

Britain's Exit from the EU (in its present form) is Almost Certain

by Edward Spalton and John Harrison

The EU always was a project which depended on forward momentum and an appearance of inevitability. Professor Tim Congdon likened this to the belief held by Marxists in the scientific nature of their theory and the historical inevitability of its fulfilment. With the wheel falling off the euro currency and the manifest incompetence of the EU's leaders to deal with it, even true believers are now having doubts about the EU equivalents of those Five Year Plans and bogus statistics of tractor production which destroyed the credibility of the Soviet Union.

The euro is now on life support and there are two possible outcomes. If the life support of IMF, British and other loans is insufficient and the patient dies, then the EU, in its present form, dies with it. Frau Merkel says so and she is in a position to know.

If the euro lives, then within three years the 17 eurozone countries as a caucus will be able to dictate the policy of the whole EU to the 10 states which still retain their own currencies. Mr. Cameron and Mr. Osborne have been urging the eurozone states to form themselves into a common, united, economic government.

Mr. Cameron, having already ceded powers of control over the financial sector to the EU, appears to have woken up to the dangers of this rather late in the day – particularly with regard to the interests of the City of London. The EU is proposing an expanded Tobin tax on financial transactions. Taxing the bankers will be popular but, of course, the tax will end up being paid by the bankers' clients. They will pass it on, rather like the oil companies do with fuel duty and VAT.

It will not “soak the rich” who will simply move their financial transactions out of its reach. It will hit the smaller savers with money invested in unit trusts, managed funds and pension funds.

Up to now such funds, if well-managed, have provided some shelter from the worst effects of inflation, especially for occupational pensioners in the private sector. If every transaction and share swap is taxed, then that ability is much reduced. It will have a similar type of effect on private pensions as Mr. Brown's £5 billion per annum tax raid had in earlier years. Like that expropriation, it will be initially “painless” because the deductions will start small, not appear on anybody's payslip and will have their effect over years.

If the euro recovers, then regardless of opt outs and derogations, eurozone countries will shortly have the necessary weight to impose this tax which is particularly directed at London where the huge majority of Europe's financial transactions takes place. From the sudden invention of the Common Fisheries Policy onwards, Britain's relationship with the EU has been one of repeated surrenders. A British government committed to staying within the EU would have no choice but to accept it

eventually. Those investors who could would simply desert London for cheaper dealing on untaxed exchanges.

Mr Cameron is pledging large amounts of Britain's credit to the eurozone through the IMF, presumably in the hope of reviving the euro. He says so and I think we may believe him. The only conclusion to be drawn is that EU control and taxation of the City of London is the outcome he expects and accepts. His complaints and bluster against the EU's continual attacks on the City can only be of the "In Europe but not run by Europe" variety with which we have long been acquainted.

So there are two possible outcomes in general outline:

- The euro collapses and the EU with it, leading to a wholesale liberation of EU states including the United Kingdom. With the *acquis communautaire* and EU institutions irretrievably discredited and irrelevant, a genuine renegotiation of trade arrangements between states would be possible, provided we have a government willing to play for our side.
- The euro survives and national interest will compel UK withdrawal from the eurozone-dominated EU unless the government in power is just as prepared and determined to sacrifice the City of London, as Mr. Heath's government was with the fishermen.

Whilst people may loathe bankers and financiers as much as they do politicians it is likely that public pressure, backed by well-funded information from the City, would not permit that abject surrender. Yet the direction of Mr. Cameron's present policy of pledging more and more of our credit to prop up the ailing euro seems geared to just that end - even as he protests his intention to defend the City. Putting very serious money on the line for a project whilst protesting against its inevitable outcome (if successful) is not a credible stance.

"OWN RESOURCES"

The EU has long aimed to acquire rights of tax raising without the need to go through the parliamentary processes for contributions from member states. This is called "own resources" and already exists to some extent in customs duties on goods entering the EU from Third Countries. These are collected by HM Revenue and Customs which retains a collection fee for expenses but passes on a fixed proportion to the EU automatically. With the reduction of customs tariffs world wide as a result of WTO agreements, to which the EU is signatory, this is not as fruitful a source of funding as it once was.

Two other EU revenue raising proposals are being given serious consideration

- A "carbon tax" on emissions from factory chimneys with the supposed benefit of "saving the planet" from climate change. The EU already dictates much of environmental policy, including targets of carbon dioxide which member states are allowed to emit. The EU also operates a notoriously corrupt carbon trading scheme.
- A tax on financial transactions at a low percentage (0.1% and upwards is mooted). This is expanded from the original idea of the Tobin tax which applied only to spot currency deals. Some 70% of the EU's

financial transactions take place in London. The tax is advocated as a brake on the “greed” of financiers and on the volatility of markets. In practice it would simply be an added dealing cost which would be passed on to buyers of shares, bonds and currencies. It would also discriminate against currency transfers between eurozone and non eurozone countries within the EU, giving credible extra financial pressure for joining the euro.

It is noteworthy that two Liberal Democrat euro-fanatics are ministers with responsibilities in this field – Chris Huhne who is Minister for Energy and Climate Change and Danny Alexander who is Chief Secretary to the Treasury.

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

The Monetary Mess

By locking incompatible economies onto the same currency, the existence of the euro is making worse a mess which already existed.

It began in the Seventies at about the time Britain joined the EEC and was triggered by President Nixon's decision to take the US dollar off the gold standard. Under the Bretton Woods system which stabilised the post war currency system, the major currencies were pegged within a small range of variation to the dollar, which was pegged to gold. Every so often, adjustments were made. Britain had to devalue on several occasions because of balance of payments difficulties.

Some people will remember Prime Minister Harold Wilson assuring us that this did not mean that “the pound in our pocket” had been devalued! When the dollar came off the gold standard it was decided that currency exchange rates would “float” and go up and down against each other according to market circumstances. In fact, this represented another devaluation for sterling. Criticising the change from the opposition benches, Mr Wilson remarked “..and the pound floated - like a brick!”. He always had a good turn of phrase.

Freed from the restrictions of the Bretton Woods system, British and other governments relaxed controls on credit, allowing the banks to become the de facto issuers of currency.

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

That worked fine until the advent of computers when banks became empowered to issue currency again. The liquidity ratios allowed them to lend £8 for every £1 they held in deposits. So if you deposited £1 in your account they could lend me £8. I could then pay that to you to buy your vastly inflated

produce and you pay it into your account. They have now got another £8 on which they can lend me £64 and so it goes on. This is how the banks have built up bigger assets/liabilities than the countries in which they are domiciled.

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

But shouldn't this vast increase in money supply have increased inflation over the last twenty years? Of course it should have, but the monetary effect was negated by the massive importation of cheap goods from the Far East. In other words China postponed the impending doom approaching the Western world.

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

So what happens then? First, the loss is sustained by the bank's shareholders, then they borrow on the inter-bank market and lastly the government's unwritten guarantee comes into play to protect the nation's savers as ours did with Northern Rock, Royal Bank of Scotland et al. There you have a situation where the banks got into trouble because they had lent too much, largely to governments, and under Gordon Brown's "Save the World" strategy, the governments took all the debt back onto their own balance sheets.

Now you have the problem where the sovereign states are buckling under the amount of debt they are carrying. So the solution is for the European Central Bank to create £2,000 billion of extra cash to bail out the governments.

But wait a minute! Who are the unwritten guarantors these new £2,000 billion of debts? Well, actually they are those very same sovereign governments which are insolvent anyway.

It will probably have the same effect as throwing a tanker load of petrol onto a fire to try to douse it. Stand well back, if you can!

As a Dutch colleague remarked recently, it is likely that most of us will become considerably poorer as a result of this massive, immoral mismanagement. The question is whether we will be poorer serfs within the European Union which entrenches the system beyond democratic reform in perpetuity, or poorer free men in our own countries with a chance of fighting our way back.