certain satisfaction that communism, in spite of the current problems of the former East bloc, was a bad system and it was necessary to supplant it. There were many theoretical ideas about defeating communism, but for us behind the Iron Curtain, there was only one practical model, and that was that of Western Europe and the United States. We were not capable of working out any other integrated idea. The people of the former East bloc have assumed the very social order which existed practically in Western Europe.

Communism collapsed under the pressure of a demonstrating population and also under its own weight. I can today only throw away all dialectics, and repeat that it was necessary to replace communism and sing, with Edith Piaf, “I Have No Regrets.”

### **Invasion of IMF/World Bank Advisors**

Also in economic policy, we were not capable of devising something original. Under the slogan of privatization, the state industries which existed in the former Czechoslovakia were murdered, with the help of the “coupon method.” It must be said, that the former state industries were not capable of



*Dr. Jan Carnogursky, a former Prime Minister of Slovakia, addressed the difficulties in rebuilding after the fall of communism.*

surviving under the new economic conditions, and after the restrictions on their rigid management were liberalized, either slowly or rapidly, they all collapsed.

Soon after the change of the social system, we found out that the institution of the foreign advisor is everlasting. Under communism, Soviet advisors came to us. In the first years after the change, I was a member of the government of Czechoslovakia and Slovakia. Already in 1990, the missions of the International Monetary Fund began. They had access to all the data on the economy. As a reward, we began to get memoranda from the International Monetary Fund with recommendations for further economic policies. I recall one of the first memoranda from 1990, in which the IMF recommended decreasing payments to households with children, to save money. The various missions from the World Bank proposed shock therapy measures for improving our economy, and demanded at the same time that we issue lucrative credits for the imposition of these shock measures.

Aside from the economic measures, they also inflicted upon us a new dialectic. We learned for ourselves that we are nationalists and that all Eastern people are corrupt. The reproach of corruption is at times almost fundamentally profound. For example, I read from a Western reporter that the first stage of corruption in Slovakia was already evident on the ski slopes. When people were waiting for the ski lift, it frequently happened that the operators let in people they knew, rather than sending them to the end of the line. Still worse, the people at the end of the line wouldn’t protest against this (because there weren’t really very many who were let in). I must betray the fact that the first and second forms of corruption also have happened to me. The foreign reporter wrote that the Slovaks would be sending a signal about cleaning up their corruption, if there were an end to ski lift operators letting people they know go to the head of the line, and should they fail to do this, then the people standing in line should let loose a scream, so that he is considered a sinner.

I learned to recognize a new dialectic on this basis. Some-

time in 1994, Holland became the first country to permit euthanasia. At that point I wrote to my colleagues in the Christian Democratic Party in Holland, asking why Christian Democrats could consent to such a law. I received the answer that euthanasia is committed in the hospitals and that it is a 100-year-old tradition in Holland: that the laws reflect the actual reality.

### **The ‘Dialectic’ of Globalization**

The awakening of the economy in the former East bloc happened fully in the framework of the Western concept. The ruin of the East bloc made globalization possible. Globalization in turn proceeded in Eastern Europe according to the models of the West, which the West itself did not accept, such as that of Jeffrey Sachs. Just as earlier Boris Pasternak had written about Russia, the people of Eastern Europe are distinguished by a strengthened capacity to suffer the hardships of life, with this method, Eastern Europe overtook its new partners in the European Union and in NATO. In the military this is called asymmetrical warfare. This went so far, that the German Chancellor and the French Finance Minister demanded a uniform tax assessment within the European Union, because the new member countries were attracting firms from the older member countries, through tax reductions.

In the 1990s, more banks and various financial institutions were established in the former Eastern Europe than initiatives for the development of infrastructure. Society was not prepared for the new economic regime that various speculators took advantage of. Eastern Europe all over was overwhelmed by a wave of pyramid schemes, which took hundreds of thousands of people for their life’s savings. The difference lay only in whether they would go bankrupt with a smaller number of investors, or later with a larger number of bankrupts.

In 1999, Slovakia’s government carried out a so-called banking recovery. It transferred from the former state banks, the unhealthy loans which could not be paid, to a specially created state institution. The value of the transferred unhealthy loans was more than 100 billion kroner, which was worth approximately a half-year’s budget. The state budget was committed to pay off the banks for the transferred loans within ten years. We carried out the transfer of the unhealthy loans to a state financial institution at the recommendation of the World Bank. Afterwards the healthy banks were privatized, then sold to foreign interests.

### **Two Major Transformations**

The majority of the Eastern Europe states underwent two major transformations after the collapse of communism. The first was the changing of the Communist order into a democratic and market-based one.

The second great transformation was connected to the entrance of these states into the European Union. Once again, we adapted our legal system to another legal order, and again we assimilated new legal and economic regulations. After decades of long isolation in the Communist bloc, the grandeur

and openness of the European Union was still a new experience for us. Now we look at ourselves as EU members on the inside, and have made decisions on many proposals regarding changes in the EU. The Slovakian interior and justice ministers, this Summer blocked the recognition of homosexual marriages from Holland in all the EU states. Both at café tables and specialized conferences, a better project for European integration can undoubtedly be worked out.

But the reality is, that the visionaries of a half-century have provided the starting shot which today has the form of the EU. In the face of all the criticism of the current situation of the EU, I think that the Union has played a positive role and always will. The positive duty lies in eliminating the enmity between the people and state which has burdened the past, in the development of cooperation between the peoples and states, and in the reconstruction of Europe, which would be able to play a role of its own on the international stage. No single European country would be capable of this. One can hope, that at least the pressure for reforming the Union from the inside would be stronger after the entrance of the new states. But, I see no basis for a negative view of the Union.

This doesn’t apply to the policy of NATO expansion. The Alliance has obviously fulfilled its function of defending the West against communism, but with the new situation after the collapse of the East bloc, it is not satisfied. NATO has become a tool of U.S. policy, which does not serve the interests of Europe. NATO expansion eastward deepens the division of the continent and pushes Russia toward Asia. Europe will be weakened in this way. With the help of NATO, the United States is pulling the Alliance member states into its wars. The last decade has shown, that the European member states are not able to enforce their will in NATO, and they can only not participate in NATO actions, which is a shame, so that NATO’s disintegration should be wished for as soon as possible.

### **‘You Are Dissidents of the West’**

The overthrow of communism meant the freeing of the former Eastern Europe. At last, it seems that the legacy of communism will end up covered with dust in museums. But this year, the Monday demonstrations in Germany brought our attention to this uniquely East German symbol. Another important symbol of the struggle against communism, is the legacy that one can not live in the midst of lies. The responsibility to tell the truth and to protect the freedom to tell the truth, remains a broader standing challenge. This challenge also continues in the present, although it was manifested differently under communism.

By reading the publications of the [political party headed by Helga Zepp-LaRouche] Bürgerrechtsbewegung Solidarität [BüSo] and Lyndon LaRouche, you can confirm that many problems in the world are understood and have been identified there, many years ahead of the so-called trend-setting press. They wrote about the negative effect of financial derivatives on the financial system decades ago, while in the program of

the G-7 meeting, this problem was first identified at the end of 1990. Lyndon LaRouche proposed the project for the construction of infrastructure in Central Europe in 1990, which to some extent was proposed by the European Union in the form of the Tremonti Plan only two years ago. LaRouche identified the bankruptcy of the LTCM hedge fund in 1998, as a threat to the international financial system, which the mainstream press in the United States did at the earliest in 2000. The BüSo's newspaper wrote three or four years ago, about the repeat of the 10th-Century "Great Game" in Central Asia and the Caucasus. After the tragedy in Beslan, the American press said that the situation in the Caucasus could be calmed down if Russia united with the United States. Finally, developments in Iraq, so far, tragically confirm all the warnings of the BüSo press before the attack on Iraq. Nonetheless, Lyndon LaRouche and his collaborators are anathema for the Western establishment. Simply said, you are the dissidents of the West.

The final lesson from the battle with communism speaks to our times. All opponents of communism counted on a very long struggle. It actually was long. No one promised that change would happen in a few weeks or months. For whoever grasped the unnatural nature of communism, the battle would be a life-long mission. Liberation ultimately did come, earlier than anyone would have prophesied.

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## Stanislav Fischer

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# Cross-Party Cooperation Can Achieve Good Results

*Dr. Fischer is a member of Parliament in the Czech Republic, who represents the communist party of Bohemia and Moravia, as well as a retired physicist, who worked for 30 years in the area of space research. Subheads have been added.*

... All my scientific life, about 30 years, I spent studying cosmic rays, preparing space experiments and so on. I went into the Czech Parliament at the age of 62 in 1998, when I was ripe to retire. So I am also in some sense a fresh politician. . . .

What I would like to say is a few words about why I am here, and about the importance of these meetings, of this conference. About four years ago I got an e-mail from the Schiller Institute to our Parliament, a resolution explaining the ideas of the LaRouche movement. [The proposed resolution was modelled on the Italian parliamentary initiative for a New Bretton Woods.] I translated it into Czech and presented it in our meeting of the communist faction in Parliament. We were then 24, out of 200 parliamentarians, and we adopted it. And as a group, the communist faction of the



*Dr. Stanislav Fischer, a member of the Parliament of the Czech Republic.*

Czech Parliament at that time expressed open support to these ideas. Maybe it looks strange: When I saw the names on the signed resolution, I found that most, or many of them, are Italians. And I made an investigation, to find from which parties these members of the [Italian] Senate and the Chamber of Deputies came. And I was very surprised, because most of them—if not all—were rightist politicians. And they were supported by communists in our country. Strange, isn't it?

Later I attended also the [Schiller Institute] conference in Bad Schwalbach three years ago. And I started to be a little bit active in this field, organizing two meetings of representatives of the Schiller Institute in Prague in the previous years. And also this is the reason why I am here now, because I think, that we must try to unite.

We should try. And I would like to give you an example: To overcome these difficulties in our economy—European and worldwide—we should try to make an agreement between all political factions in our parliaments, in civic society, in our states, to try to find some agreement and to perform some common activities. It is not easy. I can present an example. For example just now, you heard a speech of Dr. Carnogursky. He is a rightist politician from former Czechoslovakia, I am a leftist politician. He is from Slovakia and I am from the Czech Republic. And we should hardly meet in Prague and Bratislava and talk to one another. But even if I cannot agree with many of his statements, I can support some of them, and I would like to talk with him here, if he agrees. And I hope it can happen, if I confidentially tell him, that during the three years of so-called "normalization" after the occupation of Czechoslovakia, I was excluded from the Communist Party of Slovakia, where I was employed for ten years. So I could even try to speak Slovakian.

So I think this is one example how politicians of different parties can meet together, and try to create or agree on some laws, that would enable us to improve our economies and our common doings, and bring things to something better in the future. And I wish to express my thinking, my opinion, that it would be possible in the future, because the era of revolutions in modern-day Europe and worldwide is behind us. . . .