first months of 2000, the present government does not differ in any way from that of [former Prime Minister Viktor] Chernomyrdin."

Why Economic Growth Was Reversed

Glazyev identified three factors behind the recent reversal of the post-August 1998 economic growth.

"First, the pressure of the monopolists, especially in the areas of metallurgy, chemical industry, and gas and oil processing. After May [1999] the structure of prices drastically changed, and the prices of construction materials and chemical raw materials rose to world levels. . . . The inflationary increase due to the increase in raw materials and fuels amounted to *5% per month* during the second half of 1999. This means that the costs of production of all products of manufacturing industries have grown by nearly one-and-a-half times in the course of half a year." Glazyev explained that the Primakov government had kept to a "strict policy of stopping any increase in the prices of fuel." Industry responded with a rapid upswing, which stopped beginning May 1999, as a result of the increase in prices of raw materials and oil. The government withdrew its financial support of the producers and went over to supporting the monopolists, as has been usual in recent years. That means the oligarchs."

The second cause of the present shrinkage, according to Glazyev, is a "sharp and significant increase in the cost of credit."

"The third reason, why there has been no Russian economic miracle, is particularly obvious: The control over the flow of capital out of the country has weakened considerably. . . . According to my estimates," said Glazyev, "last year 40% of all investable capital accumulation left the country."

When asked about Western promises to invest in Russia, Glazyev replied that, indeed, the Russian financial market had once again become atractive to speculators. But, as in the first half of the 1990s, the speculative money coming into Russia "will not reach the productive sector, but will circulate in financial pyramids." The expectation that Russian enterprises would become profitable, under a continuation of present policies, Glazyev denounced as "a myth. . . . At current fuel prices, the production of gold is already unprofitable."

Glazyev denounced the recently completed economic program of German Gref—another adviser to Russian President Vladimir Putin, recently elevated to a ministerial chair—as "re-chewed neo-liberal doctrine," and asked why the government was not listening to the Russian Academy of Sciences, which had put forward real solutions for the country's economic problems. "Above all, we need an elastic monetary policy, oriented to the requirements of production. The channeling of financial flows into the productive sphere and the refinancing of enterprises." Otherwise, Russia's decline into the status of just a raw materials exporter will soon become irreversible.

Europe Is Entering Post-Maastricht Era

by Rainer Apel

The entire construct of the "Maastricht Europe," named after the Dutch city of Maastricht where the treaties on the final phase of the European Monetary Union (EMU) and its single currency, the euro, were signed in February 1992, has been unstable from the start. *EIR* has said so, over the years, and numerous independent economic experts in Europe have said so as well. But, despite the many early warnings, the final go-ahead for the euro was signed by the 15 European Union (EU) members in April 1998, and the EMU currency was introduced, in the first phase as an accounting unit between banks, on Jan. 1, 1999. Since then, the euro has lost 25% of its initial value against the dollar, and although most citizens of the euro zone do not know that the European Central Bank allowed the currency to fall that far in order to prop up the dollar and Wall Street, they have rapidly joined those citizens who have opposed the monetary union experiment from the start. Now, the EU members have been forced to react to this erosion of popular support for the EMU and the Maastricht Accords, and France and Germany in particular have initiated discussions for modifying the EMU structures, in order to build resistance against the ongoing Anglo-American pressure on the euro. The road chosen for that by Paris and Berlin, is to strengthen coordination among the 11 EMU members, and to give it a specific structure, which they call the "Euro-11 Secretariat."

This proposal has upset Britain, because it is not a member of the EMU, but only an influential member of the conference of the 15 EU finance ministers, the "Ecofin." It has been through this institution, and through its membership in the European Commission (EC), that Britain's diplomacy exerts considerable control over EU affairs. The Franco-German Euro-11 Secretariat, which would also play the role of a political watchdog against the European Central Bank, is challenging the exclusive British game of being able to co-determine and shape economic and monetary policies for all of the EU, while at the same time not being bound by those policies itself.

The British are enraged at the French and Germans, but they are probably more enraged at themselves, because they all knew that something might emerge around France's half-year EU presidency, which begins in July, but the Tony Blair government did not take it seriously. So, when the French and German finance ministers sat down at the end of May to discuss giving the Euro-11 more weight against the European Central Bank, London was taken by surprise. Apparently, the

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Blair government was so over-confident about its leverage over EU affairs, that it never expected the French and Germans to, as British media commentators put it, "leave Britain in the dark."

Prodi: EMU Membership 'Revocable'

There were warning signs long before that, however, that should have sounded the alarm in London. Already on May 8, French Finance Minister Laurent Fabius spoke of the need to enhance the Euro-11, and to act against the euro speculators—at the expense of the Ecofin, which Britain is a member of. And at the end of May, EC President Romano Prodi, to the surprise of the interviewer from the British journal the *Spectator,* touched upon another European policy taboo, when he said that membership in the EMU was revocable. Prodi's remarks were an overture from the British, telling them that they could have a full-status EMU membership without giving up their right to quit the Union some day, under "exceptional circumstances." Prodi said that each EMU member had the right to quit and reintroduce its national currency.

Not least because of London's traditional control of the neo-liberal media of continental Europe, the prevailing policy line on the EMU had been, since 1992, that the Maastricht Accords were "irrevocable." The explosive implications of Prodi's remarks were promptly recognized by the British *Sunday Telegraph,* which commented in its May 28 "Economic Agenda" column: "Prodi's *faux pas* has a wider resonance than just in Britain. . . . For if Britain were free to leave, the same freedom would surely apply to all others—Germany and Ireland spring quickly to mind. But a walkout by any country would trigger a spectacular crisis and almost certainly kill the entire experiment."

Apparently, Prodi's remarks reflected a debate in the EC, over alternatives to the Maastricht EMU construct. Also apparently, he had leaked something to the British, which the French and Germans did not want to be made public at that particular moment. On May 30, EU members, meeting behind closed doors at the Brussels headquarters, pressured Prodi, who had his spokesman reassure the EU that Prodi had been misquoted by the *Spectator,* and so on. But, French and German finance ministers were already in discussions about the Euro-11 Secretariat project, and when that was leaked to the media on June 1, alarm bells were sounded in the British press, coupled with attacks on the Blair government. On June 3, the *Independent* attacked Prime Minister Blair, saying, "The tragedy of Mr. Blair is that he has not moved Britain more quickly towards the heart of the debate that will culminate in the French [EU] presidency. If, as a result, Britain misses the chance to influence the outcome in the direction of free markets, transparency, and liberal social values, he will not easily be forgiven."

British Handed a Set-Back

When, on June 5, at the Luxembourg meeting of the 15 EU finance ministers, the French and Gremans rallied the support of the other nine finance ministers of the euro zone behind their project, the *Daily Telgraph* wrote the day after: "Britain suffered a major setback in its efforts to stop the formation of a European economic government, yesterday, when all 11 members of the euro-bloc agreed to develop a joint body to prop up the single currency. The 11 EU states unanimously backed Franco-German proposals to give their informal Euro-11 committee—from which Britain is excluded—a powerful new role as political counterweight to the European Central Bank. . . . The idea was outlined last week by the French and German finance ministers, Laurent Fabius and Hans Eichel, in a surprise initiative that caught London off-guard. The British government has fought against the proposals, fearing that it would reduce Britain to a marginal part-time player on EU economic policy."

The article addressed the fact that "Paris is sounding out other euro-bloc capitals to see whether there is support for a revision of the Maastricht Treaty, to give new authority to the Euro-11 so that it could operate as a fully constituted economic government."

"Any such treaty change, which Britain could veto, would make it much harder for Britain to continue being half-in and half-out of the EU project," the *Telegraph* stated. Naturally, Britain would insist on the Euro-15, the institution of the 15 EU finance ministers, as the main policymaking body, because it would always create "an opportunity for Britain's team to fend off threatening initiatives," the article said.

Naturally, Britain could use its veto—but what would be the implications? If Britain insisted on the E-15, vetoing a revision of the Maastricht Treaty, while the French and Germans kept pushing for the E-11, an untenable situation would develop, with the Maastricht Accords remaining formally in place, but being increasingly gutted by the Franco-German drive. The situation would become untenable for Britain as well.

If Paris and Berlin were well advised, they would go for a full break with the Maastricht straitjacket at the earliest date possible. Paris and Berlin, joined by the other continental European members of the euro zone, could claim "exceptional circumstances" and quit the EMU—which would promptly collapse. For a transition period, the European Monetary System, which existed up until the start of the euro experiment in January 1999, could be restored, with all its structures of coordination and consultation among the EU governments. If a clear line were then drawn against currency speculation, for example, using capital controls and a mutual agreement on fixed currency exchange rates, the EMS could serve as one of the pillars of a New Bretton Woods System, and help restore stability and calculability to the financial markets. The door to such an overhaul of monetary policies has been opened by the Franco-German initiative, but the governments of France and Germany must now take the next logical step, and leave the failed Maastricht experiment behind.