

Interview Guarino

Question: Professor, you were Finance Minister in 1987 and Industry Minister in 1992. While in those positions, you closely followed the final phases of the process of building the European Union and the Eurozone. An essay published on your website (www-giuseppeguarino.it) , sent by European Parliament member Claudio Morganti to the chairmen of the EU Commission and Parliament, is drawing interest. Can you explain the core issue of your argument?

Guarino: I will try to express myself in the simplest possible way, although the subject matter is extremely complex. For further clarification, I must refer you to the text you mentioned. On January 1, 1999, a new type of currency, the euro, which was under the discipline of the Maastricht Treaty, was to be launched. To be allowed to use it, states had to pay a high price. They gave up sovereignty over currency and customs, market separation and much more. They had accepted an estimated value of financial and real estate capital, both of their own and of their citizens, in the new currency at a pre-established exchange rate. They had undergone a strict weight-loss therapy, to implement convergency conditions. In exchange for all that, the Treaty guaranteed "sustainable and non-inflationary growth respecting the environment, a high degree of convergence of economic performance, a high level of employment and of social protection, the raising of the standard of living and quality of life, and economic and social cohesion and solidarity among Member States" (Art. 2 TEU).

Q. What happened on January 1, 1999?

Guarino: Once the the price was paid, the Union should have delivered the service promised, that is a "euro" consistent with the discipline laid out in the Treaty. Instead, a different currency was delivered to the member countries and introduced onto the markets. "Aliud pro Alio".

Q. Not the real euro but a 'fake'?

Guarino: That is a strong word, but it is correct.

Q. What are the substantial consequences of having substituted the "authentic" euro with the "fake" one?

Guarino: The "Union plus euro" system was planned by two great architects: the general design, by Jacques Delors, Commission Chairman, and his collaborators; the monetary aspects by Otto Pöhl, Bundesbank Chairman. The basis for growth was supposed to be ensured by the creation of a market which, once 27 countries had joined, would become the largest in the world, and by a currency, the euro (today shared by 17 countries), which would eliminate transaction costs and be managed on the basis of the principle of stability (Art. 3 TEU). On this platform, they proceeded with laying down the tasks which Union and member states should perform.

Q. Can you explain it to us?

Guarino: The Union, , in addition to the common currency (the euro) and foreign customs, was entrusted with a series of "actions" (Art. 2 TEU) and more. The Union would not have the power to independently raise the means to pay for its organization and its "actions". It could not issue debt and its budget had to be rigorously balanced. Union resources would come from external tariffs,

from a few other sources and mainly from its "own" resources, which in reality were not its own, but supplied by member countries. Implementing the promised effects of sustainable growth, both their own and of the Union, was to be the task of member countries.

Q. The countries were supposed to "pull the wagon", both for themselves and for the Union. How could they do that?

Guarino: The EU-euro system is a large organism. Like any other organism, it has parts which are similar, in character, to parts of a machine. They consist of the system of organs, of procedures to choose their officials, of the distribution of powers. But there must necessarily be a pilot as well, because the Union is an organism, not just a simple machine. The "pilot" is the leadership system made up of those who hold the powers of government for the Union and member states. But there must also be a system of energy production. This is the issue disciplined by Art. 104 c) and by Prot. 5 of the Maastricht Treaty.

Q. There is where Pöhl enters?

Guarino: Yes. As Bundesbank Chairman, Pöhl had managed the D-Mark, the currency that, before the Single Act and Maastricht Treaties, enjoyed supremacy over all other countries due to its stability. He had also headed the Bundesbank during the delicate phase of German reunification. The euro was to have the same features of stability as the D-Mark. Pöhl knew that, to achieve stability, powers of general discretionality are needed to steer the ship in the right direction whenever, whilst sailing over the oceans (financial and commercial markets), winds, storms and currents cause the ship to go off course. Pöhl was also aware that fuel regenerates itself, if a country's trade balance is structurally positive. And he knew that most of the states accepted into the euro would not be in such a position at the start. The general architecture of the Union provided that each member state would have its own economic policy. The target of each state's economic policy was to be growth, without which there would be no "sustainable growth" as promised by the Treaty. State economic policies would contribute to the Union's policy. The Union would coordinate them under general guidelines (Art. 102 A, 103, TEU). Pöhl was well aware that member countries had given away all the instruments for generating resources for growth, such as steered inflation, currency exchange policy, protective or stimulative tariffs and more. The only instrument left for states to use for their economic policies to promote growth would thus be indebtedment. Sovereign states can take on debt as long as they assume the liability for it. In the Union, that was not possible. It would create non-homogeneous conditions. It was Pöhl who determined the upper limit, compatible with the system of the Union. It seems that he personally drafted the text of Art. 104 c) and Prot. 5 of the TEU. These are the two reference values: a ratio of 3% to GDP for the annual deficit and of 60% for total debt – the two "famous" Maastricht parameters. It was a wise choice and well thought through. The USA followed this constraint (except during periods of emergency, of generalized crisis or war) and in the course of one century, it doubled its wealth.

Q. The date of launching the euro coincides with the implementation of Reg. 1466/97; this suggests that the regulation played some role in the creation of the "fake" euro.

Guarino: That is the case. Reg. 1466/97 imposed a budget close to balance or in surplus, which amounts to a 0% annual indebtedment. Suddenly, Art. 104 c) and Prot. N. 5 TEU, the two provisions devised by Pöhl, were removed. It was not an issue of percentages; Pöhl's rules constituted the specific instrument which states were given to implement their economic policies aimed at growth.

The function of both parameters would be as essential for states, as wings are for birds. Once they were taken away, states would not be able to fly. Once grounded, they would become victims of a generalized and gradually increasing process of impoverishment. That is what has happened.

Q. I understand why you insist that Reg. 1466/97 struck "the euro at its heart". Who could have devised the elimination in one fell swoop of the extraordinary architecture of the euro, which was achieved through a multi-decade historical process and whose final design had been planned by two prominent personalities, Delors and Pöhl?

Guarino: Reg. 1466/97 was adopted by the Santer Commission on July 7, 1997. It was an unfortunate Commission. It was forced to resign due to scandals involving some commissioners, in a unique case in the history of European institutions. The British Samuel Brittan was Vice President. Yves-Thibault de Silguy, a Frenchman, and Mario Monti, Italian, were the two commissioners whose competences were more intimately linked to monetary questions. The substitution of the "authentic" euro with "another" euro had occurred by replacing the legal rules of the Treaty with other ones, which were introduced with the Regulation. When we discuss the European Union and the euro, we must keep in mind, concerning economic effects, that the causal factor is necessarily a legal one, because the euro currency is the product of a legal construction. One could suppose that the initiative originated in the bureaucratic organs. Formally, Commissioners cannot escape their responsibility.

Q. And Merkel?

Guarino: The substitution of the authentic euro with a fake euro has been camouflaged very well. It coincided with the label: growth, instead of being sustainable, was presented as "vigorous". In the same way, today, they sell you donkey or horse meat for beef. The Santer Commission, while working on the fake euro, prepared and implemented the Amsterdam Treaty in those same years. With the same method, in 2005, another Commission led to approval of Reg. 1055/2005, which confirmed 1466/97, while drafting the Lisbon Treaty and leading to its approval. Amsterdam and Lisbon reproduce verbally the TEU articles, drafted by Pöhl, which the Regulation then removed in those same days! The "fake" has not been exposed, including because of the enormity of the violation. No one could imagine that the Commission, whose main mission is to supervise the approval of Treaties (Art. 155 TEU), was violating them at the very time it was pushing to get them approved.

Merkel came later, after the crime. She took on governmental functions in 2005. Of all the member countries, conditions in Germany were the best in 1999. Furthermore, there were compensation effects in the years around 2005, produced by the enlargement of the market. Once that ceased, the existence of a generalized depressive phenomenon in the Eurozone could no longer be denied. Since the causes were not known, panic spread and everybody accused the others of being guilty. All leaders since 1999 have been suspected. No one could have imagined that, in order to find the culprit, we had to go back to Reg. 1466/97, to its authors, to the Commissioners and state leaders who eventually followed the path laid out by the Regulation and perpetuated its effects, making them worse.

Q. What can and must be done?

Guarino: First of all, and it is urgent, we must neutralize the damaging factor. Every state must exercise its right to implement the Maastricht parameters, today reproduced in Art. 126 of the

Lisbon Treaty. Every member country of the Union must at the same time demand that the Commission, which has the duty of supervising the implementation of Treaties, put an end to illegality. It should implement and force others to implement Art. 126, current European Law, which abrogates all previous and contrary laws. As for the International Fiscal Compact, it states that it can only be implemented insofar as it complies with the European Treaties. It is in striking contrast to Lisbon and therefore it is not to be implemented.

Q. Would this be enough?

Guarino: In 1999, Pöhl's formulas would have ensured sustainable growth which, for an aspect that cannot be overlooked ???, was supposed to be the counterpart of the price already paid by states in the form of giving up their sovereignty. Today things have changed. The impoverishment of everybody through the years has aggravated the dimension of the phenomenon. And this has occurred, year after year, since 1999. It is not correct to speak of contagion. A virus, one single factor, attacks member countries, one by one, starting from the moment when they demonstrate they are no longer able to resist it. A condition which even France is approaching with rapid steps.

Q. And therefore?

Guarino: The original machine has been so smashed that even the best mechanic would be unable to repair it. On the other hand, planetary conditions have deeply changed in the past twenty years.

New powerful economies have emerged (China and India), new areas (Africa, South America, East Asia) want to play leading roles. The digital revolution has disrupted single and collective behaviors. The USA, Europe being its largest purchaser of goods (20%) and services (40%), and also the area where American multinationals make half of their foreign profits, is today linked to the destiny of Europe. Before the place is occupied by others, Europe must go back to the method followed until 1991. The model envisaged in 1991 is today obsolete. We need to rely again on great architects who plan an innovative and effective machine, suited to the new conditions of today's world.

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