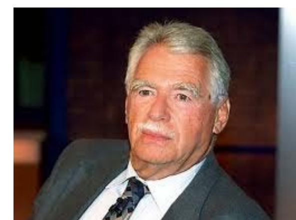

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RESCUING PLANS FOR THE EURO OR FIGHTING FOR A BETTER EUROPE?

Though this be madness, yet there's method in't.

William Shakespeare, Hamlel III, 1

I . The hard core of the present crisis: a monetary referendum against the Euro

The mess about the Euro could not be greater. Outsider still see the Euro stronger than the Dollar, insider on the edge of an abyss. Confusion prevails the debate. It is a failure of currency, of over-indebted and therefore failing states, of undercapitalized banks, unable to compensate impending, but unavoidable losses or of a policy, which instead of giving answers to these questions only drags out the problems - buying time, but not knowing for what?
But these explanations miss the point. There is no evidence (and never was) in monetary history that currencies destroy states or banks. The opposite is true : States and banks fail, if and because they violate the rules of money. This story happened more than 800 times in 300 years of recorded monetary history – and now in the case of Euro at 8001 times. If Greece and banks involved in the financing of Greece and the other Euro states being at present in serious difficulties had been followed the accepted rules of the Euro-union: none of those states and banks would be now in the present situation. And referring to the architecture of the Euro-union and its instituted frame, namely the articles of the treaty of Amsterdam (stability pact) and the famous no-bail-out clause of Article 125 treaty of Lisbon: None of these auxiliary pillars for reinforcing the rules was needed, if and as long European Central Bank (ECB) had respected her mandate and statute - being responsible for the currency and only for the currency and rejecting other duties, f.i.to support states and banks, fighting with problems having caused by their own behavior. The ECB is responsible for the stability of the Euro and for the consequences of the misbehavior of states or banks. In this respect not only stability pact as well as no-bail-out-clause are superfluous institutions. The same holds true for the rescue funds and –schemes for the Euro. As I told the judges of Germany's Constitutional Court: Without these rescue programs Greece already would be on the road of mastering its crisis: having left the union, devalued its new old currency, regaining its lost competiveness and in successful negotiations with its creditors about a debt moratorium or haircut. The complaint could be remained undone.

The real facts behind the entire excitement could not be more "normal". The occurrence of the money and financial markets demonstrates two things: the growing fear of more and more people of the near bankrupt states to lose their money and savings and the growing incredibility of the present politics in mastering this problem. After a long period of sleeping and believing in the soundness and cohesion of the "union" the markets re-activated their original function: reflecting the real risk-temperature in a

money and financial society, being their thermometer. Therefore the rising and widening spreads for interest-rates as well as for investment assuring costs in these countries – especially sovereign bonds – can't be explained and denounced in a Manichean way as a "malevolent speculation" of profit-greedy banks and financial profiteers. What happens is a monetary referendum. People try to direct their money in a safe haven and find here a stable anchor ground for them. In the same way seek entrepreneurs to avoid or to minimize their imminent losses. All these people regard and use their money as a paper ballot to vote against a policy they do and can not trust. This confirms one of the earliest, but now obviously repressed findings of economics: If the there is a conflict between political power and economic laws, it is always the economy that wins and not the policy.
It was one of the founder of the legendary Vienna School of Economics, Eugen von Böhm-Bawerk, who 100 year ago formulated this insight : in his famous essay "Macht oder ökonomisches Gesetz", Wien 1913. It should be declared as compulsory lecture for every politician and trade union leader of today. Not only in Europe.
How such a situation in Europe could arise, that a common currency no longer is regarded by the commons as their currency? The answer is lying in the start. Twelve year ago, after introduction of the Euro then for 11 European states instead of 17 now, the weaker group among them in the South of newly created "Euro-Country" (Greece, Italy, Spain, Portugal, even France) required the same credit-worthiness and the same ratings by the financial markets as their stronger partners in the North, the former members of the "D-Mark-Block" (Germany, Netherlands, Luxemburg, Finland, Austria). Being now a Euro-country their interest-rates fell down from two-decimal levels to one-decimal ("german") ones and discharged their national ("primary") budgets about billions of interest payments on their public debts: in Italy of about 70 Billions yearly on a debt of then 120 Percent of GDP. Instead of using the new leeway in their budgets for reducing public debts and burden, they misused it for further extending public expenditures and financing economic expansion.
It was the gift of a monetary union: if exchange rates among the group members are 1:1 and equal to each other (one Greek or Italian Euro = one German or Dutch Euro) than also interest-rates tend to become equal, they seem to contain the same (equal) monetary risks. But after 10 years the monetary veil tears, or better: the monetary doping of the "cheap" Euro-credit-card lost its effect. The former weak-currency-countries of the South had to stop its continuously "living beyond their means". Their signature on their Euro-credit-card were no longer honored. Why? Due to the longtime "negative" interest-rates and over-valued foreign exchange they had been became over-inflated and over-debted. The imported money and credit from outside their countries and far above their internal savings had financed and fueled a process of permanent domestic over-consumption, extension of public expenditures and increase of private wage-unit costs. (In 10 years in Greece about 76 Percent against 0.9 percent in Germany!) They had been risen faster than the overall-average of their partners in the North. With outbreak of the Greek crisis (autumn 2009) global financial community as well as policy and public in Europe realized the new situation. They discovered – very late - the "built-in destabilizer" of a common money union, the easy and noiseless way towards public and private indebtedness and the danger of defaults - and they reacted. Since then the spreads of interest rates and costs of contingent policy papers (CDS, CDO and other derivatives) rise and diverge. Since then the markets fullfil their job: identifying the existing risks of Euro-investments and -bonds and of their issuer – and the menace of their imminent insolvency.

II. The Euro – the new European Idolatry?

But instead of thinking about the necessary and unavoidable steps of reforms European policy makers decided to "rescue the system". They denounce markets and actors as "malevolent speculators", being interested only in profits at cost of the common best and the performance of the Euro. The thermometer caused the illness instead of revealing its symptoms. And still more stupid: If we break it, the illness will fade away!

As I explained in already mentioned hearing of the German Constitutional Court on: Without these rescue funds Europe never would had been confronted with the challenge of the present Euro-crisis. Without this dubious "support" Greece would and could help themselves. Using the chance to leave the Euro-Union and re-introducing its old Drachme as a new one-. Domestically could and should it exchange Euro against Drachme in relation 1:1,in order to avoid internal default and costly compensations, but externally is has it to devalue strongly , in order to regain the competiveness and export potential. To get a substantial haircut from the country's foreign creditors can be taken for sure, because the creditors had no other chance as to offer it, for otherwise Greece could stop transfer payments to abroad. As I said: In 800 similar cases of 3000 year recorded monetary history this scenario has been tested. The last successful cases were countries like Mexico, Argentina, Russia or Ukraine.
Why insist the officials of EU, ECB and politicians of leading Euro-countries - in debtor- as well as creditor countries- so stubbornly on their Euro rescue plans and reject professional advice, expertise and historical lessons? Why do they risk in creditor countries like Germany and France the confrontation with their constituency and waist billions of public money neglecting the fatal costs and consequences for society, economy, saver and taxpayer of this and the next generation? Why they ignore the obvious danger that the drowned nations pull their rescuers into the same deadly depth? And in the debtor countries: Why their leaders accept the socially explosive and economically counterproductive conditions of the offered help, which is pushing her economies deeper and deeper in the crisis: for long time crushing economic growth and social welfare and generating an incurable unemployment, especially for the youth?
The Euro, a money sharing its function with each other in world, namely to serve mankind and economy instead of dominating it, is becoming old Europe's new idol. For that Europe's policy maker put at disposal the oldest and most venerable traditions and hardest won achievements of the continent: the freedom of people, their constitutional and property rights, the national welfare state and the principle of "pacta sunt servanda" and not violating them by political opportunity? Why Europe's politicians believe so uniformly in "TINA": There is No Alternative, a formula which Germany's chancellor Angela Merkel repeats and turns like a Tibetian prayer-mill?

III. The truth behind EURO-rescuing: Lobby interests, keeping Germany down and the illusionary dream of the United States of Europe

It is not easy to find a conclusive explanation for this Euro- idolatry of Europe's political establishment. A least three partly overlapping reasons for that can be distinguished: first the belief pure micro-economic arguments have macro-economic relevance, a view which comes very near to see the problems with the eyes of the lobby, second taking the crisis as chance for the EU and its organs to win new competences and third thinking the crisis proofs that Europe as an alliance of national and independent states only can survive in a global world of mega-states and –blocks, if it merges to the United States of Europe with Euro and a transfer-union as the mover to this final goal.
The financial as well as the export sector: both pursue with the Euro-rescuing sector-egoistic aims. The financial sector needs liquid and solvent debtors, in order to prevent capital losses and fallings out. The export industry fears damages from a come-back of national currencies and their tentative appreciations. The hitherto limited appreciation of the Euro, consequence of the big problems and financial risks in countries like Greece and the other, improves their chances on the global export markets . The first anxiety dominates in France , in Germany the second. . In both cases, lobbyistic interests compete with the common best, but can substitute them? It is the real domestic economy which has to pay the reckoning, especially the small scale enterprises, being depending from expensive banking credits and having their main markets at home instead abroad. Due to the Euro and the relative high-interest-policy of ECB they suffer under higher interest rates than their competitors outside the Euro-Zone and under the losses in real domestic demand as the consequence of stagnant or

falling real incomes at home and dear imports. Small may be beautiful in reality: in competitive markets as well as textbooks, but not in the politics of the EU. The real victims of the Euro have no lobby and no voice in the public.
Germany with its economic strength and big surpluses in foreign current account is *conditio sine qua non* for the functioning of the EU-union. Without the German surpluses the rest of the Euro-Zone would write deep-red figures in current account internally as well as with the outside world. But indispensable or not: Germany remains for the rest of Europe a potential danger and clandestine ruler. This fear has grown since the re-unification of the country after the breakdown of the Soviet-Union at the edge of the 1990ties. The Cold war transformed in the Cold fear in case of Germany. Therefore the country has to be kept under the control of the EU and its institutions. Strange enough: But the leading politicians of Germany in all parties, represented in the parliament, share this view; the only exception are the last relicts from the old state party of the former DDR.
How this can be explained? How could an old culture nation like Germany so thoroughly forget its history and lose its long and laudable tradition? There is no simple answer to give. Germany after the catastrophic end of its heroic age had only the choice to re-start as a nonpolitical merchant nation. Its come back after Second War became identical with its "Economic Miracle" and the hardest money of its history, the D-Mark. What for Germany was a symbol for an irrevocable break with an unfortunate past gained for Europe traces of a new instrument of domination. Therefore the European community urged the reunified country and its leaders to give up the D-Mark for the Euro. But now both sides can learn: It was a terrible mistake. It was easier for all other European nations to live with the D-Mark as leading currency of Europe than to obey the rules of a common, centralised money. In relation to the D-mark they preserved their right to adjust their foreign exchange rates instead of subjugate the entire economy to the uniform conditions of a centralized currency, like the Euro. Even their open disregarding of the agreed rules brings not back to them the lost freedom for own policies and measurements. The lesson is hard, but not to ignore. If a country is missing the right to print its own money and getting credit in last instance from its national central bank, this country stands with one leg in the realm of bankruptcy, which can be observed in the present crisis.
Instead of controlling the German giant and depowering its mighty central bank the European nations lost with ECB, Euro and its maintenance the control over their own economy and domestic policy. A great economist of last century: Milton Friedman was predicting this consequence and the ultimate wrecking of the European Monetary Union by saying: It is for all economies all the time easier to change only one price, namely the foreign exchange rate than all prices of the entire economy together. This is learning Europe now in the present crisis.

IV. The "United States of Europe": only a new Soviet-Union "light". The better solution would be an European UNO

The idea to "use" the Euro-crisis as a fuel element to transform the EU into the "United States of Europe" (equipped not only with common money, but also taxes, debentures and bonds) can be regarded as even cynical as illusionary. Cynically, it would erase nearly all achievements since the po "Enlightening" 250 years ago and the following political and social progress: the rights of parliaments, the governmental division of power, the national welfare state. Especially the Left would lose the fruits of the victories, won by their fathers and grand-fathers. Europe would never become a copy of the USA, which form since their birth a "nation" with an unified "demos" having at disposal all necessary instruments to articulate the nation's common will: constitution, legislation and a government for the whole country. Nor would this Europe ever be the mirror image of the former British commonwealth: an association of independent, democratic Nations. Due to the "Politbüro" at Brussels and its centralistic attitudes of governing would be nothing else as a new Soviet-Union "light", with shadow parliaments in centrum and provinces and governments on local levels.

Maybe that some European leaders combine with the transfer-union in coming the hope the newly installed executive-organs EFSF and EMS could become the forerunner of such an European Mega-State – even his concept remains illusory. The funds, even if they were transformed to banks (according latest ideas) are not capable to finance the crisis "away". Neither their "leverage" (refinancing by markets, banks or the ECB) nor the official guarantees and credits by the budgets are sufficient to cover the needs, if the capital flight out of the countries involved begins to run. Neither rating of funds becoming "bad banks" can be held, nor the budgetary support can be given unlimited. Merely sooner than later begin in the creditor countries the constitutional brakes to seize. Repealing the national constitutions requires everywhere in Europe referenda, even in Germany. There is no chance to win such referenda in all 27 EU-member countries, at least not in the tradition-conscious ones, maybe only in some small.

Is there no model for reforming the present EU in an organ of general acceptance by all European nations and making it more efficient in terms of coordination of their policies? It is available: It could be The United Nations (UNO) as a Parliament of States and their Governments. The UNO as world-system needs regional sub-systems in order to prepare and to structure the dialogue of nations on the global level. It is in the interest of Europe (like that of the other regionally organized groups of states) to speak with one voice instead with many. If EU in this sense and direction could be "aug-mented": it would be on the right way. Europe would maintain its traditions, cultures, institutions and democracies; but nevertheless it could act as a community and "profiling" in the world.

V. And Europe' monetary future? An European Bretton Woods

How to solve Europe's monetary crisis? The answer comes from the lessons of past. Europe's best times economically and monetarily were the 40 years before the Euro: between 1958 (start of Common Market) and 1999 (introduction of the common currency). In the middle of this period (1979) came the "Exchange Rate Mechanism (ERM) in function. Against its label: The ERM was not a monetary, but foreign exchange union – like all other historical monetary agreements of former times: Bretton Woods, Gold-Standard, Skandinavian's Mint-Union, the French-led Latin Mint Convention. The member states agreed with each other about the external monetary policy (levels of foreign exchange rates and their change).The responsibility for the inner money value and policy remained by the national states resp. their Central banks. None of these agreements violated or removed the nationnal ability to act free and autonomous in terms of monetary policy at home. It was the ideal compromise between the interests of businessmen and of saver; the first needed stable outside-money, the latter stable inside-money.

With ERM came a new element in the play: A neutral unit of account as base for notification and calculation of the (intra-European) foreign exchange rates: the ECU (European Currency Unit).
ECU (a french idea) was sought as substitute for the D-Mark as calculation base for the inner-European exchange rate grid. Since D-Mark remained the leading currency in the Common Markets, ECU was only a "token" element of the system.
Nevertheless Europe can learn in the present crisis from ECU: This token European currency could not run in or create a financial crisis. It remained unchanged and stable "for ever", even if some national currencies in Europe began to become weak. It was an "Euklidian" stability: If many units are equal to a third, they are also equal in relation to each other.
The lesson from this is very simple: The EU has to come back to an ECU-System under the title of "Euro". It would be an ERM II, in which each country is represented with its own currency. The currency is linked with the EURO (instead of ECU) to each other ERM- currency, but their Governments are free to adjust its foreign exchange rate, whenever the country's macro-economic conditions such require. Greece of today could devalue its currency and then start to restore the economy with a

“Keynesian” economic growth- and development program. So could do Portugal, Spain, but even also Italy or France.
In this monetary Europe all nations are responsible for their own currency, their stability, internal value and the economic climate in their country. All currencies together, based on a common accountting-unit form an European monetary block and network, which is internally flexible, but stable against the outside world. The members of this system have the freedom (and can keep it) to use their monetary instruments (interest and foreign exchange rates) in times and cases of national needs. No country would be subjugated – as today - to plagues, which result from a centralized system, neglectting different needs and require painful adjustment of the entire economy instead of only its foreign exchange rate. Keynes old dream of his (not the later realized) Bretton Wood could become truth. And this for an Europe at profit for all its countries. No un-teachable Eurocrate fighting for sinecures could block this way out of Europe’s deepest crisis, making it free for a better future.