EU president declares US economic policy is the “road to hell”

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One day after being ousted as head of the Czech government Mirek Topolanek, who currently holds the revolving chair of the European Union, openly criticised the financial policy of the US government, telling European parliamentary deputies that America was on the "road to hell".

Speaking before the European Parliament on Wednesday, Topolanek warned that the massive costs of the stimulus plans and financial bailouts implemented by the US administration led by President Barack Obama would "undermine the stability of the global financial market". The EU president then declared that the US government was guilty of protectionism and that the Obama administration risked repeating the errors of the Great Depression of the 1930s.

Topolanek's comments, made in his official capacity as the spokesman for the EU, represent an unprecedented challenge to the US administration and its policies just one week before European leaders are due to meet with Obama to discuss measures to tackle the world economic crisis at the G-20 summit in London. Topolanek himself is due to greet the American president when Obama visits the Czech capital of Prague next week for his first NATO summit.

While a handful of EU deputies rushed to criticise Topolanek's remarks, there can be no doubt that the former Czech prime minister was expressing sentiments shared by many EU deputies and European heads of state who are increasingly alarmed at the aggressive financial policies being employed by the US administration. Already, at their spring summit at the end of last week, EU leaders agreed to reject the US demand for increased stimulus packages, with some EU officials openly criticising the "bullying" tactics of the American side.

The EU summit was followed by a flurry of diplomatic activity on both sides of the Atlantic, with both the European and US sides intensifying their respective campaigns.

In an interview with the *Wall Street Journal* published on March 23, the head of the European Central Bank, President Jean-Claude Trichet, defended the decision by European states—headed by Germany and France—not to pump more money into their economies in the form of massive stimulus programs.

Employing a phrase that has been repeatedly used by German Chancellor Angela Merkel, Trichet declared, "It is not a race!" over which country introduces the biggest stimulus package. Trichet pointed out that public-sector spending is already much higher in Europe than in the US and hinted that the EU was worried that too much investment to combat the crisis could weaken fiscal discipline and ultimately revive inflation.

Trichet urged the US side to implement its own plans as soon as possible, while at the same time playing down any divisions with Europe: "What I would recommend for the US is to, now, as efficiently and rapidly as possible, do what has been decided.... Let's do it! Quick implementation, quick disbursement is what is needed. Not embarking on useless and counterproductive quarrels which fortunately are over now". At the same time, however, Trichet made clear that Europe would not follow the same road.

One day after the Trichet interview, British Prime Minister Gordon Brown delivered a speech to the EU parliament in which he called upon European legislators to increase their stimulus spending. "We can together deliver the biggest fiscal stimulus", Brown declared.

At the EU spring summit Brown had reluctantly fallen in behind other leading European powers and agreed to the final communiqué, which ruled out new stimulus programs in the near future. Now, however, Brown is attempting to use the last few days before the G-20 summit to break down European resistance to the type of massive "quantitative easing" types of spending programs introduced by his own government.

The American president also intervened into the dispute with his own contribution on Tuesday evening. In a news conference, Obama implicitly criticized those countries that were resisting new stimulus programs. Obama said, "We don't want a situation in which some countries are making extraordinary efforts and other countries aren't, with the hope that somehow the countries that are making those important steps lift everybody up".

Topolanek's criticisms of the US measures were made on the next day. While political commentators have sought to play down the significance of his remarks by pointing out that the Czech politician is renowned for his confrontational style, there is broad support in European political circles for his stance.

European leaders are concerned that the massive infusion of money by the Federal Reserve and other major central banks into the world banking system could threaten the EU's system of strict levels limiting state indebtedness which in turn underpins the stability of the euro.

At the same time, with US borrowing taking up so much of the funds available globally European governments anticipate they will have increasing difficulty providing for their own capital requirements. In addition European politicians, and especially the German political establishment, are concerned about the potential inflationary consequences of a policy based on printing money.

In this respect, EU countries—with Germany to the fore—have stressed that the upcoming G-20 summit must above all take effective measures to tighten up international financial regulation. The issues at stake in the growing dispute between Europe and the US were spelt out in an editorial in the Czech newspaper *Hospodá?ské noviny*.

Commenting on last week's EU spring summit, the paper wrote on March 23, "The EU decided to not follow Barack Obama's call, and will pump no further billions into the economy. Germany and the Czech Republic, which now holds the EU Council presidency, were among the minimalists from day one. Now the others have also joined them. The Europeans were not lured by the message of Obama's economic advisor Larry Summers that every dollar invested by the state will be transformed into a dollar and a half's worth of economic growth. Europe's reticence will help it avoid being caught in a debt trap. It cannot afford such a luxury, because otherwise a number of countries would be threatened with state bankruptcy. The Old World and the New World are drifting apart in their attitudes to the measures necessary to stimulate the economy. That does not bode well for the prospect of a common crisis concept from the G-20 summit in London".

The latest comments by Mirek Topolanek only serve to ratchet up the tensions between the US and Europe prior to the G-20 summit. There is a further important political aspect to the remarks made by the former Czech prime minister. In the decades following the reintroduction of capitalism in the countries belonging to the former Stalinist Soviet bloc, the US was able to bank on considerable political support and good will from Eastern European states.

At the end of the 20th and at the start of the 21st century the US and its unbridled free-market system was regarded as a role model for Eastern Europe and the Baltic states. In the course of its war against Iraq, for example, the US could rely on the backing of a number of Eastern European countries. Former US defence secretary Donald Rumsfeld even sought to put pressure on Western European nations ("old Europe") by stressing the harmonious relations between the US and so-called "new Europe", i.e., the Eastern European countries.

The international financial crisis, however, is redrawing the political map with a layer of politicians in Eastern European countries now openly taking sides with leading Western European nations such as Germany and France against the US. For their part the latter countries feel that their hand is strengthened when it comes to standing up against Washington.

The growing war of words across the Atlantic reflects imponderable and growing political differences between the US and Europe, which rule out any sort of binding agreement at next week's G-20 summit.