

Current Concerns

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English Edition of *Zeit-Fragen*

Iceland and the Demonic Nature of Money

How one of the world's richest countries collapsed over night – and what we can learn from it

by Dr Bruno Bandulet

When I was flying to Iceland in summer 2006 in order to visit the economic miracle near the Arctic Circle and to talk to people of the *Issue Bank* and of *Kaupthing*, the biggest private bank, it was utterly unimaginable that this high developed national economy would collapse within a few days in October 2008. Measured against its per capita income Iceland was then richer than the US, Germany and Great Britain. They had an exemplary pension system with capital cover, the state debts amounted to only 27% of GDP, the government's budget showed a surplus, the creditworthiness of state securities was AAA [triple A, highest creditworthiness], and the low taxes an example for the whole of Europe.

Iceland – laboratory and writing on the wall

Although in 2006 some risks and dark sides were looming due to the private sector's foreign debts and an enormous current account deficit (compare *Gold&Money Intelligence*, August/September 2006), aggravating factors were necessary that the financial- and economic system was going to collapse in the following two years. In 2008 the small island turned into a laboratory and the writing on the wall for the entire western system, which was based on artificial money without coverage. The question arose whether other nations would experience anything similar in future. However, the three big Icelandic banks had not been involved in the dot.com bubble, which burst in 2000, nor had they invested in real estate junk bonds and securitizations which were responsible for the crash in Europe and America in 2008. On a list compiled by management consultants *Arthur D. Little* in 2006, about the most efficient European banks, *Kaupthing* was number 2. And in November 2007 the *UBS* wrote about the same money houses that was going to collapse in 2008 "The banks are well managed



Reykjavik, Capital of Iceland. (photo zvg)

and produce a successful balance as clever investors."

As always in such cases, the catastrophe was caused by a combination of personal and third-party negligence. *Kaupthing* and the others had bought so many interests and shares in companies in Scandinavia and Great Britain (of course on the nod) that just before the collapse their assets had climbed to 200 billion dollar, i.e. eleven fold the Icelandic GDP. The relation was similar to the one in Switzerland – but with two significant differences: first of all, two thirds of the debts accumulated by the Icelandic private sector (not by the government) were foreign cur-

rencies; and second, when it became tough, there was no "lender of last resort", i.e. a central bank. In 2008 the central bank (the *Sedlabanki*) did not have the necessary foreign exchange reserves. They could not print dollars or euro, only Icelandic kronas, which were of course unacceptable for paying back any foreign debts. Therefore the first lesson is: when a nation affords a high current account deficit and thereby runs into massive foreign debts (which is applicable to the US as we all know), they should have sufficient internationally acceptable currencies, which they can produce themselves if necessary. Therefore the game will end for the USA only

when other countries are no longer willing to accumulate dollars.

This explains sufficiently why Iceland was so vulnerable. But they did not plunge into ruin by themselves, they had to be pushed. Anglo-Saxon hedge funds and the government of *Gordon Brown*, the perfidious Albion, saw to that. How the drama was staged is subject of a book by *Asgeir Jónsson*, chief economist of the meanwhile nationalised *Kaupthing bank*. The book is well written, well translated and reads like a thriller. The author manages to present complicated matters in a comprehensible way.

Interestingly enough, they succeeded only at the second try. The hedge funds started their first attack in winter 2005/2006, when the Icelandic krona had become the darling of carry traders, while the central bank was standing on the sidelines looking on while money creation was speeding up and when economy and stock market were already precariously overheated. *Jónsson* vividly explains in his book how the hedge funds were hunting in a pack, how the attack was worked out by an informal club of 50 similar funds (minimum member fee 50 000 dollar), how the krona and bank shares were short sold, and at the same time the fall was being heated up by using credit default swaps. A "triple play", in which one effect is reinforced by the other two. This worked for a few months until the Icelandic government started a counter-attack, in one case they lodged an official complaint, until the US house *Morgan Stanley* recommended their customers to buy Icelandic bank shares again because the country "could not be driven into a collapse." At the end of May everything was over – at least for the time being.

As it turned out in 2008, the so-called "Geyser-crisis" of 2006 had been just foreplay and a last warning. If the banks, according to *Jónsson*, had drawn their consequences, they would have been able to sell their foreign equity investments with "enormous profit". However, the tragic end became obvious on 31 January 2008, when a dubious group of hedge fund managers followed an invitation by the US banks *Merrill Lynch* and *Bear Stearns* and met at *Hotel 101* in Reykja-

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Iceland's President has Exposed Anti-Democratic EU

by William A. M. Buckler

Actually, Iceland is not "inside the European Union" (EU) as yet. Iceland certainly wants membership in the EU, but the granting of same was delayed by the small matter of a banking crisis in September/October 2008 and is now being even more adversely threatened by a decision by the President to give the Icelandic people a direct say on whether and how its failed banking sector is to be bailed out.

The background

In September/October 2008, Iceland's three largest banks effectively collapsed after being caught up in the worldwide lending freeze which threatened to take down the global financial system. These banks found it impossible to roll over their short-term debt and, at the same time, were faced with full-fledged bank runs on their overseas branches – mainly in the United Kingdom. The Icelandic banks threatened with collapse dwarfed the Icelandic economy and the Icelandic central bank. Iceland's 50 billion euro external debt was 80 percent of which was held by the banking system. Iceland's annual GDP was the equivalent of 8.5 billion euros. Iceland was faced with imminent sovereign bankruptcy.

The banks were duly nationalised. And the IMF and Europe stepped in. The IMF loaned 2.1 billion euros, Iceland's Scandinavian neighbours lent another 2.5 billion euros,

and the UK, Germany and the Netherlands chipped in with a further 5 billion euros. For this, Iceland paid a very steep price. Official interest rates were immediately raised to 15.0 percent. The future was made harder as all the ratings agencies instantly downgraded Iceland's sovereign debt. The Icelandic kroner plunged. And the Icelandic stock markets, which had already fallen by 30 percent since the start of October 2008, were shut down. When they re-opened on 14 October, 2008, the immediate fall wiped out another 77 percent. *The Privateer* had warned of the likelihood of this collapse six months earlier – in issue number 600 published on 30 March, 2008. After describing the situation, this was our conclusion: "The US is Iceland writ large." And so it remains, the single difference being that the US (and the other G20 nations) can still sell their sovereign debt both domestically and internationally.

The latest twist – "Let my people decide"

The loans extended to Iceland at the height of the October 2008 crisis were expected to be repaid by the usual method. On 5 January, President *Olaf Grímsson* stunned the global financial system by refusing to rubber stamp the repayment schedule into law. Instead, he announced that it would be put to Iceland's 243,000 voters by means of referendum. The

international shock and outrage was instant and palpable. Britain and the Netherlands immediately warned that Iceland would be frozen out of the EU with the financial services minister, Lord *Myners* warning that the nation risked "pariah status". The ratings agencies instantly downgraded Icelandic debt to junk status. Warnings about the IMF bailout proliferated. Two days later, on 7 January, the Icelandic President spoke up again. "Iceland fully recognises its obligations and responsibilities to pay ... (what) will be put to a referendum is simply in what way and in what forms and on what terms." In an interview with the UK "Financial Times", Mr *Grimmson* went further: "I hope that the people of these two countries and their political leaders will, in keeping with the long-standing democratic traditions of Britain and the Netherlands, acknowledge that a referendum is a democratic way of making a decision." (emphasis by *The Privateer*)

It is, of course, the baldly stated policy of the US Fed and the unspoken but obvious policy of almost all global governments that the "people" should have absolutely no say whatsoever in the measures employed to pull their nations out of the global financial crisis. Iceland's president has exposed that fact very neatly.

Source: *The Privateer*, Mid January Issue, Number 645, 2010, page 8.



Asgeir Jonsson. *Why Iceland? How One of the World's Smallest Countries Became the Meltdown's Biggest Casualty*. ISBN: 978-0-07-163284-3

DECLARATION

by the President of Iceland, Ólafur Ragnar Grímsson

The collapse of our banks and the difficulties following in the wake of the world economic crisis have created profound difficulties. Although the Icelandic state has undertaken various liabilities of a magnitude greater than those involved in the Icesave case, the debate on this case has become the focus regarding how we deal with the challenge of the past and also of the future.

The Althingi has now again passed legislation on this matter. This amends the current law, the Act No. 96/2009, which the Althingi passed on 28 August and which was based on agreements with the Governments of the United Kingdom and the Netherlands. The President approved that Act on 2 September, with a reference to a special statement.

Following the passing by the Althingi of the new Act on 30 December, the President has received a petition, signed by about a quarter of the electorate, calling for the Act to be subjected to a referendum. This is a far larger proportion of the electorate than the criterion that has been referred to in declarations and proposals from the political parties.

Public opinion polls indicate that the overwhelming majority of the nation is of the same opinion. In addition, declarations made in the Althingi and appeals

that the President has received from individual Members of Parliament indicate that the majority of the Members are in favour of holding such a referendum.

Since the new Act was passed by the Althingi, the President has had extensive discussions with Ministers in the Government of Iceland: the Prime Minister, the Minister of Finance, the Minister for Foreign Affairs and the Minister of Economic Affairs.

It is the cornerstone of the constitutional structure of the Republic of Iceland that the people are the supreme judge of the validity of the law.

Under the Constitution, which was passed on the foundation of the Republic in 1944, and which over 90% of the nation approved in a referendum, the power which formerly rested with the Althingi and the King was transferred to the people. It is then the responsibility of the President of the Republic to ensure that the nation can exercise this right.

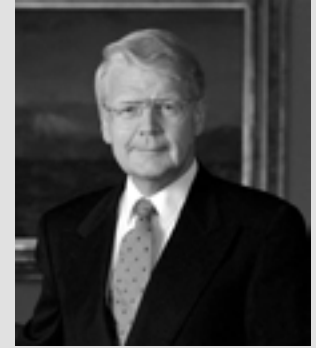
At this crucial juncture it is also important to emphasise that the recovery of the Icelandic economy is a matter of vital urgency. Clearly, agreement with other nations and good cooperation with international organizations and all other parties that have an influence on the country's economy and financial standing are pre-

conditions for this recovery. The solution of the Icesave dispute is a part of such a harmonious process. It is also a prerequisite for the nation to be able to regain its former strength as soon as possible and embark, in collaboration with others, on a programme of recovery which will secure the welfare and prosperity of all people in Iceland. In the President's declaration of 2 September 2009, it was stated that the solution would have to "take account of the fair rights of the nation, Iceland's interests in the years ahead and a shared international responsibility."

It has steadily become more apparent that the people must be convinced that they themselves determine the future course. The involvement of the whole nation in the final decision is therefore the prerequisite for a successful solution, reconciliation and recovery.

In the light of all the aforesaid, I have decided, according to Article 26 of the Constitution, to refer this new Act to the people. As stated in the Constitution, the new Act will nevertheless become law and the referendum will take place "as soon as possible."

If the Act is approved in the referendum then naturally it will remain in force. If the referendum goes the other way, then the Act No. 96/2009, which the Al-



Ólafur Ragnar Grímsson

thingi passed on 28 August, on the basis of the agreement with the Governments of the United Kingdom and the Netherlands, will continue to be law, recognizing that the people of Iceland acknowledge their obligations. That Act was passed by the Althingi with the involvement of four of the parliamentary parties, as stated in the President's declaration of 2 September.

Now the people have the power and the responsibility in their hands.

It is my sincere hope that this decision will lead to permanent reconciliation and prosperity for the people of Iceland, at the same time laying the foundations for good relations with all other nations.

Bessastaðir, 5 January 2010

Ólafur Ragnar Grímsson

"Iceland and the Demonic Nature ..."

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vik. Their conversation became increasingly sneering, Jónsson remembers, when the managers boasted with their short sellings, and then went on to the bar where the wine flowed freely until the first of them keeled over. Their tactics were the same as in 2006, but the irony of it was that some of the involved American banks fell even before the Icelandic.

After the crash of *Lehmann Brothers* in September 2008 and the collapse of the inter-bank-market, the Icelandic institutions could not hold on any longer. On 6 October the government announced an emergency law, on 7 October *Glinir* and *Landsbanki*, and on 9 October *Kaupthing* were nationalised. In the first days in October there was a bank-run which was reminiscent of the 30s. People were queuing in front of the banks in Reykjavík, who emptied their accounts until only a few 5000 krona bills (the biggest bills) were left. The government had new money printed abroad, but in the eastern part of the island there were small riots among Polish migrant workers, grocery shops were crowded with customers stockpiling supplies, and some

who did not trust their bank notes any more, bought luxuries such as Bordeaux wine, cognac or *Rolux* watches. It was a panic which almost broke out in Europe as well and the US, a reminder that acceptance of uncovered paper currency is solely a matter of trust.

Abroad: Denied Support and Disgraceful Consequences

The *Federal Reserve*, the Bank of England and the European Central Bank left the Icelanders out in the rain. Moreover, the British financial services authority confiscated their deposit business with *Kaupthing*, and drove its subsidiary *Singer&Friedländer* into bankruptcy, although in September it had almost rolled in money. Other Icelandic assets were frozen by the *Brown* government on the basis of the anti-terror-law from 2001, and also on 8 October prime minister Gordon Brown had the Icelandic central bank and the Icelandic Treasury put on the same terror list with al-Qaida and the Taliban. Since then London's reputation as a bastion of legal security has been severely tarnished. In addition, Gordon Brown declared Iceland "insolvent", which is as incorrect today, as it was then. The government in Reykjavík is clearing their debts like

they did before, but the latter have soared in the course of this crisis and, from a present-day perspective, will reach a peak of 140% of the GDP by 2010. Approximately, half account for Icelandic krona, the other half are foreign currencies. At the behest of London and exerting brutal pressure, the EU is trying to make the Icelandic government, and thus their tax-payers, liable for their debts, to an extent no other sovereign state would accept. Comparisons with the Versailles dictation and its financial consequences are not far fetched. Apparently, they want to use the Icelanders as a warning – a whole generation would be financially enslaved. Meanwhile the pressure on the krona has subsided due to capital controls. On the peak of the catastrophe it had fallen to 300 Euro; lately the onshore exchange rate (in Iceland) was at 184 and offshore (in London) about 220. While their economy is still shrinking, the balance of trade in Iceland is in the plus again, so that they will have good prospects to get back on their feet in the near future – provided the EU and the IMF deign to fair conditions with regard to debt repayment. Why should the Icelanders pay for the foreign indebtedness of *Landsbanki/IceSave*, which amount to 60% of the annual economic performance? The British demands are disgraceful and immoral.

But even at best it will take a few years to stabilise the economy and the financial system. The real income and therefore standard of life have taken a tumble, and unemployment has reached the German level. Those who possessed financial assets suffered most. The share market lost 95%, there are now hardly any Icelandic titles traded on the stock market. But also the real, i.e. inflation-adjusted house prices fell by 20% in 2009. According to a prognosis by the central bank they will lose another 25% in 2010.

In case an Icelandic retail investor held corporate bonds, he lost practically everything in the collapse. Whoever had parked money in a bank did not have a nominal loss, but would have suffered a loss of purchasing power due to a temporarily very high inflation, which is meanwhile regressing. Safest investments would have been inflation-indexed bonds, so-called *HFF bonds*. Also pension funds survived the crises relatively undamaged, because half of their capital is invested in inflation-indexed krona bonds (and only a small amount in foreign shares). Far and away the best investment would have been gold. However, before the crisis nobody in Iceland thought of buying coins and bars – and now gold is not available on the island, due to capital controls, although possession has not been forbidden.

Article 26 of Iceland's Constitution

If Althingi has passed a bill, it shall be submitted to the President of the Republic for confirmation not later than two weeks after it has been passed. Such confirmation gives it the force of law. If the President rejects a bill, it shall nevertheless become valid but shall, as soon as circumstances permit, be submitted to a vote by secret ballot of all those eligible to vote, for approval or rejection. The law shall become void if rejected, but otherwise retains its force.

Source: www.government.is/constitution/

The Petition

"I call on the President of Iceland, Mr. Ólafur Ragnar Grímsson, to veto the Icesave legislative bill. I consider it to be a reasonable demand that the economic burden placed on the current and future generations of Icelanders, in the form of a State guarantee for Icesave payments to the UK and Dutch governments, be subject to a national referendum."

The online petition was started on 25 November 2009 at the InDefence website (www.indefence.is). The resulting number of bona fide signatories was 56,089, with 55,160 signatures from Icelanders of voting age, or in other words 23,3% of all voters in Iceland.

Source: www.indefence.is

History Is Important to the Icelanders

"The dominant culture in the new country would become distinctively Nordic though the Celtic element in the population would be manifested in an odd tendency toward literacy and storytelling. Icelanders became bards of the Viking world and witnesses to history. [...]"

The same instincts that had made the chiefs flee Norway contributed to the foundation of a parliament in 930 – the Althingi. [...]"

The Icelandic republic was simple and effective. The country was divided into 39 constituencies (Godord), each of which elected a single representative (Godi) to the national assembly. This political system, much like Jeffersonian democracy in the United States, was built from a yeoman class of free, independent farmers who could switch their allegiance to a different Godi whenever they chose (women could act as Godis as well as men, provided they had a man who spoke for them in the Althingi). The motto of the commonwealth was "with the laws we shall build our country," words that are inscribed on the badge

of Icelandic policemen in the present day. [...]"

To Icelanders, the ancient founders of their nation are gone but never forgotten. Most of them are known by name, and all living Icelanders can trace their bloodline to them through genealogical records and a family tree that is rooted in the days of the original settlement. [...]"

Iceland has never excelled at collective, elaborate planning, discipline, or attention to detail. It has never needed a strong central command to organize for war or national defence, and because of its diminutiveness, it has never required the construction of a sophisticated bureaucracy. In the Icelandic mind, success is the reward for personal daring, ingenuity, improvisation, and an eye for the main chance – just as it was in the Viking times."

Source: *Ásgeir Jónsson: Why Iceland? How One of the World's Smallest Countries Became the Meltdown's Biggest Casualty.* MacGraw-Hill 2009, ISBN-13: 978-0-07-163284-3

If you do not expect the worst for Western Europe in the coming years, you should study the case of Iceland. A number of useful lessons can be drawn from that example.

And the hedge funds? After satisfying their greed with their short sellings of krona and bank shares, they changed their position on the peak of the crisis, bought bank bonds very cheaply and managed to increase their stakes six fold. As soon as the insolvent banks are wound up, they will be owned by foreign creditors, i.e. bond owners. One always wins. The Icelanders are closing ranks, they prefer buying home products to foreign ones, they are reading more books than ever before, and are responding to the collapse with a surprising baby boom. This is the reaction of a people that has some faith in its future, despite of everything." •

Iceland: "The EU Mobbed Too Hard!"

Why Switzerland needs an aggressive economic diplomacy ...

by Beat Kappeler

If you listen to the people in our country, a lot of them suffer from the Federal Council, who is being double-crossed all the time regarding foreign policy. Particularly foreign economic foreign policy has become short of breath.

In two cases there has been criticism here. It was slavish to let themselves be rejected by the G20 but to grant 10 million to the International Monetary Fund immediately afterwards. No tax without having a say in it, that had been the slogan of the American Revolution and this would aptly fit the Swiss diplomacy. Furthermore, nobody reminds the French and US Americans of the fact that as well may order our warplanes elsewhere, e.g. in Sweden; if they want to continue pestering us.

Such blunder comes about because the Federal Council does not act as a government but as a stiff club of administration heads

who hide behind their old wooden desks in the Federal Council chamber. The trendy new years photograph seem like a propaganda lie.

Three examples of a good economic foreign policy are to be lined out in the following:

At present Iceland quarrels with Great Britain and the Netherlands about their billion euro credit by means of which Iceland was demanded to reimburse all depositors of the bankrupt Icelandic banks. Iceland's President blocked, first of all the Icelanders will go to the ballots, possibly they will reject the payment and simultaneously the access to the European Union.

The EU mobbed too hard – a feeling that Switzerland is familiar with as well. However, Switzerland and Norway should help the Icelanders in this situation and give them

encouragement. That would give cohesion to the EFTA. This free trade area is vital, it settles agreements all over the world, and Switzerland must not let it further crumble. Last week the Swiss TV in its "Tagesschau" prophesized the end of the alliance within 50 years, instead of giving information. Furthermore, Councilor of State Sommaruga once more offered the EU as an alternative without any contradiction.

A help for Iceland could also show the British and the Dutch that Switzerland on her part is well able to become disagreeable. In the end there will be an agreement but on a better level. Be obstructive and you will be somebody. Inquiries, however, at the three responsible departments of Foreign Policy, of Economics, and of Finances generated a deplorable picture: "There was no request from Iceland", was one answer. "One should enquire in the other department", was another answer. In short: Passivity, surprise, but no policy planning. The second example of an economic foreign policy was the tax dispute with the EU. A negotiation detail with Italy at the last October gives a deep inside: Insubordinate Italian Minister of Finance *Giulio Tremonti* wanted to be vice prime minister. This angered *Silvio Berlusconi* and made him express publicly that we would like to get rid of him. Just then the Swiss Department of Finance declared they wanted to solve the dispute diplomatically and this way backed up Tremonti. Had Switzerland brought the big guns in immediately, Tremonti's chair would have toppled and may be the archenemy had tumbled. The big guns were brought in at last, but four days later: the tax dossier was suspended. At that time, however, Berlusconi and Tremonti had already got together, again, and Italy's government was united – and stayed rigid.

What would a good foreign economic policy look like? First of all it would require a certain structure, which was destroyed by resigned Federal Councilor Pascal Couchepin in 1999 – the Federal Department for Foreign Economy (BAWI). This department with a special secretary of state as the highest trading diplomat was a centre of competence with their own experts in currency, trade, development, agriculture and energy issues.

The other departments did not like this coordinating BAWI because it interfered. Furthermore, it was a cadre-training unit for state and economy. However, the BAWI succeeded in bringing about this cohesion of foreign economic policy, which the Federal Council was not able to create.

Professor *Dieter Freiburghaus*, who also complained about the BAWI's dismantlement points to a second aspect of international diplomatic successes – cross compromises. If Federal Councilors negotiate only for their own department, they may never connect two issues – as was the case with the G20 and the IMF billions or with taxes and combat jets.

President *Vaclav Klaus* gave an example when he signed the new EU treaty for the Czech Republic only under the condition that he was freed of the Sudeten Germans' demands. Swiss negotiators feel that such procedures are unfair. But in the tax quarrel, Germany, the EU and the US threatened Switzerland exactly with such chicaneries.

Third, the Federal council has to become a government that will get together for half an hour every day or meets for telephone conferences. Even better would be a President in office for several years, without being head of a department and endowed with the right to set the agenda.

Lacking all this, the Federal Council will stay what it has been up to now in the eyes of innumerable citizens: A major source of irritation about the otherwise rather happy country and its politics. Its behaviour is damaging for the country. The future ambassador to Berlin, *Tim Guldemann*, demanded the dismissal of the small-state-complex in the same issue of the "Schweizer Monatshefte", in which Freiburghaus had published his article. Mores self-confidence, that is correct, but also the suitable instruments.

Source: *Sunday NZZ* of 10 January 2010

Beat Kappeler was a freelance journalist from 1977 to 1992, Secretary of the Association of Unions, then team member of the *Weltwoche* and author for *Sunday NZZ* since 2002. From 1996 to 2000, he taught social policy as a professor at the university of Lausanne, in 1999 he was doctor h.c. at the university of Basel and from 1998 to 2007 member of the Federal Communications Commission. He has published several books.



(photo zvg)

Iceland, China and Russia Share Responsibility for the World Economy, World Peace and International Security

The chargé d'affaires a. i.
Mrs *Olöf Hrefna Kristjansdottir*,
First Secretary of the Embassy of the Republic of Iceland,

H. E. Mr *Wu Hongbo*,
Ambassador accredited and extraordinary
of the People's Republic of China,

H. E. Mr *Vladimir Kotenev*, Ambassador
Extraordinary and accredited of the Russian Federation

Very dear Mrs chargé d'affaires Kristjansdottir, Excellency Wu, Excellence Kotenev,

I have the honor to inform you as follows: Your countries are peace-loving states which bear a special responsibility for world peace and contribute to international security.

Nothing is more threatening to international peace and security than the dire straits of the global economy, the unfair distribution of wealth and poverty, and the pursuit of unnatural alliances under the leadership of the United States for power, hegemony and domination.

The means of the United States, NATO, and the European Union are economic and military wars, with the aim of suppressing all other nations and its geo-strategic interests.

Now, however, a situation has evolved that could help to rearrange the conflicting interests and the global distribution of power from scratch.

Please imagine that the following points are not a utopia but a reality:

- Iceland declares its withdrawal from NATO and its future neutrality, therefore, Iceland waives on the desired membership in the European Union,
- Iceland seeks the protection of the nuclear powers China and Russia,
- China and Russia erect a military base on Icelandic territory,
- China and Russia pay for the use of their bases in Iceland an annual lease, which will allow Iceland, to redeem all short-term external debt after the banking crisis.

The strategic and political benefits for all countries involved are so obvious that I do not have to discuss them at this point. Direct or indirect disadvantages are not apparent.

It would be extremely important to break up the NATO structure in this way, and to position a neutral Iceland under the protection of international nuclear weapons between the USA and Europe. In this sense, I hope that Iceland does not do damage to its honor, its pride and sovereignty, in particular, by accepting the bad compromises and coward conciliation proposals of the Former German minister *Joseph Martin* (aka "Joschka") *Fischer*, whose political performances during his tenure in Germany, in Europe and the world only lead to unrest and have caused the maximum damage possible.

I take this opportunity to assure the embassies of the Republic of Iceland, the People's Republic of China and the Russian Federation of my due respect.

Réne Schneider

www.schneider-institute.de

The Crisis is Not Over Yet

by William A. M. Buckler

The years from 1980–89 were naturally enough known as the "Eighties" and from 1990–99 the "Nineties". The decade just ended could have been called the "Zerotics", but that hardly rolled off the tongue. It might have been called the "Noughties" or "Naughties" ("nought" or "naught" being the British equivalent of zero) – which it was in many respects – but that was deemed inappropriate by whoever it is that decides such things.

Instead, popular parlance has dubbed the decade 2000–09 the "Oughties".

This is a highly appropriate name for the decade just ended. The list of things which "ought" to have been done is endless. Needless to say, none of them actually was done. The result, especially in the US, is that many political and economic analysts have a different name for the first decade of the 21st century. They call it the "lost decade". And so it was.

In the "developed world", the vast majority of people ended the decade worse off than they began it. That's bad enough. What is far worse is the simple fact that governments everywhere decided that they were going to make it as hard as possible to allow anyone, including themselves, to learn from their mistakes. The "Oughties" was a decade of financial boom and bust unprecedented in modern history.

When "failure" becomes too big to contemplate

On 14 January 2000, almost exactly ten years ago, the Dow closed for the day at 11722.98

points. It did not regain that level until October 2006. In the intervening period of nearly seven years, the last vestige of fiscal or monetary sanity was jettisoned. US official interest rates were hauled down by main force by the Fed throughout 2001, the sequence accelerating in the grim aftermath of 9/11. Federal budget deficits, which had been all but eliminated in fiscal 2000, soared back upwards. Financial leverage blew out to levels never before so much as contemplated. New financial instruments were invented and blown up into multi \$US TRILLION behemoths. Program (read computer) trading took over. Asset pricing became imaginary as the "derivatives" behemoth was fuelled without ever having submitted to any type of market trading.

Then, in mid-2007, the "GFC" (Global Financial Crisis) hit. In the latter half of 2008 – EVERYTHING collapsed. By early March 2009, global financial apocalypse loomed. As a last gasp, the Bank of England (BoE) and the Fed announced in March 2009 that they were going to save the (financial) world by directly buying the debt paper their governments must sell in order to function. A failure by these governments to do so was deemed too big to contemplate. Instead, it was postponed.

We enter 2010 on a note of rising optimism from official circles – the most dangerous situation there is.

Source: *The Privateer*, Mid January Issue, No. 645, 2010, page 1

The “National Indebtedness” Project

The situation of the European Union

by Karl Müller, Germany



Spiegel online writes: “The governments in London and Washington have long since made their countries dependent on the well-being of the finance industry. For a long time Wall Street has been co-ruler in Washington. London is the second largest center of high finance next to New York, and it will remain so, because the monster must not be angered with too burdensome regulations.” (photo ef)

On 10 September 2009, the German financial paper “Handelsblatt” shocked its readers with the headline “Exploding National Indebtedness”. According to an unpublished study by the European Commission, national indebtedness will enormously rise in some EU member states until 2020 due to the worldwide financial crisis. For Great Britain, an increase in debt to 180% of the gross domestic product (GDP) was forecast. At the end of 2008, the indebtedness in Great Britain had “only” reached about 50%.

In other EU countries, the article claims, national indebtedness will also rapidly rise: in France for example to 125%, in Germany to somewhat more than 100% of the GDP.

At the same time, the study dampened all too euphoric growth expectations: “In the foreseeable future the EU will have to cope with growth rates of less than 1.0%.”

If the economic situation should resurge, the states would have to reckon with distinctly higher interest rates and thus higher interest obligations.

“Exploding national indebtedness”

According to the available information, a further increase of the national indebtedness in the countries of the EU (as well in the USA and in Japan) is likely indeed – far beyond any reasonable limits. On the basis of numbers provided by the European Commission, the EU statistics authority Eurostat as well as OECD and the Austrian Chamber of Economics prognosticated an increase of the entire national indebtedness of all 27 EU member states from 61,5% of the EU’s GDP in 2008 to 83,8% in 2011, in the Euro-12-Zone even up to 88,2%. The permitted upper limit according to the Euro Stability Pact is however at a 60% national indebtedness and will even now (estimation for 2009) exceed the limit with its 78,7% on the average in the Euro countries. 8 of the 12 Euro countries are indebted by more than 60% of the GDP. Only Finland, Luxembourg, The Netherlands and Spain can comply with the conditions of the Stability and Growth Pact.

For Great Britain the national indebtedness is to rise to 88,2% of the GDP until 2011, for France to 87,6% and for Germany to 79,7%.

However, for the first three quarters of 2009, the current financing deficit of the public households in Germany had risen to 96.9 billion euros on 29 December 2009, 79.6 billion euros more than in the comparable period last year, the Federal Bureau of Statistics reported. And for the years 2010 and 2011, approximately 240 billion euro of further indebtedness are to be expected, the German Institute for Economic Research DIW prognosticated in its latest investigation (press release of the DIW of 7 January).

No contribution to a greater public good

These rapidly growing national debts do not lead to increase the common good. On the contrary, the news is not very good here, either. On 24 December, the “Neue Zürcher Zeitung” reported on France, for example, as

follows “The job market dampens the mood, and the distribution fight becomes more heated” and the same newspaper reported on Great Britain on 30 December “Warning of further decay of the British pound”. German citizens will have to face rapidly rising numbers of unemployed, too, and higher wages for the working part of the population will hardly be likely in 2010.

Obviously the theory that higher public expenditures will lead to more prosperity, does not work anymore. Whether it has ever functioned effectively is very questionable. The much-praised “new deal” of US-American president *Franklin D. Roosevelt* in the thirties of the past century had notched up an unemployment rate of 26,4% after 5 years – ensuring some short term illusory successes.¹ And Hitler’s “German economic miracle” – just like the US American miracle later on – could only be achieved by grasping the wealth of other peoples, at the expense of peace and millions of victims.

But who is making the profit?

Antony C. Sutton drew the attention to some interesting aspects in the third volume of his *Wall Street Trilogy “Wall Street and the Rise of Hitler”* (Buccaneer Books Inc, 1999, ISBN-13: 978-1568497266): “Looking at the broad array of facts presented in the three volumes of the *Wall Street* series, we find persistent recurrence of the same names: *Owen Young*, *Gerard Swope*, *Hjalmar Schacht*, *Bernard Baruch*, etc.; the same international banks: *J.P. Morgan*, *Guaranty Trust*, *Chase Bank*; and the same location in New York: usually 120 Broadway. This group of international bankers backed the Bolshevik Revolution and subsequently profited from the establishment of a Soviet Russia. This group backed *Roosevelt* and profited from *New Deal* socialism. This group also backed *Hitler* and certainly profited from the German armament in the 1930s. When Big Business should have been running its business operations at *Ford Motor*, *Standard of New Jersey*, and so on, we find it actively and deeply involved in political upheavals, war, and revolutions in three major countries.” (cf. http://reformed-theology.org/html/books/wall_street/index.html, chap. 12)²

Dieter Meyer, a former German head of department in a ministry, operates an internet site on the national indebtedness in Germany and in EU-Europe (www.staatsverschuldung-schuldenfalle.de). He writes that 2008 “scarcely every 8th Euro of the tax revenues of the overall public budget” was spent on interest spending. “On the level of the overall public budget from 1965 to 2008, the sum of all new indebtednesses and/or deficits reached approx. 1,339.9 billion euros and the amount of all interest spending was appropriate with approximately 1,514.5 billion euros [...] Credit financing of the public households degenerated to a fiscally useless end in itself. It does not cover the actual costs any longer, but finances the self-made repayment and interest rates.”

Indeed – according to data of the German *Bund der Steuerzahler* (Federation of Taxpayers, a registered society), the public households paid 64.2 billion euro in interest rates in 2005, in 2006 they had already arrived at 64.9 billion euros, in 2007 at 66.1 billion euros, in 2008 at 67.9 billion euros, and in 2009 the sum will probably have amounted to more than 70 billion euros (as was the case on 19 January 2009). These interest payments were mainly made to foreign financial establishments. In a press release of 16 December 2008, the Federal Republic of Germany’s financial agency (Deutsche Finanzagentur GmbH), which is responsible for the credit procurement of the federation, listed the first 10 creditors for the different kinds of government bonds. Among them were *Barclays Bank*, *Deutsche Bank*, *Merill Lynch*, *UBS*, *Morgan Stanley*, *The Royal Bank of Scotland*, *Société Générale*, *J.P. Morgan*, *Goldman Sachs* and *Citigroup*.

How will the states react?

But what will happen, if the initially specified prognoses on the coming national debts will come true? How will those responsible in the EU and in the states react? Will more and more EU states have to explain their financial bankruptcy? Will more and more EU states be downgraded by the rating agencies in their creditworthiness due to their high debts – as has already happened in some cases – and then charged with even higher interest rates by the financiers? Will the powerful states in the EU put even more pressure on those states with little influence so that they have to submit to the financial interests of the larger ones and mutate even further toward a “directorate of the big ones and some of their vassals” (*Jean Asselborn*)? Will the EU become an increasingly blatant instrument of redistribution in favor of the high finance? Will increasingly sumptuous interest payments to the financiers eventually replace the actual state operations? Will more national services be privatized – so that public interest becomes an even smaller and profit an even bigger criterion for state expenditures? Or will the governments of the EU member states try their luck with a value-destroying inflationist policy?

The “*Neue Zürcher Zeitung*” attached a supplement to its edition of 5 January called “The financial year 2009”. There you could read, “The financial year 2009 might have made many investors happy. After the dramatic losses in 2008, things were going uphill last year starting from March onward. Prices of many raw materials such as oil and gold recovered soundly, and corporate bonds paid as well as shares.” As early as 22 December a *Spiegel online* headline read: “Capitulation to the Monopoly Monster. It is the scandal of the year: the investment bankers who had nearly torn the world into the financial abyss, use their billions to play Monopoly. [...] Absurd that the perpetrators of the crisis are the big winners. They benefit from the central bank money for which they virtually paid nothing.” Toward the end, the article mentions some of the background: “The governments in London and Washington have long since made their countries dependent on the well-being of the

finance industry. For a long time Wall Street has been co-ruler in Washington. London is the second largest center of high finance next to New York, and it will remain so, because the monster must not be angered with too burdensome regulations.”

Now they are calling “Hold the thief!”

On 5 January, the “*Handelsblatt*” published an interview with *Joachim Fels*, economist with *Morgan Stanley*. Fels says, “Greece was only a foretaste for what will happen in other countries as well. The governments took over a great amount of bad assets and debts from an insolvent private sector, haven’t they. [...] In 2010, the financial markets will play the game national bankruptcy and thus inflation. [...] The investors will demand payments of higher risk premiums and will push up the long-term interests. That will force up the costs of new national debts starting from 2011.” Costs, which in the end – whether with or without inflation – can only be settled by the taxpayer.

¹ Data taken from Hans-Ulrich Thamer. *Verführung und Gewalt*. Germany 1933 – 1945, 1994, p. 470

² Other authors go even further than Sutton. Thus *F. William Engdahl* writes in his 2009 book “*Der Untergang des Dollar-Imperiums. Die verborgene Geschichte des Geldes und die geheime Macht des Money Trusts*” (ISBN 978-3-938516-89-8): “Long before the victory of the United States in World War II it was clear to the *Rockefellers* and the executive committees of the largest American enterprises and banks that the American market was much too small for their ambitious plans. In their opinion America had to proceed globally in order to reach the ‘Manifest Destiny’ mentioned before, the boundless expansion of American power. [...] On reflection, the extensive and little known participation of the families *Rockefeller*, *Harriman* and *Bush* in the vital support for the war preparations of the third Reich had more ambitious goals than the mere sympathy for the philosophy and methods of Hitler Germany, as for instance the gagging of workers and the organization of a command economy. Their goal was not to support victorious Germany but they wanted a world war, from which an American century, more exactly said ‘a Rockefeller century’, should emanate after 1945. *Bush*, *Rockefeller*, *Harriman*, *DuPont* and *Dillon* were considerably involved in granting the Third Reich important support in its early phase, as it was part of their large geopolitical plan to make the European great powers, Russia and Germany in particular, destroy each other. As mentioned a British strategist spoke of these two powers that they should make each other bleed to death, and that should pave the way for the hegemony of the American century.” (pp 165 and 192)

Engdahl explains that under the leadership of the Council on Foreign Relations (CFR) and in close agreement with the Roosevelt administration, the money from the Rockefeller Foundation was used to set up a War&Peace Study Group during the war – and then kept secret – which presented a number of studies whose ideology reminds of Nazi Germany: “The American bank and industry heavyweights had to conquer new markets, more space or what was considered to be the ‘Grand Area’ by the War&Peace Study Group. [...] *Isaiah Bowman*, founding member of the CFR and head of the War&Peace Study Group at CFR, who during World War II had been known as ‘America’s geopolitician’, used another term for the envisaged ‘Grand Area’. Following the example of Hitler’s geographic term that justified the German expansion on the economic level, *Bowman* spoke of the ‘American economic lebensraum.’” (pp 171)

(Translation Current Concerns)

Germans Sense the Enormous Extent of the Crisis

km. On 7 January “*Financial Times*” reported that a German sovereign bond auction failed at the beginning of 2010 as the government could not find enough investors. On 6 January, a finance agency, entrusted by the German government, had tried to find investors for the 10-year bonds but they failed to attract enough bids to reach the 6bn the German government wanted. Analysts say that trust in the German sovereign bonds, one of the world’s most liquid and safe assets, is diminishing. Moreover, there are far too many state bonds offered on the worldwide markets. A total estimated \$3,000bn in debt this

year, three times more than in 2008, are looking for investors.

The majority of Germans are quite aware of the extremely tense situation the German state finances are in. According to the *Infratest* institute’s January poll on behalf of “ARD-Deutschlandtrend” (political trends for German public TV channel), a majority of the interviewees – right across all parties – rejected plans for further tax reductions (58%), although 44% of the Germans feel that their personal tax burden is too high. 64% of the interviewees, i.e. 8% more than in the last poll, expressed fears that the worst part of the crisis is yet to come.

Switzerland: Closing the Ranks



Hans Rudolf Merz,
President of the Swiss Federal Council in 2009

Shortly before his time as President of the Federal Council expired, Hans Rudolf Merz was a guest with Emil Lehmann on the program "Tagesgespräch" on Swiss Radio DRS and delivered a summary on his double task as a chief of the Federal Department of Finance and as Federal President. He took stock of a year, in which Switzerland had to master severe attacks and challenges. We are printing some larger parts of his statements below.¹

The interviewer Emil Lehmann raised the question whether Switzerland was still the same as a year ago – he asked what had been unexpected and what was to follow, and where Merz would put the emphasis when reviewing his year in office. Hans Rudolf Merz answered as follows:

"Switzerland is no longer the same. At the end of a year, however, Switzerland has never been the same as before, fortunately not. We are a country that is continuously setting objectives – in economy, in society, in politics – we want progress, and I believe, that was the same last year. [...]

If we judge a year, we have to look at the entire period, at the result, and I believe that there are positive and negative aspects in this result. The negative ones were certainly all those events, which hit us from the outside, in particular the pressure on our financial centre and our banks and the ensuing pressure on our banking secrecy. That is something, which we have had to reckon with for a long time. Nevertheless, when the economic crisis expanded and large countries required large amounts of capital, the pressure on the financial centers suddenly increased, among others also on Switzerland. Within a few weeks or months, it was beginning to show dramatically. [...]

I had to fulfill two tasks this year. One was to lead the Department of Finance, whose chief I had been already for six years. In addition, there was the Federal Presidency. In the Department, this year has successfully passed; if we look at the results we can say that we operated in the black at the end of the year. Look around and tell me who can still say so; I believe that there is nobody all over Europe. We have passed the taxation bills this year – all three of them. One was a simplification of the value added tax. The second was a better taxation for families with children. And the third was the removal of cold progression. We succeeded in bringing about a new start-up for the debt brake. We have expanded it on the extraordinary budget. We actually obtained very good results in our own department, and I am proud of this, indeed."

Regarding the situation of the financial centre Switzerland, the interviewer came back to a statement by Bundesrat Merz and insisted, whether – with respect to the attacks on Switzerland, in the context of which Federal Councilor Merz had referred to the financial demands of foreign countries – imminent problems could not have been recognized and judged and countermeasures taken earlier.

"I believe, an important cause was the situation of the UBS in the USA. The American authorities, in particular the Treasury and the Department of Justice, reasserted last summer – last summer means the summer of 2008 – that UBS aided and abetted tax evasion to a large extent. That was first pendent at the UBS. There it was neglected for some time. In summer 2008, it finally landed in my Department of Finance. We immediately established a crew, started to handle the cases and realized that the Americans were very seri-

ous on the subject. They did not only want to solve a few cases, but they wanted a fundamental re-organization in this field between Switzerland and the USA. That was certainly not foreseeable, it certainly happened as a result of this UBS history. Together with the economic difficulties, in which the countries needed money, this led to the fact that we were under enormous pressure in the course of the last winter. It culminated in February 2009, and the peak – if we can say so – was of course, when we had to decide on 13 March in the Federal Council in agreement with other financial centers such as Singapore and Hong Kong, Luxembourg and Austria and others, that we would withdraw a reservation in the OECD draft agreement and thus in future would facilitate administrative cooperation. That was a very drastic decision, because it macerated the banking secrecy in relation to a foreign country. [...]

The OECD agreement provides that under certain conditions administrative and legal cooperation must be granted. These conditions include the individual case, information about the accounts, about the names of the banks and the obligation to meet additional demands. We are not talking about a self-service shop; instead, foreign states in special cases, have the right to require our legal cooperation for which they have to appeal. This legal assistance must at first be internally settled with us. By no means do we give free reign to foreign taxation offices; the proceedings are bound to strict rules.

As a further part of the problem, the size and the speculation affairs of two Swiss major banks were addressed. The two banks are so large – their size is about three times the gross domestic product – that their situation can affect the country as a whole. Emil Lehmann therefore wanted to know whether a relevant solution is in sight.

"First of all, the federation indeed helped out by pumping capital into the UBS balance in order to stabilize the bank and concomitantly the financial centre Switzerland. The bank is so big that in case of a failure, it would indeed threaten our national economy. The 1.2 billion profits, which we earned in the end, are nevertheless a success of this year. It is not that – as has repeatedly been claimed – that the state simply pumped billions à fonds perdu into a bank, but the money flowed back into the Federal Treasury, and we have even obtained a large profit, which is now at our disposal.

On the one hand, a condition had been that we could take the money back and that the state rendered this help to the banks. The ensuing question is 'how will it continue'? In the meantime, we have to admit that the balance of UBS has enormously declined. The bank has experienced a substantial scaling-down by the events on the market. It is by far no longer as big as it once was. However, it is still a big bank.

Therefore, further measures are necessary. Parts of these measures have already been taken, and another part is under way. It was decided that we want to strengthen the investors' protection. That means if such an event is about to happen and such a bank goes bankrupt, the investors will be better protected than they are today. This is a case in which the bank must furnish billions. Secondly, certain regulations for the management of a bank were intensified. On the one hand, a bank must have more own resources, in order to guarantee its liquidity, and credits must be better secured with the so-called leverage ratio. Those are measures in the range of capital, which are nevertheless substantial and demand appropriate means from the bank."

Nevertheless, National Councilor Merz does not rule out the possibility of a further UBS case. Therefore, he refers to further measures, which have been initiated:

"No, this cannot be excluded. Also measures in the field of bonuses are envisaged in order to ensure that compensation and the incentives for those, who manage the bank, stay reasonable. I mean, this is also part of the measure to have a certain amount under con-

trol. The question remains, however, whether a state should take legal action in order to diminish the size of such banks. Forcing them to found a holding or to take other measures can do this. We are now examining those difficult questions. We have a team of experts, consisting of approximately 10 people, each of whom has a lot of experience. This summer they will publish a report called "Too big to fail?" The answers will be given, but they are very difficult. You cannot decide on these problems while sitting in your armchair, without destroying the rights of proprietors, shareholders and competitors. The solutions must be thoroughly worked on."

When asked about the new problems with France, which may have obtained data of French customers at Swiss banks through shady means, Federal Councilor Merz explains:

"I cannot comment on this as it concerns facts whose details we do not yet know. It is absolutely understood that the Federal Council will only comment on these questions if there is sufficient certainty on one or the other side; and so far this has not been the case.

As a further topic, Lehmann addressed the decision of the voters to prohibit the building of minarets. When asked, if his statement that the government had to be in touch with the people meant that the government had failed to do so, Hans Rudolf Merz answered frankly:

"That is exactly what I meant. Not only the government, but also the political parties. Fortunately, the government is not alone in this country. We really have a marvelously democratic country, which consists of different mosaic stones, of which the government is one. It is an important one, I admit. Now it has become clear that in the sociological, in the social range, something has developed; but something has also developed concerning the attitude towards foreigners and others in our country. We do not yet know exactly what it is. But possibly some uneasiness, which has primarily nothing to do with minarets in general neither with religions, but perhaps with lifestyles and with foreigners in general. I think we must have a closer look at that now, before we draw rash conclusions. I am quite aware that it is not only about having minarets as buildings. Behind are a certain uneasiness, fears, difficulties which we were too little aware of. And we must ask ourselves the question, whether we succeeded in sufficiently integrating the many foreigners we have in Switzerland – we are at the top of the list in Europe with over 20 per cent. We must ask ourselves if we succeeded in integrating them into everyday life, into society, into the schools, the professions, and whether we have to do even more in order to prevent the uneasiness from spreading and becoming manifest on another occasions."

In a further statement, Federal Councilor Merz puts this problem in the larger context of globalization, whose effects have not become manifest in Switzerland alone:

"I believe that in the course of globalization other countries have similar problems. They compete with each other, which is called globalization in economy, and they compete with each other in politics, because politics also become internationalized. This is where the interests must be balanced. Not only Switzerland is under this pressure, but if we look at the European Union we realize the same tensions. Therefore, there is no reason to lose one's self-confidence. Quite the contrary, I believe, we have a great many qualities; the country is on a very high level and also sets itself very high standards. And I hope that will remain so, because only if we remain ambitious and set ourselves high standards, we will get international attention."

Asked about possible further debates, Hans Rudolf Merz refers to basic problems in economically difficult times, which not only Switzerland has to face, but for which it is well prepared due to its political system of direct democracy:

"We must reckon with rising unemployment this year, and unemployment leads to aggression. I do not mean in a physical sense, but with regard to social and economic questions. That is to be expected. [...]

We may not forget one thing: This country already has had more than 200 votes, referendums on federal level since World War II. That means that contrary to nearly all other countries we repeatedly submit – fortunately – even inconvenient issues to the people. Those who have to submit inconvenient issues to the people must also count on inconvenient answers. Now we have one of these answers, giving us additional tasks to be completed. This is true with regard to other countries and now also concerning the minaret initiative. That is a task and a core of our democracy, which we may not deplore, but regard as a characteristic, almost a quality of our country."

In connection with the discussion about Switzerland's relationship with the European Union, raised by various parties, Emil Lehmann finally asked Merz: "What is your personal stance?"

"From the outset I was a vehement proponent of bilateralism. It is out of the question that we are a country, which strongly depends on export. 70 per cent of our products go abroad. I often say that our watches do not grow on trees, but we have to import the raw materials, we must have the expertise, the precision, in order to produce a good watch and then we can export that product. That is just the way it is and therefore we cannot isolate ourselves. We must try to keep these markets open. You can only keep these markets open by regulating them, and this will only work by contracts. And therefore I am convinced that we must follow the bilateral path, in an honest way – a contract is a fair contract, as long as there is a balance of give and take."

As to the issue of hostages held in Libya and his personal commitment in the affair, Federal President Merz refers to the greater context and the actual position of Switzerland in the international community of nations:

"Of course, we find ourselves in an asymmetrical situation. That is, we ourselves are a democratic constitutional state; we essentially respect the constitution and our partners. As far as Libya is concerned, the constellation is a different one. And the means and possibilities are not equally distributed there. However, this does not concern my country alone. Look, at Iran, how Ahmadinejad deals with Russia and America. He promised that the processing of uranium would be done abroad. And now, when it comes to a decision, he turns his back on the two world powers. It is not only Switzerland, which is occasionally confronted with such things; it can be observed everywhere. We must watch out as well, how things are going abroad. But in the long run I must say: For us it is important that the two men, who are held in Libya, can return to Switzerland. That is the first objective. I believe they are really poor guys. Imagine the situation: They were held for months in Libya without any charge being raised. That is showing contempt for humanity, and we mustn't take that. We have to try by all means a constitutional and democratic state has at its disposal. I did it, I took the risk, and I am convinced that I could not have acted differently. We must now follow that path; we owe it to the two men. We also owe it to all enterprises that have to send Swiss people abroad, so that they can work for our export. It should also be a signal that we support this export. And secondly: We are a country, which has good relations to all other countries. We have international organizations in Geneva; we have the Red Cross, we occasionally took over the role as mediators. That should stay the same in the future."

Asked for his personal balance concerning his presidency and the question, whether he believes to have done a good job, Hans Rudolf Merz explains:

World Agriculture Report – Drawing Conclusions

A democratic decision made by every single country for its own form of agriculture

thk. The result of what more than 500 international researchers have been compiling in painstaking detail work and with great respect for the different cultures, religions, and national particularities of the individual states during five years was made available to the global public as the “World Agriculture Report” in 2008. This report shows the tremendous significance of agriculture, not only as a guarantor of food security, but also in the cultural and political field. The range of topics dealt with in this report touches life fundamentally, especially human life, in all its facets: From the topics of hunger right up to genetic engineering, all the current deep concerns about food production are covered. What makes the report so valuable, apart from its clear analyses and its dignified account of the extensive complex of themes, is the way it approaches solutions how to address the urgent problem of feeding humanity. Thereby the responsibility of each and every human being becomes evident, because only thus the future of mankind can be shaped in a positive way.

Self-determined agriculture on a democratic basis in every country

Beside the multitude of factors determining a man-orientated agriculture, one central aspect is to be looked at more closely here, because, even in this country, it is included too little in the political debate about the future of agriculture, namely the opting out of free trade with agricultural goods. The world agricultural report gives a decisive answer to this question, an answer which is contrary to the opinions of the deregulators of economies or internationalists: The world agricultural report emphasizes the food sovereignty of the individual countries as sine qua non

for their agriculture. Central to this is each single country's democratic decision for its own form of agriculture. This means that food sovereignty is more than just reaching as high a level of self-sufficiency as possible, it means that every country may decide on its very own form of agriculture and that in no case it may be constrained by international treaties and forced into subjection beyond recall. This aspect is so important because politicians, and especially the agro-industry, most notably in the industrial nations, are pressing for a total free trade with agricultural goods via the WTO.

Clear refusal to WTO and agro-industry

The World Agriculture Report shows quite explicitly that this aimed-at free trade can in

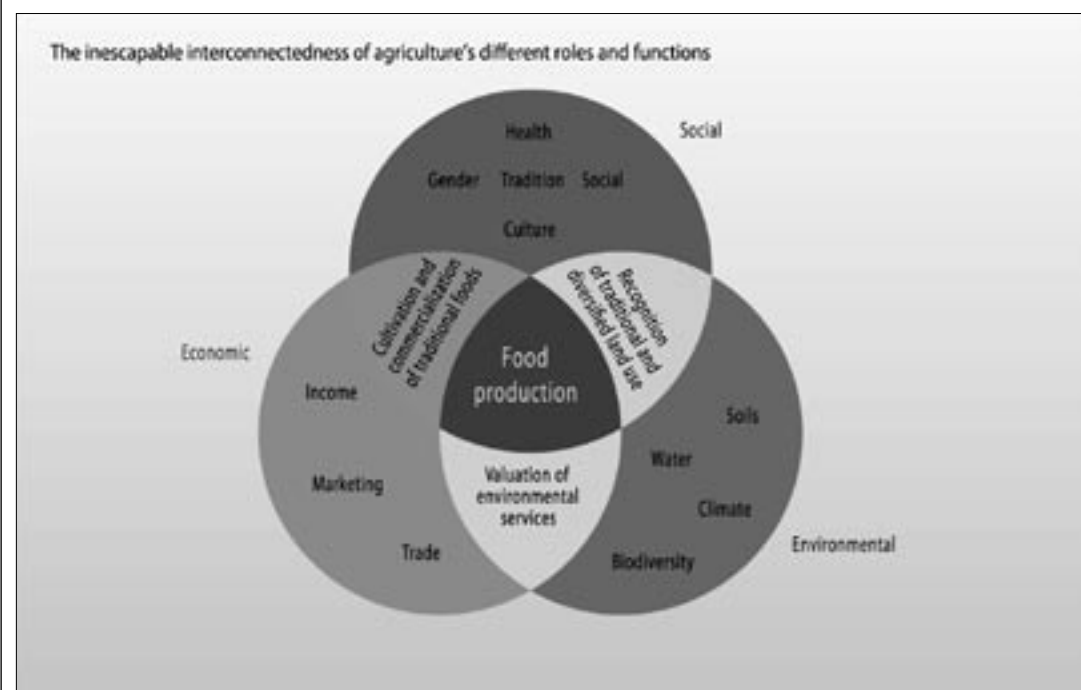
no way solve the great problem of hunger – meanwhile one million of human beings are suffering from acute malnutrition with all its health, cultural, economic and political consequences, not to mention the mental and corporal misery caused by these conditions. On the contrary, it only shovels huge yields into the agro-industry's and the speculators' coffers. According to the findings of the over 500 international researchers, the future of agriculture and therefore of man lies in small-scale and regionally anchored production units and in the associated democratic organization of agriculture. This does neither amount to a prohibition of agricultural trade across the borders as it used to be; nor is it a step backwards into the last century, as the trade between states is not to be impeded.

Putting agricultural policy under democratic control is basically an improvement and an advance for all countries, and of course also for their populations. The inhabitants of the respective country must be able to comment on the future of their own country's agricultural policy and to shape it according to their tradition and their culture, taking into account ecology and the findings of scientific research. In this way, the diktat via the WTO, where mainly the big nations with their industrial agro-businesses determine the negotiations, is reduced to absurdity and thus the decision about its economic activity is given back to each individual state. The World Agriculture Report finally pulls the plug on an economic policy enforced from above, and not orientated towards human needs. With this approach the World Agriculture Report goes far beyond agriculture and opens up new perspectives for human coexistence.

Agricultural policy on a democratic basis

There is an important insight here: The smaller the national units, the greater the democratic scope. An agro-industry concentrated on export and world trade and set on size and business across the borders is not orientated towards the common weal but towards the global market, and that is determined mainly by speculators and stock market prices.

If we study the World Agriculture Report in detail, we cannot pick out aspects that fit into our own ideological concept, but we must rather reflect upon the whole issue seriously, and we must draw the conclusions from it. There is urgent need for a public and democratic discussion about how we want to shape agriculture and our food security in future.



“Switzerland: Closing the ranks”

continued from page 5

“I think in view of the possibilities at my disposal, I would like to say ‘Yes’. If I consider the results, I must say that above all, we succeeded in handling the state visits well – we have not spoken about them here, they were numerous. These state visits also served to deepen the relationships, also in economic circles. The Chinese Prime Minister Wen Jiabao visited us for example, and the Russian President Medvedev was here. I myself travelled to the Middle East; we had the President of Azerbaijan with us, who plays a very important role in the context of energy questions and so on. And I am convinced that all these visits went well, we did not make a mistake in all the contacts. We reacted correctly altogether, we could resell the shares, we made a contract with the USA; in September we had already concluded twelve treaties on double taxation. All in all, I must say that if we look at the results – and the difficult circumstances throughout the past year – we have accomplished our goals.”

And – after the initial question whether Switzerland was still the same – he was asked a more personal question whether he was still the same compared to the beginning of the year:

“Of course, you naturally develop; and the older you become, the more mature you become. Having achieved a certain maturity you often realize that if something starts at this point it will end at another point. This has to do with life experience. And as far as that is concerned, I did not change. I believe, with my life experience I look at things in approximately the same way, and if I could have a second presidency I would act the same way.”

In its goals for 2010, the Federal Council already announced an additional message of the Federal Council concerning the state management reform and a discussion on that issue. Asked for possible conclusions from his own experiences concerning the

federal presidency, Hans Rudolf Merz declared:

“This question must of course be asked. Of course, it would be a pity. I had a number of meetings as I mentioned before. Even other personalities visited us: Viktor Yushchenko was here or Boris Tadi etc and I met president Obama in Washington. Of course, it is a pity that you have to interrupt all this after only one year; and next year someone completely new will be in office. A certain continuity is missing. We should consider that in case we want an extension of the presidency to a two-year period. Moreover, we must also ask ourselves whether it wouldn't be better to combine the presidency with the Department of Foreign Affairs, especially in view of the globalized world and the international movements. These two questions must be discussed, and since we announced a state management reform for next year, there is an opportunity to do so.”

Hans Rudolf Merz was elected member of the National Council in 2003 as successor of Kaspar Villiger; in December 2008, he was elected President for 2009 with 185 of 209 votes. When asked about the criticism in connection with Libya, which had been raised in the course of the year, he answered as follows:

“There were certainly some critical voices. In particular, there was a newspaper, which launched a real campaign. On the other hand, I must say that I received thousands of letters, which encouraged me, which supported me, which said that it is right to have the courage to handle certain taboos or make certain decisions, so, I cannot share this “condemnation”. [...]

It is not yet over. The Libya affair has speeded up since then. After all, the two Swiss had the possibility of making a statement to a court. They were confronted with a charge and the facts were disclosed. That had not been the case before, when they were simply kept under lock and key. Now the affair has been furthered. Let us see how things will proceed. I am still convinced that the Libya problem can be solved.”

Accordingly clear was the answer to the question whether he would remain Federal Councilor until the elections in 2011:

“I have been elected until the year 2011, and I do not have any intention to step down, not even under pressure. On the contrary: I stem from the Canton of Appenzell, and if someone provokes me, it makes me even more determined to stay.”

When asked whether he would like to return to the “sunny side of politics”, he refers to the projects that are waiting on his agenda: “I think so. There will be some possibilities to do so. There are fascinating projects ahead.

We will have to consider for example, how we can consolidate Switzerland as a financial centre again. It is an important pillar of our national economy which has suffered in the course of this year, among other things also from the effects of the banking secrecy affair. Now we have to look for new perspectives. I believe, these branches wait for new perspectives, they have a claim to it, and we should grant it to them.”

¹ Source: Swiss radios DRS 1, Tagesgespräch of 10 Dec 2009, 1 pm. The complete discussion can be listened to at www.drs.ch/www/de/drs1/sendungen/tagesgesprach/2782.sh10112055.html

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Bundesrat Hans Schaffner – Father of the EFTA

Designer and pioneer of economic cooperation and integration in Europe

by Dr rer publ Werner Wüthrich



Hans Schaffner
(photo zvg)

A few days ago, the former undersecretary *Franz Blankart* has criticized the Bilateral Treaties between Switzerland and the EU (Bilateral Treaties I and II) which were signed in the past years. They did simply reproduce and accept things that have been decided elsewhere. Participation is widely lacking. This was one of the main differences between these treaties and earlier treaties, Blankart writes (*NZZ of Sunday*, 10 October 2009).

Those who look through the documents from the founding time of the EFTA reach the same conclusion. Why this difference? Who formed politics in these times? What was the historical environment like? What has changed since then? The 50th anniversary of the EFTA gives occasion to pursue these questions.

It was *Hans Schaffner* who coined the negotiations leading to the founding of the EFTA. He is called the father of the EFTA. It would, however, not do him justice to see him only in this role. His work has been much more comprehensive.

During World War II, Hans Schaffner was head of the "Zentrale für Kriegswirtschaft" (Center for war economy) and ensured – in cooperation with *Friedrich Traugott Wahl* – that the Swiss population did not suffer from hunger and cold in these hard times. In his obituary, *Franz Blankart* called Schaffner an "economy general" ("*NZZ*", 23 November 2004).

After the war, the Bundesrat (Swiss Federal Council) appointed Hans Schaffner as delegate for trade agreements. In this position, he contributed in the founding of the Organization for European Economic Co-Operation (OEEC) and was engaged in the integration of Switzerland and the European collaboration. At the same time, Hans Schaffner was leading the negotiations which resulted in the

Switzerland joining the GATT organization. For more than a quarter of a century, Hans Schaffner was active in the frontline of Swiss foreign trade, since 1961 as Bundesrat.

His work is little acknowledged in history textbooks. His marks, however, can be seen in many places. Many important documents on the OEEC, EWG, EFTA and GATT, signed by the Bundesrat as a whole, bear his hallmark. His style and his values are distinctive.

Examples from the works of Hans Schaffner

We present two episodes documenting the role and importance of Hans Schaffner:

1. The "Officials' Conspiracy"

In 1958, Switzerland was threatened with isolation when the EWG chose to go it alone and the OEEC was in danger of failure. On December 1st, Hans Schaffner, then Bundesrat delegate for trade agreements, invited seven representatives of the future EFTA states to a meeting in Geneva. Talks were held at an administrative level. Here, foundations and contours of the future EFTA were drafted. Further talks followed in Oslo and Stockholm. These talks became part of the history of EFTA under the nickname "Officials' Conspiracy" (Beamtenverschwörung). Hans Schaffner started the process and was henceforth called Father of the EFTA.

In a way, Hans Schaffner was an opponent of *Jean Monnet* who is now called Father of the EU. Both had in common that they had been active in the administration for a long time, carrying out important duties and exerting substantial influence on politics. *Jean Monnet* was working in the European Coal and Steel Community and later in the French government. However, he became never minister or even president. His importance for the Community was underlined when he was appointed to the only honorary citizen of the EG in 1976.

Hans Schaffner has also spent most of his professional life in an administrative position and substantially coined politics. In 1961, he was, after 20 years in the administration, elected directly into the Bundesrat without having been elected into any political position or a parliament – an unprecedented process.

Both *Monnet* and *Schaffner* were supporting the cause of economic cooperation and European integration. However, Hans Schaffner was convinced – unlike *Jean Monnet* – that supranational structures and power centers often obstruct the development of states. Their bureaucracies have a tendency to grow rampantly and are prone to corruption. History has proven him right. Now, during the economic crisis, Switzerland, having chosen a different path, is in a better situation than most EU states.

2. Perseverance in the GATT negotiations

I am pointing out a document in which Hans Schaffner describes, in a very personal way, the progress of the negotiations with the goal of Switzerland joining GATT. I am summing up a few paragraphs (*Bundesblatt* 1966, pp 713):

After World War II, Hans Schaffner welcomed the efforts to revive world trade with a multilateral agreement. As a Bundesrat delegate for trade agreements, he supported the efforts to join the GATT, founded in 1947. However, Schaffner was soon facing obstacles with respect to agriculture. In 1947, the people had passed a constitutional amendment which commissioned the federal state to develop measures towards the protection of a sustainable farming community (Art. 31 aBV). This goal was in clear contradiction with article 10 of the GATT treaty. Immediate joining was out of the question.

But it was not the style of Hans Schaffner to complain about things or to accept them idly. In the following years, he talked to all GATT members to promote understanding for a small mountainous state which is un-

able to compete, for obvious reasons, with typical agricultural states like Canada or Australia, but still is not willing to do without its own agriculture. In 1958, Hans Schaffner had almost reached his goal. Nearly all GATT members agreed to accept Switzerland into the treaty, making some concessions in agriculture. Nearly all – the two agrarian countries Australia and New Zealand vetoed against the admittance of Switzerland.

This rejection did not discourage Hans Schaffner. He accomplished that Switzerland was admitted for three years as a provisional member without the right to vote. This agreement was prolonged twice. For a representative of a non-member state, Hans Schaffner was amazingly active. Between May 16 and 21, 1963, he was heading the GATT minister conference as a member of the Federal Council and prepared the most important round of GATT negotiations after World War II, the so-called *Kennedy Round*. Good contacts with many foreign politicians and a personal relationship with the General Director of GATT made things easier. He achieved his goal with patience, perseverance and substantial negotiation skills: On April 1st, 1966, Switzerland was accepted as a full member – with a clause on behalf of the farmers making it possible to proceed with the independent Swiss agricultural policy. Hans Schaffner commented the agreement as follows: our partners had agreed, "because they did not want to block the way into GATT for a country of Switzerland's stature, in spite of its peculiarity not fitting into any schematics." Hans Schaffner has left his mark on GATT. Article 10 of the treaty was not followed so rigorously in the following years. Agriculture was recognized as a sensitive sector and – in a similar way as in the EFTA – more and more exempted from the global free trade.

Success as head of the department for national economy

From 1961 to 1969, Hans Schaffner was Bundesrat, heading the Department for National Economy. Memorable was a moment in the Nationalrat [National Council, the Swiss Parliament] in 1962. He was able to tell the members of the Nationalrat that the economy was developing well – something not granted for the war and the post-war generation. Even more: With mixed feelings he stated that "with respect to exports, we fell victim to our own virtue – our great competitiveness". The economy was working to capacity and hardly able to fulfill all the orders. In contrast to these days, it actually created too many jobs. They could only be filled with employees from abroad – mostly from Italy. Consequently, it was Schaffner's aim during the following years to curb the economy. However, with limited success only: When he finished his time in office as Bundesrat, Switzerland had 46 registered unemployed persons and the Bundesrat had to use emergency law to moderate the economy's ardor.

Of course, we also have to mention the downside of the boom like the pollution of the rivers and the housing shortage. The influx of foreign workers had to be controlled with quotas. Those of the older generations will remember times when swimming in Lake Zurich or in Lake Lugano was prohibited due to the precarious quality of the water. Later, sewage plants were built all over Switzerland so that the situation improved gradually.

Rejection by the Bergier Commission

In his retirement, Hans Schaffner was not spared bitter experiences. As mentioned above, he had made important decisions in his position as head of the Zentrale für Kriegswirtschaft during World War II. He had led the Swiss economy in a time of threat when the country was closed in from all sides by the Axis powers. In his obituary, the former undersecretary *Franz Blankart* called him an "economy general".

In this context it is surprising that the Bergier Commission [investigating the wartime

role of Switzerland regarding refugees, concessions to the Axis powers and the restitution of assets after the war] refused to consult this leading contemporary person. This arrogance and know-it-all attitude grieved him severely. As many times before in his life, he became active. He expressed his indignation in an article "The Truth About Switzerland" in the *New York Times* of 6 April 1998. [Failing to interview important witnesses] is a blunder which should not occur to serious researchers if they are lucky enough to find persons alive which have been active for a long time in central positions.

This misconduct is in indication that these "experts" were more interested in writing their own history than in really getting to the bottom of things. After all, facts might have shaken prejudices. This may not really be so surprising. However, it is incomprehensible that this controversial work has found a way into school textbooks.

Hans Schaffner as a visionary

Hans Schaffner was member of the FDP (Liberal Democratic Party) and his basic attitude was liberal. His commitment to free trade was not unlimited. A liberal market economy was necessary, but not sufficient. In addition, it needed spiritual and moral foundations which the free market was not able to produce. For Schaffner, this implies a tight connection with his country, his direct democratic, federalist structures and the people working in them. His politics was aimed at serving the needs of the people. All his numerous negotiations with foreign states were targeted at finding tailored solutions fitting the spiritual, cultural and economic peculiarities of the involved countries. This includes also the farmers. The liberal from the Swiss canton Aargau was a representative of the so-called *Ordo-Liberalism* as advocated by his contemporary *Wilhelm Röpke*. I also like to compare Hans Schaffner with *Ludwig Erhard* who is now considered as father of the social market economy in Germany.

And today?

Current negotiations with the EU are unlike those in the past. In many cases, legal norms are simply adopted in a passive way. The so-called autonomous reproduction is in the focus. Those who object to this and complain about the lack of participation often hear the argument that we cannot practice cherry picking. In all the numerous documents and reports from the times of the foundation of the EFTA, I have never read this argument. Also in the WTO negotiations, there is a different style now. Bundesrat *Josef Deiss* has been announcing since six years that the closing of the Doha Round was imminent. To prepare the farmers for open borders and the global free trade, Swiss agriculture had to be restructured. The successor of *Deiss*, *Doris Leuthard*, has proceeded with this politics in the last years. Borders would soon be opened [she said]. The WTO agreement was imminent. Last autumn she said: "The axe on agricultural tax will come; you can bet your life on that." ("*NZZ*", 11 November 2009).

The agriculture has been fundamentally restructured; many farmers have given up – yet there are many indications that the agreement expected since many years will not come.

In the early 1960s, Hans Schaffner has brought forward, into the EFTA as well as into GATT, his resolution that the agriculture in the various countries is a sensitive topic for very different reasons. This stands to reason: it does not make sense to measure its products by the same yardstick, to include them with industry goods into the global free trade and to give speculative forces a free hand in this really sensitive area. In face of the current crises, both in food supply and in finance, it is absurd that the architects of the WTO today are trying to roll back the wheels of history.

An active participation of Switzerland in the WTO process is not visible today. ●

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If You Want to Cultivate Peace, Protect Creation

Extracts of the Message of His Holiness Pope Benedict XVI.
for the Celebration of the World Day of Peace on 1 January 2010

At the beginning of this New Year, I wish to offer heartfelt greetings of peace to all Christian communities, international leaders, and people of good will throughout the world. For this XLIII World Day of Peace I have chosen the theme: If You Want to Cultivate Peace, Protect Creation. [...]

Man's inhumanity to man has given rise to numerous threats to peace and to authentic and integral human development – wars, international and regional conflicts, acts of terrorism, and violations of human rights. Yet no less troubling are the threats arising from the neglect – if not downright misuse – of the earth and the natural goods that God has given us. [...]

The environment must be seen as God's gift to all people, and the use we make of it entails a shared responsibility for all humanity, especially the poor and future generations. [...]

Can we remain indifferent before the problems associated with such realities as climate change, desertification, the deterioration and loss of productivity in vast agricultural areas, the pollution of rivers and aquifers, the loss of biodiversity, the increase of natural catastrophes and the deforestation of equatorial and tropical regions? Can we disregard the growing phenomenon of "environmental refugees", people who are forced by the degradation of their natural habitat to forsake it – and often their possessions as well – in order to face the dangers and uncertainties of forced displacement? Can we remain impassive in the face of actual and potential conflicts involving access to natural resources? All these are issues with a profound impact on the exercise of human rights, such as the right to life, food, health and development.

It should be evident that the ecological crisis cannot be viewed in isolation from other related questions, since it is closely linked to the notion of development itself and our understanding of man in his relationship to others and to the rest of creation. Prudence would thus dictate a profound, long-term review of our model of development, one which would take into consideration the meaning of the economy and its goals with an eye to correcting its malfunctions and misapplications. The ecological health of the planet calls for this, but it is also demanded by the cultural and moral crisis of humanity whose symptoms have for some time been evident in every part of the world. Humanity needs a profound cultural renewal; it needs to rediscover those values which can serve as the solid basis for building a brighter future for all. Our present crises – be they economic, food-related, environmental or social – are ultimately also moral crises, and all of them are interrelated. They require us to rethink the path which we are travelling together. Specifically, they call for a lifestyle marked by sobriety and solidarity, with new rules and forms of engagement, one which focuses confidently and courageously on strategies that actually work, while decisively rejecting those that have failed. Only in this way can the current crisis become an opportunity for discernment and new strategic planning. [...]

Sad to say, it is all too evident that large numbers of people in different countries and areas of our planet are experiencing increased hardship because of the negligence or refusal of many others to exercise responsible stewardship over the environment. The Second Vatican Ecumenical Council reminded us that "God has destined the earth and everything it contains for all peoples and nations". The goods of creation belong to humanity as a whole. Yet the current pace of environmental exploitation is seriously endangering the supply of certain natural resources not only for the present generation, but above all for generations yet to come. It is not hard to see that environmental degradation is often due to the lack of far-sighted



Humanity needs a profound cultural renewal; it needs to rediscover those values which can serve as the solid basis for building a brighter future for all. Our present crises – be they economic, food-related, environmental or social – are ultimately also moral crises, and all of them are interrelated. They require us to rethink the path which we are travelling together. Specifically, they call for a lifestyle marked by sobriety and solidarity, with new rules and forms of engagement, one which focuses confidently and courageously on strategies that actually work, while decisively rejecting those that have failed. (photo haro)

official policies or to the pursuit of myopic economic interests, which then, tragically, become a serious threat to creation. To combat this phenomenon, economic activity needs to consider the fact that "every economic decision has a moral consequence" and thus show increased respect for the environment. When making use of natural resources, we should be concerned for their protection and consider the cost entailed – environmentally and socially – as an essential part of the overall expenses incurred. The international community and national governments are responsible for sending the right signals in order to combat effectively the misuse of the environment. To protect the environment, and to safeguard natural resources and the climate, there is a need to act in accordance with clearly-defined rules, also from the juridical and economic standpoint, while at the same time taking into due account the solidarity we owe to those living in the poorer areas of our world and to future generations.

A greater sense of intergenerational solidarity is urgently needed. Future generations cannot be saddled with the cost of our use of common environmental resources. "We have inherited from past generations, and we have benefited from the work of our contemporaries; for this reason we have obligations towards all, and we cannot refuse to interest ourselves in those who will come after us, to enlarge the human family. Universal solidarity represents a benefit as well as a duty. This is a responsibility that present generations have towards those of the future, a responsibility that also concerns individual States and the international community". Natural resources should be used in such a way that immediate benefits do not have a negative impact on living creatures, human and not, present and future; that the protection of private property does not conflict with the universal destination of goods; that human activity does not compromise the fruitfulness of the earth, for the benefit of people now and in the future. In addition to a fairer sense of intergenerational solidarity there is also an urgent moral need for a renewed sense of intragenerational solidarity, especially in relationships between developing countries and highly industrialized countries: "the international community has an urgent duty to find institutional means of regulating the exploitation of non-renewable resources, involving poor countries in the process, in order to plan together for the future". The ecological crisis shows the urgency of a solidarity which embraces time and space. It is important to acknowledge that among the causes of the present ecological crisis is the historical responsibility of the industrialized countries. Yet the less developed countries, and emerging countries in particular, are not exempt from their own responsibilities with regard to creation, for the duty

of gradually adopting effective environmental measures and policies is incumbent upon all. This would be accomplished more easily if self-interest played a lesser role in the granting of aid and the sharing of knowledge and cleaner technologies. [...]

At present there are a number of scientific developments and innovative approaches which promise to provide satisfactory and balanced solutions to the problem of our relationship to the environment. Encouragement needs to be given, for example, to research into effective ways of exploiting the immense potential of solar energy. Similar attention also needs to be paid to the world-wide problem of water and to the global water cycle system, which is of prime importance for life on earth and whose stability could be seriously jeopardized by climate change. Suitable strategies for rural development centred on small farmers and their families should be explored, as well as the implementation of appropriate policies for the management of forests, for waste disposal and for strengthening the linkage between combatting climate change and overcoming poverty. [...]

There is a need, in effect, to move beyond a purely consumerist mentality in order to promote forms of agricultural and industrial production capable of respecting creation and satisfying the primary needs of all. The ecological problem must be dealt with not only because of the chilling prospects of environmental degradation on the horizon; the real motivation must be the quest for authentic world-wide solidarity inspired by the values of charity, justice and the common good. [...]

It is becoming more and more evident that the issue of environmental degradation challenges us to examine our life-style and the prevailing models of consumption and production, which are often unsustainable from a social, environmental and even economic point of view. We can no longer do without a real change of outlook which will result in new life-styles, "in which the quest for truth, beauty, goodness and communion with others for the sake of common growth are the factors which determine consumer choices, savings and investments". Education for peace must increasingly begin with far-reaching decisions on the part of individuals, families, communities and states. We are all responsible for the protection and care of the environment. This responsibility knows no boundaries. In accordance with the principle of subsidiarity it is important for everyone to be committed at his or her proper level, working to overcome the prevalence of particular interests. A special role in raising awareness and in formation belongs to the different groups present in civil society and to the non-governmental organizations which work with determina-

tion and generosity for the spread of ecological responsibility, responsibility which should be ever more deeply anchored in respect for "human ecology". The media also have a responsibility in this regard to offer positive and inspiring models. In a word, concern for the environment calls for a broad global vision of the world; a responsible common effort to move beyond approaches based on selfish nationalistic interests towards a vision constantly open to the needs of all peoples. We cannot remain indifferent to what is happening around us, for the deterioration of any one part of the planet affects us all. Relationships between individuals, social groups and states, like those between human beings and the environment, must be marked by respect and "charity in truth". In this broader context one can only encourage the efforts of the international community to ensure progressive disarmament and a world free of nuclear weapons, whose presence alone threatens the life of the planet and the ongoing integral development of the present generation and of generations yet to come.

The Church has a responsibility towards creation, and she considers it her duty to exercise that responsibility in public life, in order to protect earth, water and air as gifts of God the Creator meant for everyone, and above all to save mankind from the danger of self-destruction. The degradation of nature is closely linked to the cultural models shaping human coexistence: consequently, "when 'human ecology' is respected within society, environmental ecology also benefits". Young people cannot be asked to respect the environment if they are not helped, within families and society as a whole, to respect themselves. The book of nature is one and indivisible; it includes not only the environment but also individual, family and social ethics. Our duties towards the environment flow from our duties towards the person, considered both individually and in relation to others.

Hence I readily encourage efforts to promote a greater sense of ecological responsibility which [...] would safeguard an authentic "human ecology" and thus forcefully reaffirm the inviolability of human life at every stage and in every condition, the dignity of the person and the unique mission of the family, where one is trained in love of neighbour and respect for nature. There is a need to safeguard the human patrimony of society. This patrimony of values originates in and is part of the natural moral law, which is the foundation of respect for the human person and creation.

Nor must we forget the very significant fact that many people experience peace and tranquillity, renewal and reinvigoration, when they come into close contact with the beauty and harmony of nature. There exists a certain reciprocity: as we care for creation, we realize that God, through creation, cares for us. On the other hand, a correct understanding of the relationship between man and the environment will not end by absolutizing nature or by considering it more important than the human person. If the Church's magisterium expresses grave misgivings about notions of the environment inspired by ecocentrism and biocentrism, it is because such notions eliminate the difference of identity and worth between the human person and other living things. [...]

Protecting the natural environment in order to build a world of peace is [...] a duty incumbent upon each and all. It is an urgent challenge, one to be faced with renewed and concerted commitment; it is also a providential opportunity to hand down to coming generations the prospect of a better future for all. May this be clear to world leaders and to those at every level who are concerned for the future of humanity. [...]

From the Vatican, 8 December 2009

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