

NEW EUROPEAN



**Biannual Views
of International Affairs
Spring 2013**

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Editorial,

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NEW EUROPEAN

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Spiralling Debt

In this issue, as in the last, we have given prominence to the ill-working of the monetary system. A few stark figures need to be repeated. Three years ago the UK national debt had climbed up to £800 billion. Although a new government set itself the objective of bringing down this huge figure, it has risen by about £600 billion to one and a half trillion pounds.

Two years ago the government had to find £150 million a day to pay the interest on this debt; now the cost of the borrowing has gone up to about £200 million a day. This money cannot be found out of taxation, so the government has to borrow more money in order to pay the interest. More interest to be paid requires the government to borrow even more money, and thus the cost of interest goes up still more. The result is a spiral in which the national debt and interest charges chase each other ever upwards.

The international moneylenders foresee what is going to happen as the spiral continues to climb. This is one of the reasons why the UK has lost its AAA credit rating with two of the leading rating agencies; as a result interest rates are likely to rise.

The leading figures in the political parties have at last realised what is happening; none of them, however is able to give an opinion as to what is to be done. Moreover, they do not seem to realise that a country can become bankrupt.

Denmark is an example of a country that suffered that fate in 1813. Its recovery was painful but was achieved because it was a small country with a small-scale government.

The catastrophe could be averted by ending whole areas of government expenditure but there is no prospect for this to be done in the present climate of opinion. There is, however, the possibility that the nation is persuaded that our monetary system is fundamentally wrong.

The advocates of monetary reform can take heart. For a long time they have been in a political aquifer, the habitat of cranks, hidden and unheard. Now they should gather their energy and thrust themselves out of the aquifer and into the current of the mainstream in the national debate. It is there that soon millions will listen to them. *R.B.*

An Initiative for an Orderly Dismantling of the Euro

Appeal to their Governments from a group of French and German economic experts

“Was die Stunde hat geschlagen, sollst deinem Volke sagen”
[When the hour has come you must tell it to your people]
Heinrich Heine

Thirteen years after the launch of the euro, it is evident that not only did this experience not achieve any of its promises, but also that the continuance of it may lead to chaos.

- Instead of prosperity [we see] a slowdown of growth in the countries of the area with high unemployment.
- Instead of strict management [we see] ten years of such irresponsible increase in public spending and national debt that even a generation of sacrifice will not be adequate to clear.
- Instead of better economic integration [we see] imbalances between countries worsening every day. The countries of southern Europe, Greece, but also Portugal, Spain, Italy, and even France have seen their competitiveness declining irreversibly for ten years. By starving out the purchase power of all countries this situation is hampering their growth and consequently the development of the single market.
- Instead of the peoples getting closer together [we see] an increasing animosity between creditors and debtors.
- Instead of progress in democracy, [we see] that the peoples reject the decisions from above.

Successive plans intended to “save the euro” are futile because they address, with little effect, only public deficits and not the difficulty at the root: the different attitudes to inflation in the countries. The only solution would be a deflation of prices in deficit countries: but such a policy never succeeded anywhere (e.g. the Germany of 1930, the France of 1934).

Pursuing a goal that it will not achieve anyway, Europe is driven in a spiral of recession that, as it is the first market in the world, concerns the whole planet.

The recession goes with inflation: in breach of the statutes, the new head of the European Central Bank, in a desperate attempt to make the euro survive, has launched massive monetary creation for the benefit of private banks who are only too happy with the windfall. It is just as illusory to hope to organize a “Europe of transfers”, which would require the sustainable transfer of hundreds of billions of euros to countries in difficulty, i.e. a collectivization of government deficits. This solution is rejected by the peoples who are asked to contribute and at the same time offers no hope of relief to the weakest.

Short-term therapeutic austerity will not be able to avoid the acceleration of the shocks that will affect not only the financial sector but also the real economy.

If an end is not put to this soon the experience of the single currency will come to a still more dramatic end: the economic situation will worsen, unemployment will soar, there will be social unrest, growing extremism, resurgence of old conflicts, destruction of the rule of law: Europe will become ungovernable.

It is clear that only real devaluations and revaluations, tailored to the circumstances of each country, will be able to put an end to the imbalances between them and then restore growth. History offers many examples of failures of currency unions: it is apparent that not only it is possible to dismantle them in an orderly fashion, but that such dismantlings have proved beneficial in the course of just a few months.

This is why German economists and French signatories, who met on April 11th and 12th in 2012 in Düsseldorf, urge their respective Governments to agree and to propose to the other European Union Member States, to put an end to the experience of the single currency and, for that purpose to take on the following measures without delay:

- replace the euro by new national currencies in each of the states, knowing that some countries may have bilateral or multilateral agreements for pooling their currencies;
- create a new European monetary system, with a European unit of account equal to the weighted average of national currency units;
- announce new parities between the new national currencies calculated by reference to the new unit of account European currencies, aiming at limiting speculation, restoring the competitiveness of all states, ensuring balanced trade and reducing unemployment;
- ensure, though a European Monetary Institute, that real exchange rates of national currencies are then stabilized, within a margin of fluctuation to determine;
- convert in each euro country, on the basis of one to one, the euro

An Appeal

into a national currency, all of the prices and domestic wage and bank assets;

- convert, according to the same rule, the public debt of each euro country into their new national currency;
- convert international claims into the European unit of account.

Negotiated arrangements to repay public and private debts may be passed between creditors and debtors on the basis of the rules set out in the previous two paragraphs

The transition should be as short as possible; it poses no major technical problems. The new rules of the game must be displayed clearly. States will be asked to ensure, in relying on their national central banks, which are now independent, that the proposed transition shall not lead to destabilization of the European financial system and will even give them ways to contribute actively to the return of growth.

By launching this appeal, French and German economists signatories wish not to question the idea of Europe, but on the contrary, they want to contribute, by their expertise, to the renewal of the European construction on a renovated and realistic basis, as well as to the economic recovery of Europe.

This document was signed in Düsseldorf, April 27th, 2012
by a number of French and German economic experts

Bruno Bandulet

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Wilhelm Nölling

Prof. Karl Albrecht Schachtschneider

Prof. Wolf Schäfer

Dr. Dieter Spethmann

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Michel Robatel

Jean-Jacques Rosa

Ref.:<http://www.enquete-debat.fr/archives/appel-aux-gouvernements-de-douze-experts-economiques-francais-et-allemands-pour-un-demontage-concerte-de-l%E2%80%99euro-13761>

A Positive Response to Mr. Cameron's EU Referendum Promise

HEMING OLAUSSEN

My well considered reason for responding sympathetically to Mr. Cameron's EU speech is this: For the first time a prominent leader of an EU Country puts forward the same kind of criticism of the EU democracy as we do in No to the EU .

The development of the EU towards an "ever closer union" is a threat to genuine democracy. Mrs. Merkel wants to centralise and increase the power of the EU at the cost of the nation states. Towards the end of last year a delegation from The Foreign Affairs Committee of the British parliament visited Norway, including No to the EU, in order to discuss our experience with the EEA (European Economic Area). The British conclusion is that the EEA is a bad solution. As does No to the EU.

At the same time Switzerland has asked for Norwegian support for her national independence against an aggressive EU that wants to have Switzerland become part of the EEA solution. It is my opinion that Norway ought to support Switzerland. In addition, Iceland has put her EU application in cold storage and will in all likelihood terminate the entire application process.

In such a situation I am of the opinion that Norway should enter into an active cooperation with Iceland and aim at thinking in new ways about our relations with the EU. It is this new movement in the relations with the EU that I see as important for Norway. The EU is continuing what I consider its destructive crisis policy. At the same time the way the EU is developing represent an ever increasing challenge – or threat – to the Norwegian model.

Just now the EU has launched its Fourth Railway Directive which will expose our railways to competition. The EU Patients Rights Directive will, according to Fagforbundet (Norwegian Union of Municipal and General Employees (NUMGE)), make health a commodity and may contribute to the privatisation of the hospital service of this country. The EU's forced promotion of the market will

be extended to ever more areas of our society. And Mr. Cameron said: "People are increasingly frustrated that decisions taken further and further away from them mean their living standards are slashed through enforced austerity or their taxes are used to bail out governments on the other side of the continent."

In this situation I see that Norway, the UK, Switzerland and Iceland might be able to find a common denominator for developing a different relationship with the EU based on national independence and cooperation and trade with the EU. In order to find out whether such a foundation exists we will have to have talks.

Furthermore: Mr. Cameron's speech opens a proper critical debate on the development of the EU. His proposing a referendum is almost blasphemous in a European Union which is scared to death at the thought of letting the people in. This debate is sadly lacking among most Norwegian politicians. Our government has chiefly applauded the development and the crisis policy of the EU regardless of everything. Is that in Norway's interest?

HEMING OLAUSSEN *is leader of Norway's No to the EU movement*

This article has been slightly abridged. The original Norwegian text can be found at http://www.neitileu.no/aktuelt/nytt_fra_nei_til_eu/bakke_cameron_og_nei_til_eu

Translation: Luise Hemmer Pihl

The European Issue: A Battle about Power

SIR RICHARD BODY

There was a time when history seemed to offer such a simple lesson. Underlying all the turmoil of human affairs one steady movement could be discerned, an inexorable tendency for mankind to form itself into ever larger social and political units. Our most remote ancestors lived in family groups but the time came when, to satisfy some of their needs, they linked up with other groups to form tribes. As the centuries went by, tribes merged to become nations and these nations in turn, often under the stress of war, united into bigger nations, empires and unions of various kinds. This process is still at work and it will go on until eventually even the largest union, of a billion people or more, will not be large enough and a world government will take power.

It was, so we were told, futile to resist this great tide of history. Only sentimentalists and unthinking patriots would try to hold it back, and they would be not only ineffective but morally wrong. Nation states had from their beginning been embroiled in wars and the only way to free mankind from the horrors of conflict was to abolish the nation state. The syllogism was simple: the nation states cause wars; wars are bad; therefore nation states are bad.

This interpretation of history has persuaded many people that federalism is an inevitable and desirable step forward, and in this context federalism means the giving up of power and identity by each nation so that eventually the real political and social unit will be the federation itself. Among those who think like this are some sincere advocates of the European Union. They claim that for half a century it has saved Europe from war and that it will give her people a united strength to resist the encroachments of the world's super-powers – America today, China tomorrow – and the strength, too, not to be bullied by the huge multinational companies that are coming to dominate the world's economy.

This description of events is superficially persuasive. It is very convenient for those who stand to gain by the process it describes.

Body

And, like all seductively simple theories of history, it is wrong.

First, this one-way movement is not what is happening in the world today. The number of nation states, so far from diminishing, is increasing. In 1946 the United Nations could recruit only 51 members: by 2013, 193 had qualified to join.

Second, it is not the nation state that is now the cause of war. Although the years since 1945 have seen a continuous succession of wars throughout the world, surprisingly few of them have been between nation states. The great majority have been, in effect, civil wars. They have occurred in states within which unwilling populations were yoked together in unions that they resented and that had often been imposed on them by outside powers. Yugoslavia, Nigeria, Chechnya have been typical examples of late-twentieth-century conflict. The Franco-German wars belonged to an earlier epoch.

Third, it is not true that countries that have refused to pool their sovereignty have proved helpless in the face of global economic forces. Within Europe, for example, Switzerland and Norway have irritatingly refused to go down the drain of history and are, in fact, thriving mightily.

Switzerland is perhaps the supreme proof that, in order to trade widely and profitably throughout the world, it is not necessary to be part of a large political entity. It is important to distinguish between political boundaries and market limits and this is where the question of free trade versus protectionism comes in. This is one of those issues that are greatly complicated by modern technical and commercial developments. On the one hand, there is the right of a willing vendor and a willing purchaser to enter an agreement whereby one sells what the other wants only at a price that both consider fair. That the two persons live in different countries ought to be irrelevant. On the other hand, there is the uncomfortable fact that the wage cost of producing a car (including social security contributions) are twenty times higher in Coventry than in China. Do we dare abandon all protection? And does membership of the European Union help or hinder us?

In the real world the effects of any big movement such as the emergence of the global market are always complex and often paradoxical. There is also the interesting counter current described by John Naisbitt in his book *Global Paradox*, in which he argues that, as economies merge, there is a reaction in which people with a linguistic or cultural identity strive for political independence.

Finally and most importantly, we have to consider the social, cultural and human effects of living in a very big political unit. Here the results of any unbiased enquiry are inescapable. For a start, the level of crime and alienation is an index of the basic health or ill-

health of a society, and it is consistently higher in big states than in small. To see why, we need only to ask whether it is the small country or the super-state that best allows its citizens to identify with it and to feel that sense of belonging that leads to a willing acceptance of social responsibilities. If that sense is missing, will any amount of policing or prison-building give us a law-abiding, stable and happy society?

The sense of alienation is felt not only by poor people in deprived inner city areas. Disillusionment with the process of how they are governed is gaining ground among millions of people across Western Europe. It is evident, too, in the United States and indeed in nearly all parts of the developed world. It would seem that only in the smaller democracies, notably Norway, Switzerland and New Zealand, is there little or no disillusionment.

There is a further uncomfortable fact for the lovers of size. The mega state does not deliver on its financial promises. So far from being an efficient economical form of organisation, it is in fact an expensive and cumbersome one: the costs of all forms of administration are higher in big states. Every organisation has a certain optimum size for fulfilling its objectives, and it is just as uneconomical to go above that size as to fall below it. The extravagance of the European Union's bureaucracy is notorious indeed scandalous – but even if it were far more tightly controlled it would still be unnecessarily costly. The way it is designed fails to take account of the fact that different functions need organisations of different sizes to carry them out, and the attempt to have so many disparate functions all performed by a Europe-wide bureaucracy is bound to be ludicrously inefficient.

There is a universal truth about all the states in the developed world.

Once they exceed a certain size, the welfare of their people materially, socially and politically – diminishes. Both the people and the state become diseased. The symptoms of this disease are evident in every mega-state, in crime, social division, and bloated bureaucracy, and in the mind of a great majority, a sense of powerlessness.

Unfortunately the tendency to centralise power in Europe is continuing as strongly as ever. The introduction of a single currency would be a big further step in that direction and there is no sign that those who are making the running have seen the dangers ahead. First, they do not understand what deep changes to the structure of the European Union will have to be made if it is to become a truly European organisation. At present only a minority of European states belong to it, containing a minority of Europe's population. This state of affairs is not going to last for ever, and the pressures to enlarge

Body

the union are growing stronger. The last states of eastern Europe are on the doorstep and they will not be content to have escaped the domination of Moscow only to replace it with the domination of Brussels.

The ultimate danger facing the European Union is that of disintegration.

The new states that have emerged in the world in recent decades have mostly done so by breaking away from larger federations or empires. Their peoples were no longer willing to be governed by those they regarded as foreigners even if technically they were citizens of the same union. It is much more likely than it is generally realised that the peoples of Europe will grow increasingly restless when they find that their ability to govern themselves has been taken away from them. Ordinary people have always been far less convinced than their rulers about the benefits of a political union of Europe, as they have showed on the few occasions when they have been consulted in referendums. The margins in favour have been modest, despite the millions of pounds spent on propaganda from the European Union's own funds and from those of the giant companies that hope to benefit. As the social and economic disadvantages of over-centralisation become unmistakably clear it will be very surprising if the world-wide demand for independence by small nations does not spread to Europe. When it does, much of the elaborate and expensive apparatus of political union will have to be dismantled.

Those who favour a federal union of Europe like to present their opponents as jingoists who would drag us all back into a confusion of antagonistic states that resented having to co-operate over anything. This, it need hardly be said, is nonsense. What we need is a different type of co-operation, a loose association of nation states to agree common policy in certain specific areas. No one denies that there are things that must be done internationally if they are to be done at all. The environment provides an obvious example. It is no good one country trying to keep its rivers clean if the country upstream is pouring in toxic effluents. It is no good having a clean air policy if your forests are dying from acid rain produced by your neighbour's chimneys. Such problems demand intergovernmental action. Other problems need world-wide co-operation.

In *Europe of Many Circles* I set out in some detail how this can be achieved. Increasingly, though, inter-governmental co-operation on a continental scale will not be enough. Already we have a catalogue of problems in need of global solutions: global warming, the continual destruction of the rain-forests, and the rapid depletion of marine life by industrial fishing are obvious candidates for co-operative action

on a world-wide scale.

No common policy, whether continental or global, is likely to be enforceable unless laws are made or revenue raised. The question is, should either of these two powers of coercion be exercised inter-governmentally or supra-governmentally? The latter is the path chosen by the European Union; and this book argues it is inherently undemocratic and will lead to friction and disharmony when the legitimate interests of minorities come to be overridden. It is also unnecessary. The intergovernmental approach is the alternative adopted by countries that believe it is in their interests to co-operate with others to overcome a common problem, thus achieving with others what they cannot achieve by themselves. Sovereignty then is not surrendered.

In the European debate, no word, not even democracy, has been more misused than sovereignty. As international lawyers recognise, sovereignty is a hallmark or the touchstone of the nation state. A people or nation are formed into a nation state when they possess the five elements of sovereignty: the sovereign (i.e. supreme and exclusive) power to make all their own laws, the sovereign power to interpret them in their own courts, the sovereign power over all taxation, the sovereign power to enter into all treaties with other states, and the sovereign power to declare war. Only the last of those remains exclusively in the hands of the individual member-states of the European Union. Each of the others has been eroded to a greater or lesser extent.

The inter-governmental approach does nothing to take away the sovereign powers of the people: their nation state endures. This book contends there is nothing undesirable about the nation state, provided it co-operates with others (as it must out of sheer self-interest) and does not become too big. Excessive bigness is easily defined. A nation state is too big if its sheer size entitles it to overwhelm its neighbours economically, militarily, or diplomatically; and within itself the nation state is too big if its people feel themselves powerless in respect of the sovereign powers exercised over them.

To merge different peoples together in some kind of federal union or under a supranational government can succeed, but those conditions do not and cannot exist in Europe. The Continent is too rich in diversity for the attempt to succeed. That diversity is its true wealth and its glory – only the truly European seems to understand that and it is now at risk.

At base, the European issue is a battle about power. Two small groups of people have a thirst for the power that resides at the heart of the European Union. The heads of the great business corporations

Body

with operations across many national frontiers do not wish to be hindered by the regulations of those numerous different countries, especially when their governments try to protect the interests of their own people; far better to deal with just the Eurocrats of Brussels in a single market with harmonised regulations. The other group consists of government ministers. It may seem a paradox for them to surrender the self-government of their nation, but what is surrendered is the power of both Parliament and the media to control them. If policies can be agreed, laws made, and revenue raised by them and their counterparts from other member-states, alone and in secret, in the absence of interfering parliamentarians or questioning journalists, it is exceedingly agreeable.

In the process, all others outside those two small groups become demeaned and belittled. It is time to remember J. S. Mill's wise words:

"The state should never pursue even great ends by means which make its citizens small." It is also time to consider why the mega-state is so attractive to those intoxicated by power.

This article is a reprint of the introductory chapter of The Breakdown of Europe, published in 1998 by New European Publications, London. Its ISBN is 1-8724-1011-1

Dead Horses Travelling all over the Single Market

SØREN SØNDERGAARD

As far as I am concerned people may eat as much horse meat as they like. As much, anyhow, as they can eat of e.g. cow, calf, chicken or crab. As long, that is, as the animals have been treated properly before setting out for the journey through the abattoir and on to the dining table.

Consequently, concerning the recent horse meat scandal, my indignation is not aroused by the presence of horse meat – but by what the scandal reveals: that the EU food control has broken down in the most pathetic way, and that we, the consumers, are left at the mercy of organised criminals and unscrupulous food manufacturers in the sacred name of the Single Market.

In the EU animals are a commodity, alive or frozen, subjected to the unlimited free movement within the Union. Consequently it is not unusual for a pork chop to have travelled all over Europe before ending up on my frying pan.

The horses of the recent scandal were slaughtered in Romania, sold to the Netherlands, sold on again to Cyprus in order to be bought by a French company which sent the meat to be processed at a factory in Luxembourg, after which the resulting product was sent by way of Swedish-based Findus to the frozen foods counters in most EU countries. But the EU Single Market is not only a single market for goods, but also for crimes. And during its journey the meat was “transformed” from being cheap horse meat to becoming expensive beef. And the super profit went straight into the pockets of criminals, enabling them to bribe civil servants and politicians and thus become still more powerful. That is scary!

Consequently it is an understatement of the century when highly placed persons in the EU call the horsemeat scandal a “labelling problem”. Naturally they are right in saying that it is in itself a scandal that what the labels say is not what the packets contain. When the label says “beef” the consumer should as a matter of course be able to trust that the packet contains beef.

But the true scandal is that this has been going on for months without being found out and stopped immediately. And that there is no guarantee that there is not more of the same out there in the shops. In this specific case the problem was not discovered until the Irish food control happened to test 27 burger products and to find traces of horse DNA in 10 of them. In some cases there was 75 per cent horse meat in a beef burger!

But horse meat is not dangerous, some people will say. And they are quite right: horse meat as such is not dangerous. Unless, that is, it is full of remnants of medicine because it comes from horses who have been given medicine against various diseases. It could be horse AIDS which is quite widespread in Romania.

But if it is possible for organised criminals to swindle over the sort of meat they will also be able to swindle over the quality of the meat. This leads to the harsh fact that at present the authorities are unable to guarantee be it species, quality or health in manufactured foods. The uninhibited travelling of meat products around the EU proves that the market for foods is out of control.

The short term solution would be to establish an efficient national food control which does not give a contract for the task to foreign authorities, mafia controlled abattoirs or private super market chains whose first priority is profit.

In the long run we need a fundamental change in the way our food supplies are organised. It is, among other things, about bringing an end to the long transports of living and dead animals, ensuring a connection between where the animals are raised, where they are slaughtered and where they are eaten. This is for the sake of animal welfare, the environment, local jobs and our health.

In both cases such solutions will clash with the EU Single Market rules. That means that we shall have to make a choice. The alternative will be more scandals discovered – and still more scandals remaining undiscovered.

SØREN SØNDERGAARD is MEP for The Danish People's Movement Against the EU

Translation: Luise Hemmer Pihl

Where the Political Powers Reign and Hide

STAFFAN DAHLLÖF

Danish parliamentarians are getting ready to adopt a new public access law with politically sensitive documents kept secret by definition. Undemocratic and outrageous arrogant, critics say about the "Yes-Minister-law".

Denmark's reputation as a pro-transparency country is at stake, warns leading expert in media law Oluf Jørgensen: "This will draw international attention," he says, pointing at a unique possibility to conceal reports from a minister to a closed circle of parliamentarians: "This is in clear breach with the principle of division of powers". Tim Knudsen, a professor in political science has a similar comment: "Slotsholmen (home of the parliament and governmental departments on a tiny island in Copenhagen) shields itself and weakens democracy." These comments are triggered by a proposed new legislation on access to official documents. One single paragraph causes the uproar: *"The right of access does not include internal documents and information exchanged at a time when there is specific reason to believe that a minister has or will have a need for the advice from an civil service and assistance between: 1) A ministry department and its subordinate authorities. 2) Various ministries."*

An agreement culture

In a previous version, tabled by the then liberal-conservative government, this clause was explicitly called exemption for "services to ministers". This should not be mixed up with "internal working papers", known in many access laws, as the exemption covers documents in their final version as well as document sent to and from different ministerial department and authorities. As the proposal has now been re-tabled by the present government (centre-left) the provocative and ridiculed term "services to ministers" has been deleted. Minister of Justice Morten Bødskov (Social Democrats) argues that the change of words is important, while representatives of the former government fail to see the change in substance. The urge among Danish politicians

to ring-fence correspondence between authorities and ministers can be explained by an established culture where parties enter into pre-legislative negotiations and agreements before proposals are officially tabled. This is demonstrated at length by how the proposed law has been dealt with.

Behind closed doors

As journalists grew aware of what was in the making they asked for access to documents related to the secretive talks between the former and the present government. This was denied. Also, suggestions to make the new proposal subject to an official hearing have been rejected. "This is outrageously arrogant," says Pernille Skipper, MP of the Red-Green Alliance a leftist party, being part of the government's political platform in the parliament. Right-wing Danish People's Party and Liberal Alliance also oppose the propose law. None of the three parties have themselves held governmental positions, contrary to the parties now backing the law.

The EU-style

According to the critics some of the well known political affairs recently would most likely not have been known by the public had the proposed law been in force. This includes deliberate attempts by the previous government to bypass international conventions on refugees, and a ongoing case about prime minister Helle Thorning-Schmidt's personal taxes. In this case members of the former government are suspected of having intervened in decisions taken by the tax authorities, with the purpose to discredit a political opponent. In spite of the strong criticism, it is assumed that the proposal will pass in Parliament later this spring as a majority of the parties already have agreed to adopt the law. Readers acquainted with the political process in the EU would recognise this as a parallel to the so called trialogues ("tripartite negotiations") where the Commission and the Council negotiate with representative of the Parliament behind closed doors, leaving the public in the dark, and non-participants only to accept a done deal.

STAFFAN DAHLLÖF *is a Swedo-Danish journalist specialising in EU issues*

Forty Years on - The Legacy of E.F. Schumacher

DIANA SCHUMACHER

The years 1972/3 saw an extraordinary concentration of unexpected crises in the industrial world. However, some of these made way for new and necessary changes, opportunities and innovative responses. The most noted and dramatic international catalyst was the first Gulf oil crisis following the Yom Kippur war between Israel and her Arab neighbours in 1973. This immediately led to an oil embargo by the oil-producing states on "unfriendly nations" (principally the US and the Netherlands who had supported Israel). There was a very rapid quadrupling of crude oil prices which shook the economies of all oil-dependent sectors of society. For the first time oil was used as a political weapon, and this sudden economic shock was to have long-term worldwide repercussions. However, the shockwaves produced by the oil crisis gave the opportunity for many sectors of our industrial society to question the centralised, internationally-based rich society norms which totally depend on ever increasing patterns of consumption, and their reliance on the constant throughput of imported energy and raw materials often from politically unstable overseas sources.

In 1972, the first computer-modelled Club of Rome report *Limits to Growth* was published giving its stark message that mankind would have to curb its unbridled consumption patterns to avoid economic and environmental collapse in the 21st Century. The book compiled by economists, scientists and academic experts from all walks of life signalled that the concept of exponential growth was impossible on a planet of finite resources. The conclusions, although seemingly obvious, now found little favour with governments, corporations and industrialists who were enjoying an unexpected period of economic expansion. Nevertheless, this was the beginning of a new environmental consciousness and in the following year, Greenpeace, Friends of the Earth, The Environmental Action Group for Europe (ECOROPA), and the UK Green Party were all founded.

Also in 1973, a little known German-born economist living in the UK, wrote *Small is Beautiful - The Study of Economics as if People Mattered*. Dr E.F. Schumacher¹, along with many academics and concerned citizens, who had long been studying the projected outcomes of affluent society lifestyles, were now given the impetus to produce and publicise their findings. From 1950 to 1970 Schumacher had been the Economic Advisor and Chief Statistician of the newly formed National Coal Board, and had become deeply aware of the UK's energy vulnerability. Based on his experiences in Europe and UK during and after the Second World War, he held a deep belief that each region should, as far as possible, be economically and energy sustainable.

The years following 1973 saw the newly-formed environmental movement, not only concerned with nature conservation and protecting bio-diversity, but also with the more profound ethical and moral issues which lay behind irresponsible consumerism. Schumacher's small, articulate publication challenged the very roots of 20th Century economic thinking and conventional industrial practice. It simultaneously earned its author international opprobrium and derision from mainstream economists, academics and industrialists; and widespread acclaim from other intellectuals, liberals and those spearheading the counter-culture which criticised market economics and rampant consumerism.

What is the current significance of "Small is Beautiful" as we negotiate the complexities of the 21st century? Unfortunately, the problems which Schumacher addressed in 1973 are still with us today in an accentuated form. His warnings of the consequences of pollution and unbridled consumerism are now increasingly manifest on a far more intense global scale. Fortunately, Fritz Schumacher offered activists and practitioners various practical small scale solutions which, if adopted and applied at a local level, could reverse the process of waste, pollution, environmental destruction and the depletion of non-renewable material and energy resources and create more rewarding and creative jobs!! He also believed that an "ounce of practice is worth a tonne of theory". Together with motivated contemporaries, he set up various practical projects which were intended to act as exemplars, and to inspire further experimentation and development along the path to long-term sustainability.

In the face of the dominant 20th Century, "growth mantra" where everything has to be bigger, faster, newer and mass-produced on an international scale, many of Schumacher's small-scale locally based solutions which appeared quaint, retrograde or even quirky are now flourishing. They fly in the face of conventional economics, the ruling

paradigm of our times, and offer some practical pathways for the future. These initiatives, based on traditional wisdom, enable individuals and communities to participate in applying their own solutions to particular local problems, and to express their own skills and creativity in locally controlled environments. In this respect, much of Schumacher's thinking and experimentation has endured today and is being enhanced and implemented by subsequent generations in a variety of different ways.

It has been difficult to keep abreast of all the developments of all the organisations directly and indirectly associated with the work of Fritz Schumacher. *Small is Beautiful in the 21st Century* traces the on-going work of just a few of the organisations most directly involved with his main areas of interest. These were in the field of holistic and human-scale education and publications (The Schumacher Society, Schumacher Lectures, Resurgence Magazine, Schumacher College, Green Books etc); Third World Development Models (Practical Action, Appropriate Technology Development Models, Jeevika Trust and its Indian partners etc); and food, agriculture and land use (The Soil Association, The International Coalition to Protect the Polish Countryside (ICPPC) and the Transition Movement). Bridging many of these different areas especially in the application of small scale technologies for local energy systems is The Centre of Alternative Technology (CAT), a development and demonstration educational centre based at Machynlleth, North Wales.

Finally there was Schumacher's passionate plea for "a new economics" which was based on metaphysics and a reverence for nature and the material world, and which would acknowledge humanity's on-going struggle to live justly within its finite material resource base. This work is currently being developed and carried on through the New Economics Foundation (net) in the UK; The New Economics Institute in North America; The New Economics Forum in Budapest, and many other economics departments in diverse universities world-wide.

Small is Beautiful in the 21st Century gives an overview with footnotes of some of the main current examples of Schumacher's sustainable economics as practiced at a local level and tracing their development to date. Schumacher was essentially a European, having lived and worked in Germany and as well as in the UK, where he chose to live until his untimely death in 1977. Although he had held prestigious academic and economic posts, and had lived throughout many crises, his life's work was one of optimistic endeavour to find a better way of living and working with respect to each individual and to the wider environment. It is hoped that the examples outlined

in this short Briefing may act as an encouragement to others to forge their own innovative pathways, and not to be overwhelmed by the tide of universal economic dismay at not achieving unobtainable goals within the framework of a finite planet. As Schumacher observed in his conclusion to *Good Work*: "I certainly never feel discouraged. I can't myself raise the winds which might blow us, or this ship into a better world, but I can at least put up the sail, so that when the wind comes, I can catch it."

Diana Schumacher: *40 Years on - Small is Beautiful in the 21st Century - The Legacy of E.F. Schumacher*, Green Books, 2011

DIANA SCHUMACHER, OBE, has worked for the British Council and subsequently for the University of Chicago's Department of Business Studies. Her deep commitment is to nonviolence and to exploring the interrelationships between education, economics, and the environment and their interaction with social justice and people's well-being. Diana has served on the executive councils of numerous educational and environmental charities, including the Environmental Action Group for Europe (ECOROPA); the Parliamentary Alternative Energy Group (PRASEG); the Other Economic Summit (TOES); the New Economics Foundation (NEF); the Green Alliance; the Schumacher Society; the Gandhi Foundation; and the India Development Group. In 1991 she cofounded the Environmental Law Foundation of which she was vice chair until 1999 and with which she is still very active as a trustee and currently as vice president.

1. Dr Ernst Friederich Schumacher was born in Bonn in 1911, and was educated in Bonn, Oxford University and Columbia University New York. He was Economic Advisor to the Allied Control Commission in Germany 1945-47; a freelance Journalist and world-wide Lecturer 1950 -1970; Economic Advisor and Director of Statistics to National Coal Board UK. Publications: *Small is Beautiful; A Guide for the Perplexed; Good Work*
. Died 1977.

The Perils of Giantism

JOHN PAPWORTH

For centuries people have struggled to achieve social and political goals regardless of the size of the political unit under consideration, whether it comprised a population of a few hundred or of a great many millions, or any number in between,

So we have struggled to achieve such goals as freedom, democracy, parliamentary democracy, representative government and so on, to achieve a free press, trade union rights and other advantages, all in the conviction that it was a matter of utter indifference whether the political unit under consideration was either very large or very small; as a consequence, forms of government have been introduced in the belief that they were progressive or even revolutionary, when in fact they had been as oppressive and tyrannical as anything in the human record.

This is true of The United States, of Soviet Russia, of Communist China, of India and of Brazil, to take the most outstanding examples, and it is true for a common reason: they are far too large to be subject to democratic government by anyone.

This is especially true of the United States, where a combination of boardroom control, of the media, of the press, radio, and television, is so dominant as to dominate all other voices. It is in any case hand-in-glove with the industrial, the finance, the commercial, transport, energy, entertainment, insurance and retail trade boardrooms to an extent that makes them the supreme power in the land, regardless of the extent to which they keep out of sight. There are separate powers which control the political lobbies, the military and diplomatic worlds. Ostensibly those different avenues appear to contain degrees of power which operate in ways subject to the control of the president, whilst the real control is in the hands of the boardrooms; ultimately each and every form of power is in boardroom hands and a number of historical factors, background, religion, tradition, particular nature of economic development and the impact of war on public life, has helped to ensure it remains so.

The USA is not a democracy because it is impossible for power to be exercised by people on such a scale; it can only be exercised by the people who possess it, which is those who possess it at boardroom level.

If we dwell on it, on American propensities to govern power at the expense of democracy (in the name of democracy!), we do so because it is the most successful in projecting a democratic façade. Other giant countries, Russia, China, India and others make no such pretence; behind the massive power of the media and the boardrooms is that of the military. It is a situation which is changing rapidly as the boardrooms are rapidly assuming their own forms of power which will put even the military ultimately in subordination.

Whatever emerges it will not be democracy for a number of reasons. First and foremost is a need to recognise that democracy is a moral evaluation dependent on personal relationships. All too often it is assumed that it is dependent on relationships with elected or bureaucratic bodies, with councils, government and the like, as though there were an innate superiority of elected councils or representatives over the individual power of decision-making.

This is to invert reality. Government is, after all, a process adopted by individuals to undertake functions they cannot do for themselves. If we are promoting government on a democratic basis it follows that country is governed best which is governed least. Free people do not surrender free powers of government when they are able to control them themselves; that is after all what freedom is – the power to decide – and if people do not possess such power there is no way they can claim they are free. However much claptrap is dinned into their ears about ‘freedom’, claptrap is not freedom.

A second reason is that the economic system is falling apart, the banking and monetary system is simply collapsing and throwing local communities onto their own resources; the present system can scarcely hope to survive another decade. As civil unrest grows ever more acute, with the rapid expansion of poverty, unemployment and hunger, military repression will increasingly take the place of civil government.

A third reason lies in the way civil government is itself fragmenting, both morally and socially. All too often the religious and spiritual basis of societies is seen as an optional extra rather than as a vital keystone to its existence when in fact modern economic appetites have largely superseded it, but now those appetites are themselves nosediving.

A fourth reason lies in the inevitability of global nuclear wars; or do people believe that the proliferation of nuclear weapons around

the world can continue without the eruption of conflict in defiance of all tradition, morality or common sense?

Society, then, is in crisis, suicidal forms of crisis stemming from propensities it is itself creating as a result of its own disposition towards excessive growth. There is a failure here to recognise that progress does not ensue from chance or by accident. Progress is a product of control and control, as we have seen, is only possible on a limited scale; once that scale is exceeded what ensues is one form or other of anarchy, as the modern world is a quite vivid witness. Some modern social revolutionaries have chosen to describe themselves as 'anarchists' in the quaint belief they are promoting a creed which is novel and progressive; they are blind to the extent to which it is already dominant in the world of capitalist enterprise where it is rampant beyond any limits.

What is anarchy but the repudiation of morality in this case in the pursuit of gain? And what else prevails in the modern world? The one feature that now prevails is that its economic life is out of control; several European countries are in crisis because they have been unable to control the growth of their monetary debts. The supposition is that they might be able to do so if they wanted to, and that others are showing them how to do so. This is pure illusion; *all* countries, including Germany, are accumulating debts at a breakneck rate which will lead them ultimately to emulate the policy decision of the Zambian Government which has recently devalued its currency by topping three noughts off so that a Kwacha 5,000 note is now only worth K5. Quite clearly the United States will soon be driven to a similar expedient as its national debt now exceeds 7 trillion (not million or billion) dollars. If world currencies are out of control it is because their size precludes anyone from exercising it. Why is this fundamental basic truth so continuously and studiously ignored?

One reason is that it is in the interests of those in controlling positions do so and it points to the extent to which it is necessary for democratic forms of control to be established. What this means in practical terms is for local control of local currencies and banks to be seen as essentials, not as optional alternatives which can be dispensed with in favour of giant national systems which are assumed to be more efficient and reliable when all experience is indicating they are not only the opposite, but also a ruthless denial of democracy.

We are in fact only slowly coming to understand the extent to which science, and technology, as well as psychology, have been combined in a variety of ways to create dangers which are already

Papworth

threatening human existence. Human life has never had to grapple with the weapons of war, the enormity of the chemical processes, the threats embodied in modern technology and in the mischief implicit in psychological revelations, and these dangers are rapidly increasing because there is no social control over the forces creating them.

JOHN PAPWORTH *is a priest of the Anglican Church and an Economist. He initiated Resurgence and Fourth World Review and is presently the editor of Purton Today. John Papworth is the author of several books, the most recent being Why Schools of Economics and Political Science Should be Closed Down, 2011, ISBN 978-0-9567682-2-3*

Social Trust and Social Capital

LUISE HEMMER PIHL

What is social capital? There are many definitions, but the most common answer is that it is the sum of social relations that have productive benefits. In his book, *Bowling Alone*, from 2000 Robert D. Putman described a USA which is falling apart because people do not relate to one another. This means that social capital is decreasing, a condition that leads to more heart attacks, more attempted suicides and perhaps worst of all, more crime. According to Putman social capital is an essential for the cohesion for a society or community. Among other good things a high level of social capital means less crime. But even on a more everyday level social capital adds to the well-being and cohesion among people. Social capital is dependent on what we believe about how other people are going to behave, on what you might call social trust. For instance, if you live in a neighbourhood where lots of leaves fall in Autumn, you might doubt the use of taking the trouble of sweeping them up in your garden, if you are convinced that your neighbours are not going to sweep theirs up. In that case the wind would just carry “their” leaves into your neatly swept garden – so why bother? If, on the other hand, neighbours know one another and talk, it is easier to agree that the leaves should be dealt with to everybody’s satisfaction.

According to Putman, the level of social capital has been sinking continuously since the nineteen fifties in the United States. One reason, according to him, is television which keeps people at home watching one way communication instead of going out to meet other people. Another factor is that very few people spend all their lives in the same area among the same neighbours. That means that they, like plants that are re-potted, need time to grow roots in the new place. Social connections are thinner and of shorter duration.

Although people of today do connect in new ways, much social capital has been lost. One serious lack of social capital is the problem arising from migration. Migration, whether within a country or internationally, is not necessarily a problem in itself. But many

instances of cultural clashes point to the fact that in one sense, the sense that social networks should not only bond similar people, but also bridge between diverse people, many modern communities have not succeeded in accumulating social capital and consequently are short of social trust.

If you pass from local neighbourhood relations to more all-embracing communities social capital is not the only factor to decide the degree of cohesion, according to Christian Bjørnskov, senior lecturer of economics at Aarhus University. He quotes the instance of the Italian Mafia or other criminal gangs which possess a lot of social capital without this having any beneficial effect on society in general.

This makes Bjørnskov distinguish between particular trust, which is the degree of trust we have in the people we know, and social trust, which denotes a general trust in people about whom we only know that they are e.g. Danes or Britons.

In Britain 36.5 per cent say that in general you can trust other people. In Brazil the percentage is only 5, whereas Denmark has the world record at 68.1 per cent, closely followed by Sweden and Norway. The researcher behind these figures is Christian Bjørnskov who, together with colleagues, has researched the level of general trust in a number of countries.

Bjørnskov suggests that there is a close connection between general social trust and well developed welfare systems, referring to the result of his research which points to this connection. This evidently gives raise to the question of what is the cause and what is the effect. Some researchers maintain that welfare states create social trust, whereas others say that it is the other way round. Bjørnskov says that his research shows that social trust comes before the welfare state and not the other way round. He argues that there is a correlation between the size of the welfare society and the opportunities for cheating. This leads to a need for an extended control apparatus which would be too costly and make the system break down. The welfare state presupposes a high degree of social trust, he concludes.

In the light of this and of Putnam's concern about the weakened root systems in many contemporary communities and societies one cannot help asking how the increasing diversity and fragmentation can be overcome in order to obtain social cohesion and a high degree of well-being. Can the welfare state be saved. If not, what are the alternatives: Smaller local communities, a network of mafias – or revolution?

The main source of this article is an article in AUGustus, the alumni magazine of Aarhus University, April 2013 by Peder Holm-Pedersen. Other sources include: <http://www.socialcapitalresearch.com>

A Superpower Dominates Governments

LOUIS EVEN

Textbooks generally distinguish the three powers that belong to the Government: the legislative, executive, and judiciary powers.

The legitimate and sovereign government of any free country must possess the power to make laws, to regulate relationships between citizens and established bodies, without having to ask permission from a foreign authority. This is simply the exercise of legislative power.

Likewise, the government of a sovereign country must be able to administer to the nation in conformity with its laws and constitution without having to submit its actions to a foreign government for approval. This is the exercise of executive power.

Finally, the government of a sovereign country must possess the right to enforce the laws of the country, to prosecute and condemn those who transgress them, to pass judgment on the litigations between citizens throughout that country without having to request the authority to do so from a foreign government. This is the exercise of judiciary power.

The superpower

If these three powers — legislative, executive, and judiciary — are the constituted powers of any sovereign government, there is another power, not labelled as such but which exceeds and dominates governments themselves.

This superpower, which did not receive authority from any constitution and which does not concern itself with it any more than a thief would, is *the monetary power*.

The monetary power is not the money that you may have in your wallet. It is not the stocks or bonds that you may have in your portfolio. It is not what taxes take from you continuously, through the three levels of government; local, provincial and federal. It is not the pay raises that trade unions complain about and pronounce strikes for. It is not even the industrial dividends that some socialists would like to take away from capitalists and see distributed to wage-earners,

Even

without calculating the insignificant amount that each would receive. Monetary power is not inflation or a rise in the standard of living, while governments and trade unions contribute to inflation as much as they can; the former by their ever-increasing taxes, the latter by demands for wage or salary increases.

No, this is small compared to the stature and power of the monetary dictatorship that we are denouncing, this power that makes our lives “hard, cruel, and relentless,” in the words of Pope Pius XI in his Encyclical Letter *Quadragesimo Anno*:

“This power becomes particularly irresistible when exercised by those who, because they hold and control money, are able also to govern credit and determine its allotment, for that reason supplying, so to speak, the lifeblood to the entire economic body, and grasping, as it were, in their hands the very soul of production, so that no one dare breathe against their will.”

These strong words may look excessive to those who are unaware of the role of money and credit in economic life or of the control of which money and credit are subjected, but the Pope did not exaggerate.

The blood of economic life

Let us recall that financial credit has the same value as cash in economic life. One buys materials, services, work, and products as much with cheques — which simply transfer figures from one account to another in bank ledgers — as with coins or paper money, which go from a client to the local retailer at the corner store. It is the money of figures (cheques) that activates economic life and that is responsible for more than 80 percent of the total financial operations of our nation’s commerce and industry. The generic term “money” can therefore refer to both forms of payment.

Having said this, let’s see if money has an important role in economic life, and if the control of money really has the power that the Pope attributes to it.

Whatever may have been the conditions of economic life in past centuries, it is undeniable that today money (or credit) is indispensable for maintaining a multiple-source production of the activity called for by the private or public needs of the population. It is indispensable for allowing the production to reach the needs of the people.

Without money to pay for materials and labour, even the best entrepreneur must stop producing and the suppliers must reduce their production. The employees will suffer, the needs will not be met and producers will be left with unsold products. And the circle continues. It is widely known that entire populations have suffered from this very fact.

The same applies to public bodies. The needs of the public can be very urgent, well expressed and understood by public administration. But if this public administration does not have any money or lacks a sufficient amount, the plans must be set aside.

What is lacking in this case? Materials, manpower or competence? Nothing of the kind. The only thing lacking is money and financial credit, the "lifblood of the economic body." Let the blood flow and the economic body will function once again. If it takes too much time, businessmen will lose their concerns, owners their properties, families their daily bread, health or even the lives of their children and often peace in their homes.

But what can we do? Isn't this an inevitable situation that we must simply endure? — Not at all. If blood is lacking in the economic body, it is because it was removed. And if it comes back, it is because it was re-injected.

Extraction and injection of blood are not spontaneous operations. It is the controllers of money and credit who can "determine its allotment... thus supplying the lifblood to the entire economic body." One needs their consent to live; Pius XI was right.

In his Encyclical Letter, the Pope did not explain the mechanism of the extraction and injection of blood nor did he define concrete ways to remove the economic body from the control of these malicious surgeons. This was not his role. His role was to denounce and condemn a dictatorship which is a source of incalculable woes for society, families and people, not only in a material sense but also because of the unwarranted difficulties for each soul in the pursuit of a destiny which must be his own for all eternity. The Pope spoke out and said what he had to say. Alas! Too few heeded his words and the dictatorship has since consolidated its position more and more. The alleviation that the Pope's words would have allowed, was endorsed only to maintain power of which the effects have become so obvious that they are hard to conceal.

In fact, a sudden return of a blood flow in an economic body, which had been entirely deprived of it for many years, could only impress even those who did not understand it. This occurred in September of 1939. The day before, a bloodless economic body paralyzed developed countries. The declaration of war, in which these same countries were to participate, suddenly brought back all the blood, money and financial credit, which these nations would need during the six-year war. It called into play all the human and material resources.

Above governments

Monetary power consists in issuing the nation's money and credit;

Even

the power of conditioning the distribution of money and credit into circulation; of determining the length of time for the circulation of this credit; of demanding the return of money at the risk of the confiscation of goods; of bringing governments into subjection and fixing for them the conditions of release and return, of demanding the guarantee of the right that all governments have of taxing their citizens.

The Monetary Power Resides in the Banks

The legislative power has a seat in parliaments, since this is where laws are discussed and voted upon.

The executive power resides in the office of the ministers, it is they — the Prime Minister and his Cabinet — who make the decisions which are carried out by the civil servants.

The judiciary power resides in the courts, where the judges practice their duties.

Where does the superpower, the monetary power, reside? It resides in the banks. It is in the banks that financial credit is actually created and cancelled.

When a bank grants a loan to a contractor, retailer or government, new financial credit is created. The banker credits the borrower's account with the loan granted, just as if the borrower had deposited that amount. But the borrower did not bring in or deposit any money, since he came to the bank to get money he did not have.

The borrower will now be able to issue cheques on this account that he did not have when he entered the bank.

No other person's account in the bank was reduced. This is, then, a new account added to the accounts that already exist. The total credits in all accounts of the bank are increased by the amount of this new account.

There is an increase in the financial credit, modern money, which will be put into circulation by the cheques of the borrower issued on this new credit.

On the contrary, when a borrower comes to the bank to repay his loan (credit that had previously been borrowed) It reduces the quantity of credit in circulation. The total quantity of blood in economic life is thus reduced by the same amount.

A simple bookkeeping process, with one stroke of the pen, created financial credit. A similar gesture, made when the loan is repaid, cancels or destroys this credit.

If during a given period of time, the total of the loans exceeds the total repayments, this puts more credit into circulation than what is cancelled. On the contrary, if the total of the reimbursement exceeds the total loans, it causes a period of reduction of credit from

circulation.

If the reduction period continues, the whole economic body is affected by it; this is called a crisis — a crisis caused by a restriction of credit.

Since the borrower must pay back more than what was lent to him because of the interest, he must withdraw from circulation more money than was put into circulation. For this, he must withdraw from circulation extra money that has been put there by other borrowers. As every new credit comes from the banks, under the condition of paying back more money than the capital, other people must also borrow. They will have even more difficulty to repay their loan, since they have to find extra money out of the credit in circulation, which is already reduced by the amount of money that the first borrower had to repay in interest.

This chain reaction continues for the next borrowers; and eventually some cannot pay back their loans. Then the banks restrict further loans, which slows down the whole economic life. But the banks put the blame for this situation on the population.

In order to have the flow of credit that is required for economic life to resume, the chain of loans will have to take place again, breeding a bigger and bigger succession of debt.

A tool of the superpower

The present banking system is the instrument used by the monetary superpower to maintain its supremacy over nations and governments. The banks are supported by the ridiculous, politico-financial rule that binds the distribution of purchasing power to employment, with production that requires fewer and fewer employees to supply the necessary production.

You must not conclude from this that your local banker is part of this dictatorship. He is only a subordinate who, most likely, is not even aware that when he inscribes loans in the ledgers of the bank, he creates credit. He is not aware that the repayments inscribed in his ledger destroy or cancel credit.

You may still hear backward scholars deny that the volume of credit in circulation depends upon the action of the banks. These people, who resist the obvious, are an invaluable support to the superpower because of their ignorance — if it is really ignorance on their part, or vested interests, or their ambition to receive easy promotions through the support of this superpower.

Upper-class bankers, on the other hand, know very well that financial credit, which makes up the bulk of modern money, is created and cancelled in the ledgers of banks.

A distinguished British banker, the Right Honourable Reginald McKenna, one-time British Chancellor of the Exchequer and Chairman of the Midland Bank, one of the Big Five (the five largest banks of England), addressed an annual general meeting of the shareholders of the bank on January 25, 1924, and said (quoted from his book entitled *Post-War Banking*):

“I am afraid the ordinary citizen will not like to be told that the banks can, and do, create and destroy money. The amount of finance in existence varies only with the action of the banks in increasing or decreasing deposits and bank purchases. We know how this is effected. Every loan, overdraft, or bank purchase creates a deposit, and every repayment of a loan, overdraft, or bank sale destroys a deposit.”

Having also been Minister of Finance, McKenna knew very well where the bigger of the two powers — the power of the banks and the sovereign government of the country — resided. He was frank enough to make the following statement, which is very uncommon among bankers of his level:

“They (the banks) control the credit of the nation, direct the policies of governments, and keep in the palm of their hands the destinies of the peoples.”

This is a statement which is in complete agreement with what Pope Pius XI wrote in his Encyclical Letter *Quadragesimo Anno*, in 1931:

“Those who, because they hold and control money, are able also to govern credit and determine its allotment, for that reason supplying, so to speak, the lifeblood to the entire economic body, and grasping, as it were, in their hands the very soul of production, so that no one dare breathe against their will.”

This piece, together with the previous one, appeared in the October/November/December 2011 issue of the Michael journal.

LOUIS EVEN (March 23, 1885, Montfort-sur-Meu – September 27, 1974) was a lay Christian leader and publisher who founded the social credit movement in Quebec

Future Money

REVIEWED BY JOHN RATTRAY

Most people have tended to consider questions of money – apart from the feeling that one could do with a bit more of it – as complicated matters best left to the experts. The financial crises of the last few years have led to some fairly widespread doubting of this, and the emergence of campaigning groups such as Positive Money in the United Kingdom show that public opinion is changing in some quarters.

One person who has long been ahead of the game is James Robertson, who is a major authority on the subject of monetary reform. In the wake of the banking and debt crises, views such as his, previously seen as esoteric or even eccentric by many, are coming to be seen as sensible and even essential if we are to solve the enormous problems of our financial systems. In his latest book, *Future Money – Breakdown or Breakthrough*, he gives us a potted, but comprehensive, history of money, beginning in the days of the Old Testament and Ancient Greece, and pointing out some useful lessons en route. He also considers the relationship (or lack of it) between economics and ethics. In the second part of the book he puts forward his own proposals for reforming the money system, both nationally and internationally, while also considering the scope for local currencies.

Money has traditionally been described as a unit of price, a means of exchange and a store of value, but to Robertson it is far more than the neutral mechanism therein suggested. He draws attention to the power exercised by those responsible for issuing money. This power, he believes, tends to transfer money and wealth from poor individuals and countries to rich ones, and to encourage maximisation of the exploitation of natural resources, leading to the ecological problems and potential future scarcities with which we are nowadays becoming all too familiar.

Most early money systems were physically based, usually on gold or silver coins. Since the development of paper money, and now electronic money, this is no longer the case. But it continues to surprise most people to learn that the overwhelming majority of our

money is not brought into being by the government, but is created by the commercial banks as interest-bearing debt, under what is known as the fractional reserve system, with the interest accruing to the banks when the debts are repaid. In the UK for example - and this is typical of advanced economies - only 3% of our money is created by the Bank of England; the remaining 97% is created by the banks.

Robertson makes a strong case for the power to create money to reside solely (in the case of the UK) with the Bank of England, who would transfer the money to the Government, who in turn would spend it into circulation. The commercial banks would then compete in the marketplace for borrowing and lending the money already in circulation. The resulting lower debt and interest costs for the rest of the economy would be generally beneficial. Perhaps the feeling that one could do with a bit more money would not be so acute!

He also examines the possibility of a National Dividend or Basic Income Scheme, mooted originally by the Social Credit movement and more recently in modified form by the Green Party. Along with this, he also proposes shifts in the taxation system, away from taxing labour through income and value-added taxes, and towards taxing polluting and resource-depleting activities. In this connection he also gives a sympathetic hearing to the idea of land value taxation as originally expounded by Henry George.

In this book Robertson does not address the subject of the monetary union on which the European Union has embarked, although he has said elsewhere that it would be "a deeply undemocratic act" for Britain to replace the pound sterling with the euro. He acknowledges in this book a debt of gratitude to the "small is beautiful" ideas of E.F. Schumacher, whom he knew, and would seem to have a clear preference for smaller rather than larger political and economic units.

This book is to a large extent a distillation of James Robertson's work to date; it is thorough and scholarly, while also being accessible to the general reader, and a valuable source for the experienced student or seasoned campaigner. As well as a full index, it contains an extensive appendix linking numerous organisations and individuals pursuing these or similar themes.

Future Money - breakdown or breakthrough

James Robertson

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The NEW EUROPEAN

In February Germany saw the birth of a new party, *Alternative für Deutschland* (AfD, *Alternatives for Germany*). By April 14th it had 7,500 members, and 1,300 of them participated in the inaugural conference in Berlin on that date. An assembly of top businessmen, lawyers, economists and academics joined forces against the single currency, the euro. Their arguments, as set out in the party's programme, were on the whole the same as were set down in April 2012 by a group of German and French economists (see article pp2-4). The list of signatories is impressive¹ and has no affinity with "the usual suspects".

The spokesman of AfD, Bernd Lücke, is neither a eurosceptic nor an europhobe in the sense that he wants Germany to leave the European Union. Quite on the contrary.

"As true Europeans, we need to abandon the Euro," he says, pointing to the damage that the single currency has so far done to the countries that adopted it.

And the established parties as well as political commentators are taking AfD seriously. A recent opinion poll suggests that about 26 per cent of the Germans would consider giving their vote to a eurosceptic party.

Even Oskar Lafontaine, the Left Wing German finance minister who launched the euro, has called for a break-up of the single currency to let southern Europe recover, according to Ambrose Evans-Pritchard in the *Daily Telegraph* on May 5th, 2013.²

Latvia is next on the list of countries that are expected to join the euro. On February 1st the Latvian parliament voted on the issue. The result was 52 in favour and 40 against joining. And now Iveta Grigule, member for the Greens and Farmers, is trying to get 34 MPs to sign a petition to the president, asking him to call a referendum on the issue.³

The president of Latvia's constitutional court, Gunars Kutris,

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supports the initiative. "All aspects considered the country is entitled to a referendum on the euro," he says.

An opinion poll in December 2012 showed that 68 per cent would say no.

In April Slovenia joined the group of euro countries in financial trouble. This is surprising, as the country's public debt is only 53.9 per cent of its GNP. The EU's limit is 60 percent). But two big banks owned by the Slovenian state are in a serious crisis, threatening the economy of the small state.⁴

From February 21st to March 4th a YouGov poll in six countries showed growing euroscepticism. In the UK and in Sweden there was even a majority for leaving the Union.

In Britain, 42 per cent were in favour of leaving and 36 per cent would stay. A poll in January resulted in a tie, as 38 per cent wanted to leave and 38 per cent would stay.

In Sweden 44 per cent would leave, whereas 41 would stay. In January there was a 43 per cent majority for staying as against 41 per cent would leave.

In Finland, Germany, Denmark and France euroscepticism is growing, but these countries still have a moderate or comfortable majority in favour of staying.

In all the six countries, however, an overwhelming majority of the respondents say that the EU has too much power.⁵

The latest Norwegian poll confirms that the country is unlikely to have a third referendum on EU membership. 70 per cent would vote no.

And Iceland is expected to withdraw its application for membership after the recent election, resulting in two eurosceptic parties taking over the government. *LHP*

Notes

1 See <https://www.alternativefuer.de/>

2 http://www.telegraph.co.uk/finance/financialcrisis/10039329/German-euro-founder-calls-for-catastrophic-currency-to-be-broken-up.html#mm_hash

3 <http://www.folkebevaegelsen.dk/nyheder/article/letland-soger-om-optagelse-i>

4 Notat 1259, May 2013

5 <http://www.folkebevaegelsen.dk/nyheder/article/svenskerne-vil-ud-af-eu>

Editorial

When Mrs Merkel told the Cypriot Government to confiscate the savings people had deposited in the banks, her demand signified a far-reaching shift of power in the European Union. Not for seventy years had the German Chancellor the power to make such a demand, and not since the New Economic Order was decreed until now only the European Council, consisting of all the political heads of state, make any qualitative change in the nature of the European Union.

How has Mrs Merkel been able to extend her power in this way? The European Council meets twice a year, but a few weeks beforehand the German Chancellor and the French President have met to confer on what they want the council to do; and their decisions have prevailed at the subsequent Council meeting. The other members of the Council have not demurred at this Franco-German axis, for they realise it helped to cement the relationship between the two old adversaries; and that was the purpose for many people of the European project. The practice of the two having this conference used to work well. However, after Mitterrand the French Presidents have been lesser men and no match for the German Chancellor. At the same time the French economy has weakened while Germany's prosperity grew every year. Thus has come about the German domination.

To restore the balance we look in vain at the other members of the European Council. There is not one among them with the drive or vision of Jacques Delors or Margaret Thatcher. If we were to place the other political heads of states in front of Mrs Merkel, all we would see is a line of little people.

Leopold Kohr who inspired the foundation of the *New European*, was a fervent critic of the European project. Perversely, he voted in favour of Britain remaining in the EEC in the Referendum of 1975. When asked why, he replied: the faster we can make the European train go, the sooner it will crash into the buffers; then we will create something much more sensible for the benefit of the people. With the Euro single currency as the engine, Professor Kohr's prophesy may come within a few years.

In the meantime, Mrs Merkel in exercising her far reaching powers should be sensitive of the pride and dignity of other nations. If she acts otherwise we may have to give the European Union another name. The Fourth Reich may be the obvious choice. *R.B.*

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