The Euro – Dividing Europe, destroying lives

A Speech by John Harrison FCA, FCCA, Honorary Treasurer of The Campaign for an Independent Britain in Derby, 11th July 2014

Introduction

The European project was always a political project. The economic side was the cover for gradually creating a single European state. On one of the rare occasions when he spoke the truth about it, Sir Edward Heath said "The project was and is political. The means were and are economic". People were deliberately misled by the deceitful use of the term "The Common Market" into thinking that we were entering a simple trade agreement.

I'd like to refer to a couple of passages that I found when reading Stanley Knight's "History of the Great European War" which is a contemporary account as the title suggests of the First World War, which I thought was appropriate in this year, the centenary of the outbreak of the war. In the first volume Knight describes "Pan-Germanisation" He says:

"The expression Pan-Germanisation is equivalent to All-Germanisation or Germany Everywhere. It is the title of, and also well summarises, a movement in Germany which is at once a doctrine, a policy, and a faith. One might almost term it a Political Religion."

He describes how economic growth in Germany gave rise for the necessity for it to extend its boundaries and that it should acquire adequate seaports. Knight describes the German plans to take into its territory Denmark, Holland, parts of France, the Austro-Hungarian Empire, the Balkans and Turkey. He goes on to say that Germany sees Britain as its greatest and most formidable obstacle and describes how Britain has defended the weaker European States from those who would consume them into a single European State.

I'd like to read another section from page 45 of the First Volume:

"Apart from war, therefore, the only means available to a State to attain its ends is by diplomatic efforts, such, for example, that of 'peaceful penetration'; and what is that but the ordinary case of the stronger nation taking advantage of the weaker, of might resolving itself into right? The stronger State constructs and develops the railways, public works and natural resources of the weaker State, peoples that State's territories with its commercial and other agents and eventually with its police and even its soldiers, lends money to the smaller State and to its traders, takes more than adequate security and waits and perhaps works for default, and then, like the most unscrupulous of moneylenders, seizes and occupies the territories of the weaker State as the result of its 'peaceful penetration' operations."

As **Winston Churchil**l quoted "*Those who fail to learn from history are doomed to repeat it*"
Now I'm not suggesting what we are seeing in Europe is merely Pan-Germanisation. Indeed it might be better termed Pan-Europeanisation as Germany is allied to others but I do see it as disheartening that the United Kingdom that defended the smaller European states in the past is now an active member of the project.

Monetary Policy

The 18 countries of the Eurozone have agreed to co-ordinate their affairs increasingly into a single, economic government which has a permanent majority of votes in the EU. If the euro survives those 18 Eurozone countries will be able to dictate the policy of the whole EU to the 10 states which still retain their own currencies.

They have agreed to abolish what little remaining democracy they have as individual states in order to try to save the Euro currency. Britain is now a permanent, second class member of the EU and can be outvoted at any time on any economic issue and indeed any other issue.

When the Euro was launched, there was a supposedly unbreakable rule that no Euro country would ever be made responsible for the debts of another. However due to the imminent collapse of the Euro the European Stability Mechanism, (ESM) was set up the Euro countries agreed irrevocably and unconditionally to pay any capital demanded of an unlimited account within seven days of it being asked, and the ESM also has power to borrow unlimited sums from others in the names of its members, who have the legal responsibility to repay the loans.

Those ESM treaty gives the institution (of the same name) “full legal capacity to institute legal proceedings” but:

“The property, funding and assets of the ESM shall, wherever located and by whomsoever held, be immune from search, requisition, confiscation, expropriation or any other form of seizure, taking or foreclosure by executive, judicial, administrative or legislative action. The archives of the ESM and all documents belonging to the ESM or held by it, shall be inviolable.

The Members or former Members of the Board of Governors and of the Board of Directors and any other persons who work or have worked for or in connection with the ESM shall not disclose information that is subject to professional secrecy. They shall be required, even after their duties have ceased, not to disclose information of the kind covered by the obligation of professional secrecy.

In the interest of the ESM, the Chairperson of the Board of Governors, Governors, alternate Governors, Directors, *alternate Directors, as well as the Managing Director and other staff members shall be immune from legal proceedings with respect to acts performed by them in their official capacity and shall enjoy inviolability in respect of their official papers and documents."*

So it is a law which can never be changed. It is literally a super-state agency above the law and, whilst we are not in the Eurozone, that same anti-democratic government is part of our government whilst we remain in the EU. We have no prospects of having a vote or even a say in its decision making. Indeed as its meetings are held in secret and its members sworn to secrecy we have no means of discovering the nature of its deliberations.

Fiscal Policy

The attempted creation of a single economic government amongst Eurozone members with the active support of HM Government and the impending change in EU voting procedures will give that Eurozone group permanent outright control of all major EU decisions, provide the backdrop against which the independence struggle and any referendum campaign will take place.

A tax on financial transactions is mooted. This is expanded from the original idea of the Tobin tax which applied only to spot currency deals. As 70% of the EU's financial transactions take place in London this particular policy will affect the UK much more than other EU countries.

If the euro recovers, then regardless of opt outs and derogations, Eurozone countries will have the power to impose this tax which is particularly directed at London. A British government committed to staying within the EU would have no choice but to accept it.

In practice it would be an added dealing cost which would be passed on to buyers of shares, bonds and currencies such as the pension funds that you rely on to provide your income in retirement. It would also discriminate against currency transfers between Eurozone and non-Eurozone countries within the EU, giving extra financial pressure for joining the euro.

The EU has long aimed to acquire rights of tax raising without the need to go through the parliamentary processes for contributions from member states. This is called “own resources” and already exists to some extent in customs duties on goods entering the EU from non-EU countries. With the reduction of customs tariffs worldwide as a result of WTO agreements, this is not as fruitful a source of funding as it used to be so the EU is looking to this ‘Tobin tax’ so that it can raise money from member states, in this case the UK, without the possibility of democratically elected governments having the power to vote against it.

Exchange Rates

By locking incompatible economies onto the same currency, the existence of the euro is making worse a mess which already existed. It began in the Seventies at about the time Britain joined the EEC and was triggered by President Nixon’s decision to take the US dollar off the gold standard.

Under the Bretton Woods system which stabilised the post war currency system, the major currencies were pegged within a small range of variation to the dollar, which was pegged to gold. Every so often, adjustments were made. Britain had to devalue on several occasions because of balance of payments difficulties.

Incidentally, one of the objectives of the Bretton Woods agreement was to give Germany and Japan favourable terms to enable them to rebuild following the devastation to their economies caused by the Second World War. Under the Marshall Plan substantial loans were made available to the European allies to help them rebuild their shattered industries and it would not have been politically acceptable to provide the same resources to Germany and Japan.

Instead they were given exchange rates which were fixed at a level below which the true level would have been in order to create favourable economic circumstances to facilitate their recovery.
After the Bretton Woods agreement ended Germany has had the policy of doing everything that it can to peg the value its currency to the level of the other EU countries, its main trading partners, with the objective of maintaining the trading advantage that the Bretton Woods agreement gave to Germany. This has been pursued ever since with total disregard for the disaster that it inflicts upon other countries.

Some of you will remember the 'snake' which was the first attempt to co-ordinate the values of the European currencies. The value of any currency was only allowed to vary by limited amounts within the average values of all of the currencies. This failed, of course for reasons that I will come to later, neat to the end of this speech.Then we had the infamous Exchange Rate Mechanism which was to be the forerunner of the single currency which failed for the same reason. Now we have the Euro which itself is doomed to fail and is causing untold misery in southern Europe, but still maintains Germany's trading advantage over its neighbours and indeed the rest of the world.

The Monetary Mess

When the dollar came off the gold standard it was decided that currency exchange rates would "float" and go up and down against each other according to market circumstances. Freed from the restrictions of the Bretton Woods system, British and other governments relaxed controls on credit, allowing the banks to become the de facto issuers of currency.

The privately owned banks used to have the right to issue bank notes. The government realised that printing bank notes can lead to inflation so it passed the Bank Charter Act of 1844 which prohibited them from doing that and gave the sole power to the Bank of England to issue bank notes.

That worked fine until the advent of computers when banks became empowered to issue currency again. The liquidity ratios allowed them to lend £8 for every £1 they held in deposits. So if you deposited £1 in your account, they could lend me £8. I could then pay that to you to buy your vastly inflated produce and you pay it into your account. They have now got another £8 on which they can lend me £64 and so it goes on. This is how the banks have built up bigger assets/liabilities on their balance sheets than entire GDP of the countries in which they are domiciled.

Governments have been happy to turn a blind eye to this ballooning catastrophe because – guess who borrows the most money? Got it in one! The governments themselves! That is why Gordon Brown was so desperate to get the banks lending again in 2008.

But shouldn’t this vast increase in money supply have increased inflation over the last twenty years? Of course it should have, but the monetary effect was negated by the massive importation of cheap goods from the Far East. In other words China postponed the impending doom approaching the Western world. Though is now starting to manifest itself in rapidly rising house prices.

But back to the banks. What happens when the loans they made go sour? Well, first point, due to a change in accounting regulations they only have to report bad debts when insolvency proceedings commence – unlike the rest of us who have to write off as soon as we suspect the debt is bad. So the banks can and do keep bad debts on their balance sheets. Ultimately, of course, those companies go under. As the average lending ratios are now 33:1 instead of the 8:1 I mentioned earlier, it only requires bad debts of 3% of their total assets to wipe out their capital entirely, and most banks are in that situation.

So what happens then? First, the loss is sustained by the bank’s shareholders, then they borrow on the inter-bank market and lastly the government’s unwritten guarantee comes into play to protect the nation’s savers as ours did with Northern Rock, Royal Bank of Scotland et al. So the banks got into trouble because they had lent too much, largely to governments, and under Gordon Brown’s “Save the World” strategy, the governments took all the debt back onto their own balance sheets.Now you have the problem where the sovereign states are buckling under the amount of debt they are carrying. So the solution is for the European Central Bank to create £2,000 billion of extra cash to bail out the governments.

But wait a minute! Who are the unwritten guarantors these new £2,000 billion of debts? Well, actually they are those very same sovereign governments which are insolvent anyway. It will probably have the same effect as throwing a tanker load of petrol onto a fire to try to dowse it. Stand well back, if you can!

The Divisive Effect on the People of Europe

The euro has done terrible things to the economies of Europe. Portugal, Italy, Ireland, Greece and Spain (PIIGS) have seen their economies ruined – particularly Greece where there is utter misery.
The EU believes that a one size economy fits all but that can’t possibly be true in any region unless it is what Bernard Connelly describes as an Optimal Currency Area. This is an area which, inter alia, has free movement of people and capital, interest rates which are equally relevant for all and an external exchange rate which is equally beneficial or harmful to everybody in the currency area.
Language and cultural differences restrict the free movement

of people and while individual States are responsible for their own sovereign debt (which unofficially includes their banks’ debts) there will never be total free movement of capital because of the risk of bad debt faced by the lenders.

It is certainly the case that a common interest rate cannot be good for all, neither can a common exchange rate. They have to be set for the benefit of the largest economy in the region and it would be stupid to do anything else. So Ireland, which needed to increase interest rates to curb increasing house prices had to halve their interest rates instead which eventually caused economic disaster.
When a country gets into severe financial difficulty it will approach the IMF for a loan and agree policies to get itself out of difficulty. These usually include reducing the fiscal deficit by increasing taxes and cutting spending, reducing interest rates to stimulate its economy, and devaluing its currency to make its exports more attractive. Together these three steps soon show improvement.

The PIIGS need a reduced exchange rate to promote their trade but they are stuck with the same rate as Germany, who incidentally, carries out a lot of its trade with other EU countries so having a permanently fixed exchange rate works very well for it.

Their interest rate is set by the European Central Bank so they cannot vary that. The only economic tool they gave left is fiscal policy, increasing taxes and cutting state spending, often known as ‘austerity’.
Greece is in a much worse position today than it was in 2010 when these austerity measures were adopted. The public debt grew as a percentage of GDP from148% to 175% in 2013 (paradoxically, as government spending counts as part of GDP, reducing government spending increases the percentage of debt to GDP)- the very thing they are trying to reduce.

Unemployment in Greece rose from 15.3% to 27.3% and over 60%

of young people are unemployed. Suicides increased by 45%. Poverty is on the increase. One in three Greeks now lives below the poverty line and some people are actually going hungry. Spain has more than one in four people unemployed and 70% of young people unemployed.

Because the Greek National Health Service has been plundered of funds, many drugs are not available and health care standards have dropped enormously. The mortality rate of young children has risen by 40% as part of the ‘austerity’ intended maintain the integrity of the euro currency. It is quite true to say that Greek babies are dying now because of the need to cut public spending to save the euro.

Greece has no chance of ever recovering whilst within the Euro and even if it did, the people would find that every profitable business and public utility will have been sold off to foreigners in a vain attempt to pay off the so-called “bail out” funds which are being piled onto their indebtedness.

Where you have a deficit on your income account it has to be met from your capital account – reducing savings, increasing borrowings or selling off assets. This what our government describes as ‘inward foreign investment’ which they say is a good thing. In reality it is the sale of water and energy utilities, high value houses and businesses to foreigners to raise the money to pay for our trading deficit with the EU. More of the Orwellian double speak used to hide the truth.

Remember what I said right at the beginning about the methods used under pan-Germanisation.

Why the Euro Currency doesn’t work and can’t work

Before deciding whether the UK should join the Euro, the then Chancellor of the Exchequer, Gordon Brown, drew up five economic tests which the UK must pass before joining. They were economic harmonisation, flexibility and the effects on investment, financial services and growth and jobs

However, the tests were superfluous. They ignored the one defining test that was of far greater significance than all the rest put together – the one thing that doomed the Euro to failure from the start.
That was the growth of Unit Labour Costs throughout the Eurozone. Without that being the same everywhere, high levels of unemployment were bound to occur and that is what we are seeing in Portugal, Italy, Greece and Spain already.

Let me explain what I mean about Unit Labour Costs. Simply put, it is the labour cost of producing one item of something. Let us say in a very simple economy you employ me to produce glass tumblers. You pay me £10 per hour and I produce ten tumblers per hour. The unit labour cost is £1 per tumbler.
In another country, let's say they produce salt cellars. There they pay the workers 10 euros per hour and produce 10 salt cellars per hour. The unit labour cost of one salt cellar is 1 euro.
So in this simple example, the terms of trade are equal and £1 equals 1 euro.
If my wages were increased to £11 per hour and my output remained at 10 tumblers per hour, the unit labour cost is now £1.10 each. If our neighbours increased their wages to 11 euros per hour and their output to 11 salt cellars, their unit cost remained at 1 euro per unit.

The terms of trade are now against us. More £s leave our banks than the euros that are coming in because we now sell less of our product.

Under the laws of supply and demand, the exchange rate of our currency would fall by 10% bringing the terms of trade back into balance and the trade carries on as before.
This is how countries like ours for decades have been able to increase the wages to our workers faster than their output has increased. The £ fell from a value of about $4 to the £ in the 1950s to about $1.70 now.

Unit labour cost is a calculated from the wages paid and productivity, but productivity itself, among other things, is dependent on the amount of capital investment in each worker – and of climate. Capital, because if you have been given a new machine and I am producing solely by hand, you will produce a lot more than I would. Climate because it is much easier to work in the fairly temperate North of Europe than it is in the hot South, where it is often too hot to work in the afternoon.

For a single currency area to work, unit labour costs have to increase at the same rate in each country all of the time – but that is impossible.

Assuming that the European Commission can do nothing to change the climate, though it does seem to be trying very hard to do so, I'll concentrate on capital.

The amount of capital invested per worker would have to be the same in every country and increase at the same rate so there would have to be an ABSOLUTELY MASSIVE transfer of capital from the industrialised Northern countries to the most impoverished Southern and Eastern ones.

It had never occurred to me until now that the European Commission would deal with this in an altogether different way- moving large numbers of people from South to North and East to West.
So what will be the effect of unit labour prices rising faster in some countries than in others? Quite simply it will be loss of exports and jobs in the poorer performing ones, which is what we have seen in recent years.
Unemployment rises, the government's tax receipts fall because there are fewer people in work. Welfare spending goes up because there are more unemployed people and – all of a sudden – the government has to borrow large sums of money to keep going and, in its turn, eventually faces bankruptcy.

The solution to the problem for an independent state, as

Argentina did a few years ago, is to default on its debts, reduce interest rates and devalue its currency. These three things were done together and the economy goes through a dramatic recovery. Unfortunately these solutions are not available to the countries in the Eurozone.
Instead the European Commission has imposed austerity measures on the Southern European states, putting up taxes and reducing government spending which actually makes the situation worse by creating more unemployment.

Incredibly, to try to bring labour costs down, they are actually reducing the wages paid to workers. Even, if by some miracle, this reduction in wages brought them back to parity with Northern Europe, it would be a fleeting solution only, as in the very next day unit labour costs would change by different amounts in different countries and we would be back on the same path to disaster again.

If Portugal, Italy, Greece and Spain had kept their own currencies, they would have been able to devalue them over the years, allowing them to remain solvent. Instead the EU's great vanity project, the Euro, has been imposed on them and maintained at extraordinary costs to their own peoples.

It is a truism that the glue that holds together democracy in a country in which people with diametrically opposite is the certain fact that if I don't like the way you are running the country and I can persuade enough of my fellow citizens that your way is wrong and my way is right we can vote you out of office and impose policies that are more agreeable to us.

But once you take away the peoples' power to change their way of government through the ballot box they will eventually resort to non-democratic means to achieve the same ends.

It always brings a lump to my throat when I hear the Swiss sing Edelweiss on the French "La Marseillaise". Europeans want to be free. The Euro has taken their freedom away.