

BUILDING WEALTH IN CHANGING TIMES



The Solari Report

JUNE 6, 2012

Events Unfolding in Europe
with John Laughland



Events Unfolding in Europe

June 6, 2012

C. AUSTIN FITTS: Ladies and gentlemen, welcome to the *Solari Report*. Today is June 1st, 2012, a special report with John Laughland from Paris, director of studies at the Institute of

Democracy and Cooperation, author of *The Tainted Source: The Undemocratic Origins of The European Idea*. John joined us in 2010 after he wrote a very prescient article, “Why the Euro Will Fail.”

John’s long been an astute observer of the pros and cons and challenges of the European Union and the Euro. He’s agreed to be with us today. I wanted to do this as a special report. I didn’t think there was time to wait for the next *Solari Report* given what is going on in Europe. I wanted to make sure we were talking about it now. So John, thank you very much for joining us today on the *Solari Report*.

JOHN LAUGHLAND: Thank you, Catherine. It’s a pleasure.

C. AUSTIN FITTS: I want to revisit the broad sweep of history, so maybe if we could quickly start with the idea behind the European Union, how it came to be and how the Euro came to be. I think it’s important when we look at current events to have a feel for the history of the thing.

JOHN LAUGHLAND: Sure. Well obviously the coming into being of the European Union and of the Euro are two different things. Technically they are linked in the sense that it was the Maastricht Treaty ratified in 1992, which changed the name of the European community as it then was to the European Union and which also provided for the introduction of the Euro in 1999, but of course the European Union preexists its renaming in 1992 and dates from 1957 when the European economic community was set up. Even the European economic community has history or had history when it was created. It was largely based on the European Coal and Steel Community created in 1951.



Now you've asked me to say why it was set up and what were the motives. I think those motives were largely geopolitical and I think they were overwhelmingly connected with the perceived need by the United States to create a politically united western Europe during the Cold War, which started really in 1948-49. So it was with a view to uniting the countries of western Europe, those countries particularly of course Germany, which was on the front line in the Cold War, that first the Coal and Steel Community and then the European Economic Community and then the European Union were created.

Paradoxically, when the Cold War came to an end as it did really from 1989 onwards but ultimately in 1991 with the dissolution of the Soviet Union, the decision was taken to reinforce even further the institutions of the European Union much as the decision was also taken to reinforce NATO and to enlarge it. NATO of course expanded as you know to include first the states of central Europe and then even some former Soviet Republics, the Baltic states in particular. The European Union's expansion was a bit slower, but it reinforced itself as quickly as it could by introducing the Euro, a decision which as I say it took in 1991.

I mentioned 1992 earlier, that was the day of ratification, but the decision was taken in December 1991. In fact it was taken the day after the Soviet Union was dissolved. The announcement of its dissolution was the 8th of December 1991 at the Maastricht Summit, which decided to create the Euro took place on the 9th and the 10th of December 1991. So there's an exact temporal parallel between the dissolution of the Soviet Union two years after the end of the Cold War, the Berlin Wall having come down in 1989, and the decision to create the Euro.

The geopolitical idea behind this therefore was fairly clear. Western European leaders and American leaders thought that, well they thought two things. First they thought that there would be a lot of instability in central and eastern Europe and in the former Soviet Union and they said that they wanted to stabilize it by creating a strong European Union based in the west, banked in the west, but of course I think they also wanted to increase their own geopolitical power in Europe generally and also in the former Soviet Union. So those are the reasons why the Euro



came into being.

C. AUSTIN FITTS: One of the things we've heard in America for many decades is that part of America's economic power is in the fact that it represents a combined market of what is now 300 million people and that by combining under a common currency Europe could similarly compete particularly with the rise of China and the countries in Asia. Is there any merit to that? Was that a consideration at all?

JOHN LAUGHLAND: Yes it was. The idea was exactly as you've put it, that big is beautiful and that it was important for Europe to emulate the United States by creating as you say this large market and by having a single currency. The argument would have merit if it was logical, and what I mean by that is that the United States is not just a big market, is it? It's not just a market with a currency. It's a country with a common history and with obviously a common language. It's a state that has existed as a state for many hundreds of years and which behaves as a state. The European Union cannot in any way be compared to the United States of America. Its political units are the nation states. So it's a very flawed argument, but yes, it was definitely one that was made.

“It's not just a market with a currency. It's a country with a common history and with obviously a common language.”

The reason why I say it's illogical apart from the point about statehood is of course that the single market precisely does not correspond to the single currency area. There are 17 I think now member states of the Euro but 28 states in the European Union and plenty of significant states including of course the United Kingdom, which refused to join it, have not joined the Euro but remained nonetheless members of a single market. So the argument is illogical in that sense.

In paper everyone is supposed to join it except Britain and Denmark, which have get-out clauses, but in any case I mean it was a naïve I think argument because obviously America's power is largely due to the role of the dollar into its military power. America's economic power I mean is due to its military power at least in part, and as far as China and



Southeast Asia is concerned, I mean these are countries undergoing what builders, extraordinary periods of growth of a kind, which no one has seen in Europe since perhaps the 1950's.

C. AUSTIN FITTS: So you published the *Tainted Source* in 1997. You were very clear about the flaws at that time. Maybe you could walk us through what you said in that book, a wonderful book by the way.

JOHN LAUGHLAND: Thank you. Yes, I mean it's very simple. The book has various different approaches to the problem including a chapter on monetary policy or rather monetary theory in which I argue that paper currencies are by definition a bad thing, that they allow too much discretionary power to governments, and that they effectively rob citizens by producing inflation. I very much stick by that argument and I think that the mess that we're in now amply proves it to be right. After all we're currently in or have been for two years in the Euro debt crisis, but the financial crisis as such began as we all know in the states not with state debt, although that's also a problem, but ultimately with private debt, didn't it? It started with the sub primes and so on.

C. AUSTIN FITTS: Well believe it or not the state mortgage market is very much directly and indirectly guaranteed by the federal government.

JOHN LAUGHLAND: Oh, I know. I'm well aware of that absolutely and I don't think the crisis would've taken the form that it did if there hadn't been that state involvement, if Fannie Mae and Freddie Mac and so on hadn't effectively moved into encouraged the subprime lending. So yes, I totally agree with that, but my point is simply that the crisis that we are living through is one of debt generally.

C. AUSTIN FITTS: Right.

JOHN LAUGHLAND: There is a culture of debt. Pope John Paul II talked about the culture of death, but one can also talk about the culture of debt, which is -

C. AUSTIN FITTS: Well they're related.



JOHN LAUGHLAND: Exactly, whether they are, yes, both private and public, in other words both state and private. Anyway, and that debt is as I say in my view encouraged of course by the issuance of paper currencies, which of themselves non-redeemable expressions of debt. They are expressions of debt, which no one has any intention of paying back, and so the inevitable consequence is obviously that both state actors and also private actors behave ultimately as if they never needed to pay them back. So that's my broad view of the situation. In the rest of the book I argued that the fundamental idea driving the European Union was hostility to democracy and hostility to nation states.

There was a very strong feeling or at least the argument was very strongly put at the time of the Maastricht Treaty 20 years ago that if Europe did not have an over-arching super national structure that there would be war. This argument was made and continues to be made, the idea being that if the states of Europe are not somehow welded together in a super national and incidentally authoritarian structure that they will go to war with each other. That argument was made very strongly for instance by Chancellor Cole of Germany at the time and it's an argument I reject at its deepest level. I reject it partly because it's an excuse for anti-democratic behavior of the kind that Europe has made a speciality in the last 20 years.

I often like to remind people that during this 20-year period there have been no fewer than five referendums on the European Union in various forms that have led to no results that have rejected the proposal made. There are five occasions treaties have been rejected, and on all five occasions the reaction has been to simply ignore the no result and to make the population in question vote again. So I just mention that as an example of the structurally anti-democratic nature of the European Union. That's not the only aspect of its anti-democratic nature.

All of its structures are anti-democratic, but these were justified as I say in the name of keeping the peace in Europe and in the name of stability and I also pointed out that these ideas had been around before. I drew attention to the way that the European dream had been a large part of Nazi propaganda and other fascist propaganda, not to say that this was



somehow a new Nazi movement in disguise but simply to say that these ideas had very unpleasant historical precedence, and that the historical merit, the history was more on the side of those people who believed instead in free nation states, which after all corresponds to the reality of Europe. That is precisely what Europe is. It is precisely a continent on which there are a very large number of different nations and very historical nations of course.

C. AUSTIN FITTS: One of the reasons I still like *The Tainted Source* is you are very focused on accountability and you discuss the relationship between political governance and monetary governance, which of course cannot possibly be divorced and yet in so much of the discourse we've seen in the financial community there's discussion of monetary policy completely divorced from the political structure and accountability as a combined governance system.

JOHN LAUGHLAND: It's this separation between the – well I mean yes, I argued at the time against monetary union because I said it was political union in disguise and that it would lead to an unacceptable level of political centralization in the hands of unaccountable decision makers both within the European Commission and in the European Council but also in the European Central Bank, but this disconnect, which they have set up, which they set up in the Maastricht Treaty and therefore in the Euro Zone as it functions now between political governance, in other words the national government on the one hand and monetary policy on the other is precisely the reason why the Euro Zone has gone into crisis.

This point cannot be emphasized in my view too much. What has happened over the last decade or so since the Euro has existed is that this disconnect has caused the crisis. What I mean by that is that countries, particularly the ones that are now in trouble, Greece, Spain, Ireland, Portugal and so on, were able to run up enormous amounts of debt, precisely because they never had to bear the consequences as nation states. They shared a common currency with other countries, with rich countries, so they were able to rack up huge amounts of debt without having any immediate impact on their national economies.



It was basically the problem of the free rider. They were able to free ride on the common currency area, racking up enormous amounts of debt without their national currencies suffering the consequences. Of course eventually the chickens have come home to roost, but it's this disconnect which has driven the European crisis forward.

C. AUSTIN FITTS: What happens when you issue vast amounts of non-sustainable debt, the question of course when the chickens come home to roost is who's going to pay? Is it going to be the banks or the people? And I think that's the debate that's going on in Europe between rolling over and supporting and bailing out the banks versus austerity programs on the people.

JOHN LAUGHLAND: Yes.

C. AUSTIN FITTS: What we're watching there is the same thing we're watching here in the United States, which is -

JOHN LAUGHLAND: Absolutely.

C. AUSTIN FITTS: You have a political class that wants to spend vast amounts of money on projects of their own and the way they get political buy-in for doing it is to hand out lots of money to just about everybody, and you end up with half the population working directly or indirectly for the government as you see and you point out in your article, the extent of the Greek population working for the government. So what you get is you get a large amount of the population whether it's big corporations or communities and households deeply dependent on spending, which is coming from non-sustainable debt, and it's almost like an entire social addiction, and the question is how do you get out of the addiction?

JOHN LAUGHLAND: Yes. Well I don't have an answer to that question. I mean there are many causes. As far as bailing out banks and so on is concerned I think that's just straightforward collusion between governments and big business. I don't think there's any secret or it's not

“I think that's the debate that's going on in Europe between rolling over and supporting and bailing out the banks versus austerity programs on the people.”



exactly rocket science. I think as far as the question of general state spending is concerned I think there is an unfortunate and hitherto un-discussed link between universal suffrage and this problem because all states it seems to me certainly in the western world are finding it impossible to control their spending.

They're all as you say racking up unsustainable amounts of debt, some worse than others, but nobody, there's not a single state in the industrial world that has a balanced budget, still less a budget surplus, and indeed I don't think they've had one ever since the gold standard was abolished in 1971. It's just become a modus operandi for all western industrialized states, and to some extent that is due in my view to the fact that there are something like majorities now of voters who depend for their livelihoods on the state and quite naturally in such a position of structural dependence on the state.

I'm talking about obviously not only state employees but also pensioners and state employees can include obviously people in national health systems and teachers and so on. I'm not just talking about civil servants. You add up all these people together, then you get very quickly a number of states to something like a majority of people who depend upon the state, plus of course all these special interest groups who are able to bring passion to bear so that they get payouts as well.

C. AUSTIN FITTS: Well it's kind of an iron cross.

JOHN LAUGHLAND: So I think it's the situation that we're all in, yes. Sorry.

C. AUSTIN FITTS: You have the populations, but if you follow the stock market, I spend a lot of time obviously as an investment advisor following the stock market, essentially the corporations winning are the ones who are backed up by the government spending and government regulation that allows them to have an unbelievably low cost of capital and a flow of revenues to cover their overhead. So their geopolitical success depends on this massive government support, and so you've got an iron cross not just with the population – Jeb Bush once said there's no political constituency for fiscal responsibility, and unfortunately he



was right, as we also have a corporate infrastructure whose entire geopolitical position is dependent on this machinery continuing to operate.

JOHN LAUGHLAND: Yes. I would agree that there's also no constituency for anti-inflationary policies.

C. AUSTIN FITTS: Right.

JOHN LAUGHLAND: I think that there is a strong constituency for inflation as well, particularly in the United States and in the United Kingdom, full property price and stop price inflation.

C. AUSTIN FITTS: Well once you get into that trap, most people prefer a slow burn, a slow burn debasement to a mark to market.

JOHN LAUGHLAND: Yes. Well that's clearly what Britain and America who although of course not part of the Euro Zone are nonetheless in this same debt trap are doing. They are trying to inflate away their debt.

C. AUSTIN FITTS: I've spent a fair amount of time in Europe in the last two years, just traveling around Europe it seems to me that Europe looks like it's in much better shape than the United States. The people look healthier, the infrastructure is in much better condition, and if you look at our fiscal problems they're off the charts and yet the comparison right now is of course Europe is in terrible shape and the United States is in great shape, and I think the truth is a little bit more complex. I think one way or another we're both in the same shape and America has the advantage of military dominance...

JOHN LAUGHLAND: Yes. I think that's right. I mean I haven't traveled in the States enough to know how it looks in comparison to Europe, but you don't entirely surprise me by what you say. I think there is quite a lot of accumulated richness in Europe that probably is in the States as well, but certainly if the comparison between continental Europe and Britain has anything to go by I think there has been certainly in Britain and therefore also in America there has of course been a very long time now,



20 or 30 years of very dogmatic so-called liberal or near liberal propaganda, which as we know effectively argues in favor of profits for big banks and big corporations at the expense of taxpayers and so on, and I think there has certainly again in Britain been a sort of chase for the quick buck at the expense of very serious long-term social degradation.

In Britain we see this particularly with immigration, which of course has a massive social cost and usually born very explicitly by the way in terms of subsidized housing for immigrants. In London for example, the cost of which of course falls naturally needless to say on the people who generate income, but in London it has been a rule now for at least ten years if not longer that all new builds, all new blocks of flats and so on that are built in the city must give 50 percent of those flats to social housing.

Now obviously if you take out of the housing pool 50 percent of units and give them to social housing then naturally you'll inevitably drive up the price of those ones that remain on the market by theoretically at any rate by 100 percent, but above all of course the long-term social costs of this mass immigration, which is obviously intended to drive down wages, are born by the state. In other words it's a classic example of privatizing the profits and socializing the losses.

C. AUSTIN FITTS: Right, which is happening globally.

JOHN LAUGHLAND: Yes.

C. AUSTIN FITTS: Let's talk about what's going to happen going forward. Greece clearly is under pressure. Why don't you tell us a little bit about the Greek situation right now?

JOHN LAUGHLAND: Well I of course as you kindly said in your introduction have been a long not only opponent of the era but also predicted its breakup, and ultimately I think that it is doomed. On the other hand, I think we'll know fairly soon. I think we'll know by the summer whether or not Greece is going to go bankrupt and leave the Euro. I'm speaking slightly hesitatingly because I think it's a problem with a number of



analysts and commentators, particularly British ones who are naturally Euro-skeptic to confuse the wish with the thought and the analysis and to let the analysis be led by the wish.

What I mean by that is that as you know the left-wing politician who might win the elections on the 17th of June, it's not even clear that he will because the pro-EU or pro-Euro parties have managed to, incredibly in my view, but they've managed to maintain themselves pretty well in the polls. Even this young fellow Alexis Tsipras has said that he wants Greece to remain inside the Euro Zone. In other words, whereas the traditional or one of the traditional parties in Greece has been completely annihilated in this latest crisis, the Pasok Socialist Party, it has left the terrain open not to an anti-Euro party that is openly contesting the whole system, but instead to another left-wing party, which buys into it.

Now whether he is just engaged in brinkmanship I cannot tell. He could be trying to hold a gun to the Germans' heads and say, "Listen, we want to stay in the Euro, but we're not going to comply with the terms of your austerity package" and he may therefore be trying to play on their fears of financial havoc if there is a disorderly default in Greece. So there could be an element of that. The other issue, which makes me hesitate to predict with certainty a breakup of the Euro is the fact that the European elite unfortunately has a knack of managing to get its way, only today, literally the news has broke just now, the Irish have voted in favor of the fiscal pact, in other words in favor of the austerity program. It's absolutely incredible to me that the -

“EVEN THIS YOUNG FELLOW ALEXIS TSIPRAS HAS SAID THAT HE WANTS GREECE TO REMAIN INSIDE THE EURO ZONE.”

C. AUSTIN FITTS: That is quite remarkable. How did they do that without computer voting fraud?

JOHN LAUGHLAND: Well I don't of course rule that out because they do in fact have electronic voting in Ireland, so I certainly don't rule that out. I observed one of the Irish referendums on the Nice Treaty in 2001, so



who knows, but that's now the official result, and as I said the EU manages to get its way. So I don't totally rule out the possibility that Greece might be kept on board in one way or the other. I mean I think on balance the probability is that the mood has hardened enough in Germany because that's really where the matter is decided. For the Germans to say in June if this man is elected who rejects the austerity package that they will effectively pull the rug from them causing them to default and presumably therefore causing them to leave the Euro as an example to other states.

C. AUSTIN FITTS: But the Euro can hold even if Greece leaves - it's not the death knell to the Euro. The Euro can hold without Greece.

JOHN LAUGHLAND: Well that's the fear you see that there will be a domino effect and that the markets having seen that one country can default and leave. They will then wonder whether other countries might do the same. So that's the reason why so far the Germans and others have been prepared of course to stump up such enormous amounts, partly of course to protect their own banks, which are heavily exposed to Greek debt, but also because they fear unpredictable consequences. I've said before on television that these Euro elites are control freaks and what they fear most of all is fear itself. They fear that which they feel they cannot control.

C. AUSTIN FITTS: Right.

JOHN LAUGHLAND: The austerity package for Greece already provides for very severe levels of default. It's not true to say that there isn't a default. There is a default according to the agreement. As you know the value of Greek debt has been written down by more than 50 percent and that represents something like a 75 percent loss for investors when you include all the lost interest payments and so on. So it's a very, very substantial default already, but they're afraid of panic. They're afraid of a disorderly default causing panic and of people I think behaving irrationally, even in other words of the effect of a Greek disorderly default being even worse than of course the immediate effect of the loss of those great Greek government bonds. They basically know that the



system is a house of cards and that if you blow, the whole thing will come down.

C. AUSTIN FITTS: So let's just take a minute and pretend for a second that the political class went on vacation to Mars for a year and you were asked to propose a plan for how we find real solutions here. What do you think the real solutions are? Let's just pretend we could do what we wanted.

JOHN LAUGHLAND: I think one of the most important things is obviously monetary reform in all countries of the world, and by that I mean the issuance of proper currencies, that's currencies based on gold. To some extent that might emerge after the chaos. I mean I'm struck when I travel around Europe by how often you now see shops offering to buy gold and presumably to sell it as well. Whether there's been an increase in hoarding I don't know, but it's something that I was less conscious of before, and I think clearly if currencies are inflated away massively then that presumably is what will happen, but there can't be any proper reform until the problem is attacked at its root.

Because if you make debt, unredeemable debt the basis of your entire financial system, by unredeemable debt I mean of course paper currency, then it's inevitable that will explode, and it's inevitable that future generations, the future of future generations will be mortgaged to pay for present gratification. And unless that problem is solved, unless people are forced by the nature of money itself to look to the future and I mean look to the future to be able to have confidence that the coins in their pocket have some intrinsic value, which will last over time, then frankly we're all finished.

C. AUSTIN FITTS: And what about governance? So you're assuming you would go back to the current nation state form and try and revise a less centralized system?

JOHN LAUGHLAND: Definitely. I mean the nation state is obviously the natural order, the natural political structure. It's the one that everyone understands. It is the political reality. It is the basic political reality to be sure nation states can collapse if there's a civil war or whatever, and



equally they can be, new ones can be created, but the nation, I mean it just is a political reality. It's like a river or a mountain.

These are things which are there and which for as long as any human institution lasts are basically eternal. The problem in the European Union is not only that the power is centralized there but above all that it's centralized in a radically anti-democratic way and power is being sucked out of national parliaments now for decades. So yes, I would definitely dismantle the European Union, there's no doubt about it.

C. AUSTIN FITTS: It's funny, when I first heard you speak in London in 2000 I was struck by how you were describing a phenomena, which was exactly what we were seeing here in America, and so grossly oversimplified I always call it the sort of centralization of political and economic power, but it's going on worldwide. You have a political class who believes in it. It's a global phenomena. We're all struggling with it and it's trying to institute a system which makes no sense, and as it loses confidence in the general population we see it spiral down and it uses force to get its way as you say. They have a remarkable knack of getting their way.

JOHN LAUGHLAND: Yes.

C. AUSTIN FITTS: And of course it just makes matters worse, so round and round we go. Well John, you've been very generous with your time. Before we close could you just give us a minute and tell us how we keep up with your work and stay informed on your writings and what you're saying and doing?

JOHN LAUGHLAND: Well that's very kind of you. I'm not writing as much as I used to these days, but the institute I work for, although we don't tend to deal with these issues very much, is called the Institute of Democracy and Cooperation and our website is idc-europe.org, but in a personal capacity I'm very often on the TV station RT, Russia Today. In fact I'm going on to speak to them this afternoon, but I tend to get interviewed by them several times a month, and they have a very good website where you only need to type in my name and you immediately see all the latest



interviews.

C. AUSTIN FITTS: Okay, well John, listen, have a great interview with RT. Thank you again very much.

JOHN LAUGHLAND: Thank you. You're welcome, Catherine. Thank you so much for your interest.

C. AUSTIN FITTS: Ladies and gentlemen, that's it for our special report on Friday June 1st, 2012, John Laughland from Paris. We hope you enjoyed it.

DISCLAIMER

Nothing on The Solari Report should be taken as individual investment advice. Anyone seeking investment advice for his or her personal financial situation is advised to seek out a qualified advisor or advisors and provide as much information as possible to the advisor in order that such advisor can take into account all relevant circumstances, objectives, and risks before rendering an opinion as to the appropriate investment strategy.