

Current Concerns

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English Edition of Zeit-Fragen

EU/IMF Revolt: Greece, Iceland, Latvia May Lead the Way

by Ellen Brown

Europe's small, debt-strapped countries could follow the lead of Argentina and simply walk away from their debts. That would shift the burden to the creditor countries, which could solve the problem merely by a change in accounting rules.

Total financial collapse, once a problem only for developing countries, has now come to Europe. The International Monetary Fund (IMF) is imposing its "austerity measures" on the outer circle of the European Union, with Greece, Iceland and Latvia the hardest hit. But these are not your ordinary Third World debtor supplicants. Historically, the Vikings of Iceland successfully invaded Britain; Latvian tribes repulsed the Vikings; and the Greeks conquered the whole Persian empire. If anyone can stand up to the IMF, these stalwart European warriors can.

Dozens of countries have defaulted on their debts in recent decades, the most recent being Dubai, which declared a debt moratorium on November 26, 2009. If the once lavishly-rich Arab emirate can default, more desperate countries can; and when the alternative is to destroy the local economy, it is hard to argue that they should not. That is particularly true when the creditors are largely responsible for the debtor's troubles, and there are good grounds for arguing the debts are not owed. Greece's troubles originated when low interest rates that were inappropriate for Greece were maintained to rescue Germany from an economic slump. And Iceland and Latvia have been saddled with responsibility for private obligations to which they were not parties. Economist *Michael Hudson*¹ writes:

"The European Union and International Monetary Fund have told them to replace private debts with public obligations, and to pay by raising taxes, slashing public spending and obliging citizens to deplete their savings. Resentment is growing not only toward those who ran up these debts ... but also toward the neoliberal foreign advisors and creditors who pressured these governments to sell off the banks and public infrastructure to insiders."

The dysfunctional EU: where a common currency fails

Greece may be the first in the EU outer circle to revolt. According to *Ambrose Evans-Pritchard*² in *Sunday's Daily Telegraph*, "Greece has become the first country on the distressed fringes of Europe's monetary union to defy Brussels and reject the Dark Age leech-cure of wage deflation." Prime Minister *George Papandreou* said on Friday:

"Salaried workers will not pay for this situation: we will not proceed with wage freezes or cuts. We did not come to power to tear down the social state."

Notes Evans-Pritchard:

"Mr Papandreou has good reason to throw the gauntlet at Europe's feet. Greece is being told to adopt an IMF-style austerity package, without the devaluation so central to IMF plans. The prescription is ruinous and patently self-defeating."

The currency cannot be devalued because the same Euro is used by all. That means that while the country's ability to repay is being crippled by austerity measures, there is no way to lower the cost of the debt. Evans-Pritchard concludes:

"The deeper truth that few in Euroland are willing to discuss is that EMU is inherently dysfunctional – for Greece, for Germany, for everybody."

Which is all the more reason that Iceland, which is not yet a member of the EU, might want to reconsider its position. As a condition of membership, Iceland is being required to endorse an agreement in which it would reimburse Dutch and British depositors who lost money in the collapse of IceSave, an off-shore division of Iceland's leading private bank. *Eva Joly*³, a Norwegian-French magistrate hired to investigate the Icelandic bank collapse, calls it blackmail. She warns that succumbing to the EU's demands will drain Iceland of its resources and its people, who are being forced to emigrate to find work.

Latvia is a member of the EU and is expected to adopt the Euro, but it has not yet reached that stage. Meanwhile, the EU and IMF have told the government to borrow foreign currency to stabilize the exchange rate⁴ of the local currency, in order to help borrowers pay mortgages taken out in foreign currencies from foreign banks. As a condition of IMF funding, the usual government cutbacks are also being required. *Nils Muiznieks*⁵, head of the Advanced Social and Political Research Institute in Riga, Latvia, complained:

"The rest of the world is implementing stimulus packages ranging from anywhere



Students march during a protest in Riga. (picture reuters)

between one percent and ten percent of GDP but at the same time, Latvia has been asked to make deep cuts in spending - a total of about 38% this year in the public sector - and raise taxes to meet budget shortfalls."

In November, the Latvian government adopted its harshest budget of recent years, with cuts of nearly 11%. The government had already raised taxes, slashed public spending

Political "Economising" in Practice

"After you've had a gigantic debt bust, the next phase is sovereign deficit struggles. ... For the next few years, this is going to be a major issue." (*Steve van Order - Calvert Funds - Bethesda Md*)

True enough, as the "balance sheet" of pretty well every sovereign government in the world makes clear today. But as 2010 gets into full swing, the long-neglected science of "political economy" is being resurrected to make sure that the world looks at some nations as being at the end of their deficit ropes and studiously neglects others.

In its original formulation and intent, "political economy" was the study of the inevitable and inexorable overlap between politics and economics and the place of both as a subset of the study of ethics. Today, ethics has been thrown to the four winds in politics - and in the areas of economics which are under direct political control. Which is to say most of them.

On 27 January, US Treasury Secretary *Tim Geithner* is scheduled to appear before the House Committee on Oversight and Government Reform. In late 2008 at the time of the AIG bailout, Mr Geithner was head of the New York Fed. The "reformers" have belatedly become interested in the New York Fed's decision to pay the trading partners of AIG 100 cents on the Dollar for the AIG-issued credit default swaps they held.

They want to question Mr Geithner as to why the New York Fed instructed AIG NOT to report this action in filings they made by law to the Securities and Exchange Commission (SEC). Mr Geithner's defenders are adamant that he is not involved because he was not aware of the New York Fed's instructions to AIG. Whether this will satisfy the "reformers" remains to be seen. What it actually amounts to is one more example of politicians being "economic" with the truth.

Assuming Mr Geithner navigates this congressional testimony successfully, he is scheduled to travel to Canada to attend a February 5-6 meeting of the G7. This meeting is being held in the "city" of Iqaluit (the capital of the territory of Nunavut) which is located on the south coast of Baffin Island. A more isolated location with a more inhospitable climate in February is difficult to imagine, let alone find. One thing is certain, this G7 meeting will not be plagued with many "protesters".

From almost every political "pulpit" available anywhere, a message is going out. "Ignore what your eyes tell you about the REAL state of the economic world. We're here to fix it - and keep on fixing it."

Source: *The Privateer*, Late January Issue, Number 646, 2010

and government wages, and shut dozens of schools and hospitals. As a result, the national bank forecasts⁶ a 17.5% decline in the economy this year, just when it needs a productive economy to get back on its feet. In Iceland, the economy contracted by 7.2%⁷ during the third quarter, the biggest fall on record. As in other countries squeezed by neo-liberal tourniquets on productivity, employment and output are being crippled, bringing these economies to their knees.

The cynical view is that that may have been the intent. Instead of helping post-Soviet nations develop self-reliant economies, writes *Marshall Auerback*⁸, "the West has viewed them as economic oysters to be broken up to indebt them in order to extract interest charges and capital gains, leaving them empty shells."

But the people are not submitting quietly to all this. In Latvia last week, while the Parliament debated what to do about the nation's debt, thousands of demonstrating students and teachers filled the streets, protesting the closing of a hundred schools and reductions in teacher salaries of up to 60%. Demonstra-

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Ruling Left-Greens confirm EU opposition

The party council of the Icelandic political party The Left Green Movement (*Vinstrihreyfingin - grænt framboð*) today confirmed the party's opposition to Iceland joining the European Union. The Left Greens have since the foundation of the party been opposed to joining the EU but decided not to oppose an application being sent to Brussels after the general election in the spring of 2009 in order to form a government with the pro-EU Social Democratic Alliance. Since opposition to the joining the EU has grown rapidly among Icelanders with about two thirds against the move according to the latest polls. The EU application, which was only narrowly approved in the Icelandic parliament in July 2009, has also been very unpopular within the LGM. The party council is the highest authority of the LGM between national congresses.

The party council's statement reads:

"The party council confirms the opposition of the Left Green Movement to possible membership of Iceland of the European Union. Despite an application for membership has been delivered it is the outmost will of the party council that Iceland shall remain an independent state outside the EU. The party council of the Left Green Movement urges ministers, MPs and members of the Left Greens across the country to honour the party's policy to oppose membership of the EU and to fight hard for it."

This is seen as yet another token of the split between the government parties on the EU issue.

EU News From Iceland
<http://eunews.blogspot.com>

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tors held signs saying, «They have sold their souls to the devil» and «We are against poverty.» In the Iceland Parliament, the IceSave debate had been going on for over 140 hours at last report, a new record; and a growing portion of the population opposes underwriting a debt they believe the government does not owe.

In a December 3 article in “The Daily Mail” titled “What Iceland Can Teach the Tories,” *Mary Ellen Synon*⁹ wrote that ever since the Icelandic economy collapsed last year, “the empire builders of Brussels have been confident that the bankrupt and frightened Icelanders must finally be ready to exchange their independence for the ‘stability’ of EU membership.” But last month, an opinion poll showed that 54% of all Icelanders oppose membership, with just 29% in favor. Synon wrote:

“The Icelanders may have been scared out of their wits last year, but they are now climbing out from under the ruins of their prosperity and have decided that the most valuable thing they have left is their independence. They are not willing to trade it, not even for the possibility of a bail-out by the European Central Bank.”

Iceland, Latvia and Greece are all in a position to call the bluff of the IMF and EU. In an October 1 article called “Latvia – the Insanity Continues,” Marshall Auerback¹⁰ maintained that Latvia’s debt problem could be fixed over a weekend, by a list of measures including (1) not answering the phone when foreign creditors call the government; (2) declaring the banks insolvent, converting their external debt to equity, and having them reopen with full deposit insurance guaranteed in local currency; and (3) offering “a local currency minimum wage job that includes healthcare to anyone willing and able to work as was done in Argentina after the *Kirchner* regime repudiated the IMF’s toxic package of debt repayment.”

Evans-Pritchard suggested a similar remedy for Greece, which he said could break out of its death loop by following the lead

In matters of law, whether prosecuting or defending, there is an old adage adhered to faithfully by luminaries of the stage, screen and written word like *Horace Rumpole*, *Perry Mason* and *Dismas Hardy*. Never ask a question if you don’t already know the answer. This rule is also adhered to in politics. Lots of lawyers go into politics and in many countries, including the US, all politicians are known as “lawmakers”. In the days of genuine “political economy”, the great goal of politics was the creation of a nation ruled by laws, not by men. Today, the politicians make the laws (hence the popular euphemism “lawmaker”) and only ask or answer questions about these laws under duress.

Of course, the “lawmakers” do not write or read the laws, they simply pass them, usually along party lines. The centerpiece of Mr *Obama’s* “program” is the health care bill. In its present form, it is about a foot thick when printed out – 2000 pages and nearly 500,000 words long. The US Constitution in its original form can be printed out in its entirety in eleven pages. Even an issue of *The Privateer* is bigger than that. And the Constitution with all 27 amendments included is 18 pages long.

No one person wrote the health care bill or any major piece of modern legislation. And no one person, least of all any of the “lawmakers” now wrangling over it, will ever read the bill. Modern laws are

of Argentina. It could “restore its currency, devalue, pass a law switching internal euro debt into [the local currency], and ‘restructure’ foreign contracts.”

The road less traveled: saying no to the IMF

Standing up to the IMF is not a well-worn path, but Argentina forged the trail. In the face of dire predictions that the economy would collapse without foreign credit, in 2001

Laws – Who are They Made For?

not designed to be read or understood. They are designed to be wide open conduits through which ANY action which is deemed necessary to confront ANY situation can be deemed “legal”.

And this is how politicians everywhere frame the questions. “What is legal?” “Anything we make a law about.” “What is needed to confront any political or economic situation?” “Whatever is legal.” “Who decides that?” “We do!” “On what basis do you decide?” “On the basis of the ‘national interest’.” “Who decides what that is?” “We do!”

That about covers it, and has for decades now. There’s only one problem. It doesn’t “solve” anything.

On January 13, the heads of the top Wall Street banks were ushered into a “hearing room” in Washington DC to confront what is called the “Financial Crisis Inquiry Commission”. The man in the hot seat was Mr *Lloyd Blankfein*, the chief executive officer of Goldman Sachs, the major beneficiary of the government bailout which was instituted in panic in September 2008 and has been going forward without stint ever since. According to most of the US financial media, Mr Blankfein and his colleagues from the other too big to fail banks were there to “apologise” for their actions, the ones which are said to have led to the crisis in the first place.

The chairman of the Commission, Mr *Phil Angelides*, began predictably

enough. “People are angry”, he intoned. “Mea (sorta) culpa” – replied all the bank chiefs. Mr Blankfein claimed that the banks were blindsided and never saw the collapse coming. He said what actually happened was like four hurricanes hitting the east coast of the US at the same time, something that nobody could predict in advance.

These people, it must not be forgotten, are “in charge” of \$US TRILLIONS. The bankers are in charge of lending it into existence. When they judge that the demand for loans is insufficient, they are in charge of inventing new ways to create assets out of thin air. The politicians who have plunked them in the hot seat (to delay the day when they occupy it themselves) are in charge of the bankers. They pass the laws and sit on the committees and oversee the “regulatory agencies”. Yes, they are “lobbied”. Yes, they rely on the “special interests” for the funding they need to get elected. But once they are elected, they and no one else makes the laws. Almost all politicians and most of the really big bankers have long since come to the view that ANYTHING is possible as long as one has the power to make it so by passing a law.

But when the people get “angry”, the circus comes to town. There are a lot of them playing these days.

Source: *The Privateer*, Late January Issue, Number 646, 2010

it defied its creditors and simply walked away from its debts. By the fall of 2004, three years after a record default on a debt of more than \$100 billion, the country was well on the road to recovery; and it achieved this feat without foreign help. The economy grew by 8% for 2 consecutive years. Exports increased, the currency was stable, investors were returning, and unemployment had eased. “This is a remarkable historical event, one that challenges 25 years of failed policies,” said economist

Mark Weisbrot in a 2004 interview quoted in “The New York Times”. “While other countries are just limping along, Argentina is experiencing very healthy growth with no sign that it is unsustainable, and they’ve done it without having to make any concessions to get foreign capital inflows.”

Weisbrot is co-director of a Washington-based think tank called the Center for Eco-

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Everyone is But Talking About Greece’s Deficit

With apologies for taking the author so unabashedly out of context:

*“THOU still unravish’d bride of quietness,
Thou foster-child of Silence and slow Time,
Sylvan historian, who canst thus express
A flowery tale more sweetly than our rhyme ...”*

(*Ode To A Grecian Urn* – *John Keats*)

Ah, would it were still so. But alas, it is not. Not being of so poetical a bent as the esteemed Mr *Keats*, CNNMoney came up with a much more prosaic headline on January 18: “Greece is the Word”.

And so “Greece” has been throughout the world of financial reporting ever since *Fitch* (one of the big three US ratings agencies) downgraded its sovereign debt way back on December 8 last year. As is the case in all ratings downgrades, the debt load of Greece had not “suddenly” become un-supportable on December 8, but *Fitch* knew precisely what it was doing.

In the second week of January, the Greek government auctioned a paltry Euro 1.6 billion worth of government debt paper. The yield on the six-month paper rose to 1.38 percent. In November 2009, the month before the ratings downgrade, it was 0.59 percent. Yields on ten-year Greek paper hit 6.00 percent, 270 basis points (2.7 percent) above the yield on equivalent maturity German debt paper. Before the ratings cut, the “spread” had been about 155 basis points. The yield curve on Greek sovereign debt paper is flattening with short-term rates rising faster than long-term rates. Over December as a whole, the volume of Greek sovereign debt traded on

the secondary market fell by more than 65 percent while three-year bond yields soared 94 basis points (or 24.2 percent) from 2.94 percent to 3.88 percent.

The Greek government IS in dire financial straits. The budget deficit for 2009 was 12.7 percent of GDP while Greece’s national debt hit 113 percent of GDP. In “normal” times, these numbers would be horrendous. But of course we are not living in normal times. The Greek numbers are still high, a little higher than the equivalent US numbers and a bit lower than the UK numbers.

Greece is now being castigated for blowing their budget deficit out above the 3.00 percent maximum mandated for all nations which use the Euro. This is absurd, since there is not one Euro nation (including Germany) whose deficit has not long since exceeded that “limit”. Under duress as rates on all types of debt including sovereign debt blow out, the Greek government has promised to bring their annual deficits back under the 3.0 percent “limit” by 2012. No other European nation has done that.

The plan put forward to the European Union by Greek Prime Minister *Papandreou* is said to address the biggest threats to Greece’s creditworthiness – “chronically weak fiscal institutions, the slow erosion in competitiveness and an ageing population”. There are very few nations in the world which do not share ALL those problems. The US and UK, for example, most definitely share all of them.

No matter, Greece is today the headline nation. The IMF was there last week and reported on what had NOT been discussed, namely an IMF loan. Mr *Trichet* of the European Central Bank has ruled

out any kind of bailout for Greece. European politicians have professed shock and horror at the recent revelation that the former Greek government was “fudging the numbers” and grossly under-reporting the size of their annual deficits. Of course, no other national government would think of doing such a thing.

So, what’s going on? CNNMoney inadvertently gave it away in their “Greece is the word” piece. “The US Dollar ... started to rally against the euro in December just as ratings agencies were being downgraded”. What a lovely “Freudian slip” that is. No matter, the ratings agencies got the job done.

On the one hand, we have Greece solemnly promising to reduce their annual budget deficits from nearly 13 percent down to 3 percent of GDP in three years. This is clearly impossible without all but dismantling the present government. On the other hand, we have China doing all the things that Greece did to get them into their current predicament while being looked to with hope and gratitude by all the same eminent economists and financial analysts who are castigating Greece. China, after all, is universally seen as the nation to lead the world back to the sunlit uplands of economic “growth”.

In the middle, to give one example, is the IMF itself. Please remember that the IMF is a child of the Bretton Woods agreement with its elevation of the US Dollar to global sole reserve currency status. Please remember also that the IMF is headquartered in Washington DC. And finally, remember that the US has always been the only country that can, all by itself, veto ANY major decision taken by the IMF. Such decisions require an 85 percent majority of the votes of the members. The US by

itself controls 17.09 percent of IMF votes. The next biggest “quota” is held by Japan – at 6.12 percent.

So what is the IMF saying about the newly-emerging financial angst being directed at Greece (and the other European Union “Club Med” nations) and at China? Managing Director *Dominique Strauss-Kahn* has recently assured the world that while the Greek fiscal problem is “serious ... I don’t think that would lead to the fragmentation of the euro zone.”

As far as China is concerned, the IMF is parroting the party line. Mr Strauss-Kahn again. “As the role of China in the global economy becomes bigger, it’s fair to expect the Chinese currency to play a bigger part.” On January 19, the Chinese government announced a ban on major bank lending for the rest of the month. Within 48 hours, the Dow had dropped more than 300 points with all other major stock markets following. It would seem that “the role of China in the global economy” has become very big indeed.

And what of the rest of the world – tacitly including the US, of course? Mr Strauss-Kahn said that they shouldn’t unwind their stimulus measures “too soon” because that could push their economies back into recession. Greece is expected to cut its budget deficit – starting NOW – by more than 75 percent in three years to guard against “the fragmentation of the Euro zone”. China (and mainland Asia) is expected to continue to absorb the debt paper created to “stimulate” the rest of the world while “floating” their currency so that the rest of the world has a place to retreat to, just in case the “stimulus” doesn’t work.

Source: *The Privateer*, Late January Issue, Number 646, 2010.

«We Cannot and Do Not Wish to Cede this Responsibility to a Group of Twenty Selected States»

New Year's Reception for the diplomatic corps – address by Doris Leuthard, President of the Swiss Confederation



Doris Leuthard,
President of the Swiss
Confederation

Nuncio
Federal Council-
lor
President of the
National Council
President of the
Council of States
Excellencies
Ladies and gentle-
men

You are all familiar
with the steadfast
Helvetia who is the

national personification of Switzerland. You are very likely carrying her with you given that she is still depicted on a number of coins. The 2-franc piece – as the oldest example – is still minted with the same motif today as in 1874.

This continuity is what typifies Switzerland. Naturally Switzerland was also caught up in the global financial and economic crisis of recent months. Our economy was not spared the effects of the worldwide recession. And Switzerland too had to resort to generous state aid to bail out one of its major banks.

But overall Switzerland has come through 2009 rather valiantly despite the difficult circumstances: following the Federal Council decision in March to adopt the OECD standard on the exchange of information in tax matters, twelve double taxation agreements were amended to meet the new standard within a short space of time, and others will follow. Last year we were also able to expand our network of free trade agreements to other countries, and are the first European country to share such an agreement with Japan. We put



Diplomats in the lobby of the Bundeshaus in Bern. Members of the international family of man like Uncle Sam, Mother Russia or the French Marianne have to lend a helping hand. It is a global responsibility to cope with these crises. The family council may not exclude a member. (pictures thk)

together stabilising stimulus packages with the cantons with impulses of around 3% of GDP for 2009 and 2010 and were also able to contain public debt thanks to the debt brake. And Switzerland rose up the rankings to be listed as the world's most competitive nation and the most innovative country in Europe.

But Helvetia will continue to need her shield and spear in the new year if she is to master the various challenges ahead. At this point I will mention just three:

1. First of all, in view of the financial crisis, we have to ensure that a reliable financial architecture is put in place. We cannot sim-

ply go back to the way things were before. It is essential that new rules for the financial industry are not only established, but that these are also implemented consistently around the world. But equally important is the acceptance that not every account holder is a potential fraudster and that not all banks are their abettors. When there are grounds for suspicion there need to be solid legal procedures in place in order to ensure transparency and trust.

2. Switzerland has emerged from the crisis relatively unscathed. But we now need to look after our most valuable resource, human capital. Various forecasts predict that unemployment is likely to rise above 5% over the course of the year. The Federal Council has passed a range of measures to swiftly integrate young people and the long-term unemployed into the labour market. Hopefully that will serve to soften the worst of the impact.

3. The outcome of the vote on the minaret initiative was a wake-up call on the part of the electorate. The issue is not one that will go away now that the vote is over. Indeed it is now that the debate about Islam and the integration of migrants to this country begins in earnest. The onus in terms of integration rests primarily with the newcomers. It does not mean that people must blindly adjust to our ways of living, but it does entail recognition of our constitutional values.

Ladies and gentlemen, Excellencies,
Despite the current economic crisis other causes of concern must not be forgotten. Many conflicts and wars persist regardless of avowals to peace. And tough economic times with higher unemployment generally lead to struggles over the distribution of wealth, creating social tensions and thus the risk of fresh conflict.

Through its active peace policy, Switzerland seeks to contribute to better understanding between nations and the peaceful resolution of conflict. Last year in Switzerland, Armenia and Turkey came a step closer to one another. We are glad to continue these efforts if so desired by other states concerned.

Traditionally Switzerland has also been active in the fields of disarmament and non-proliferation. We wish to encourage the nuclear powers to improve the safety of their systems. It is for example paradoxical that the USA and Russia maintain the same level of readiness for nuclear attack as they did during the Cold War.

We should also be concerned that it is becoming increasingly difficult to reach binding agreements among the international community. In the WTO, we have been conducting negotiations on the Doha Round for 8 years now. Numerous ILO agreements have not yet been ratified. The Millennium Development Goals are far from being reached. And at the Climate Conference in Copenhagen in December we were unfortunately unable to conclude a comprehensive agreement. Are different approaches required to resolve the differences between industrialised and developing countries?

We will all suffer from deteriorating environmental conditions and more frequent disasters if we fail to agree and take action. One positive aspect, nonetheless, is that the international community accepts the target of not allowing temperatures to rise by over 2 degrees.

Ladies and gentlemen, Excellencies,
Helvetia cannot solve these problems alone. Uncle Sam, Mother Russia, Marianne and all of the other members of the world family have to be involved. Overcoming these crises is a global responsibility. No-one can be excluded from the 'family council'. We cannot and do not wish to cede this responsibility to a group of twenty selected states. Especially not if they follow up their words with few or contradictory deeds. Switzerland wishes to have its say and bear its share of responsibility. Other countries should also be free to play their part.

Switzerland is making the most of its opportunities for active involvement: It holds the chairmanship of the Council of Europe until May. In autumn we will host the Sommet de la Francophonie in Montreux. And from September, a Swiss is most likely to chair the 65th UN General Assembly. This commitment demonstrates Switzerland's desire to play an active role in shaping world affairs.

Antoine de Saint Exupéry, the French writer and pilot, once said: "L'avenir, tu n'as pas à le prévoir, mais à le permettre". We want to stand by that idea and contribute to making the future possible for everyone. •

Bern, 13 January 2010
source: www.admin.ch

To Feel Responsible for the Economic and Human Development

Excerpts from the address by Monsignore Francesco Canalini, Nuncio of the Pope in Switzerland and Doyen of the Diplomatic Corps



Monsignore
Francesco Canalini.

A review of last year's events does not grant any consolation. From the very beginning the year 2009 has been called a difficult year due to the economic crisis and this prophecy has indeed become true. Unfortunately, the irresponsible and risky dealing with finances has had consequences with tragic

effects on a great number of citizens and even on states, who had been involved directly into the infidelities.

Thousands of people had to suffer from the loss of their jobs. The international North to South contributions have clearly been reduced. The exports of the developing countries have been reduced as well as the investments and supporting contributions from abroad.

The urgent problem of hunger in the world has been tangibly aggravated, which is in opposition to the targets that have been formulated at the millennium. At present there are 1 billion and 20 million people in the world going hungry. And last November's General Conference of the FAO did not reach any concrete commitments which would surpass the so-called "five Roman principles for a global and sustainable food security." It is quite worrisome to note that – in relation to the 40 to 50 billion dollars that would suffice to solve the hunger problem the - 1464 billions were spent on the military in the year 2008 were even more than in the previous year. But next of these negative aspects there were also encouraging ones. Almost all people in the world acknowledged that the uncontrolled international finance and currency system is no longer tolerable. . And such an awareness may

provide the necessary drive for the search for better alternatives. (...)

In order to avoid such financial crises and to sanction the abuses excellent values and rules are indispensable. A reform of the structures is definitely necessary, but this is by no means sufficient. The reform has to be guided by shared ethical values, which have to be fixed in a kind of *Global Charter*, which would be able to support and accompany this desired "strong and sustainable and equal growth". (...)

It is necessary that those who are using energy in an excessive manner, declare themselves prepared to change their life style. Moreover the natural resources of the developing countries have to be assigned a higher value than today in order to enable these countries to shape their own future. This has to be done in the context of a fair globalization where solidarity, investments, trade and technology transfer and the conditions of growth will be serving another new development in the centre of which the person with its dignity and its deepest and legitimate needs will be placed.

With regard to the poor countries which are relying on the help from abroad the international community is obliged to help with all possible means of cooperation, while accepting a shared responsibility for the economic and human development, "through solidarity of their presence, and accompanying the education and respect." (Caritas in Veritate 47)

We are expressing these wishes with the aim that during this coming new year the positive aspects may be strengthened in order to achieve ethical behavior which will make it possible to further "a family of nations" and to reduce poverty effectively. (...)

* New Year's greetings conveyed to Her Excellency, Doris Leuthard, President of the Swiss Confederation by the doyen of the diplomatic corps, Monsignore Francesco Canalini, Papal Nuncio in Switzerland, on the occasion of the New Year reception of the diplomatic corps on 13 January 2010 in Bern.

(Translation *Current Concerns*)

Diplomatic Representatives of 124 States demonstrated their Friendship to Switzerland

thk. On 13 January, the traditional New Year reception of the diplomatic corps took place in the *Bundeshaus*, the seat of the Swiss government in Bern. Representatives of 124 countries insisted on delivering their New Year greetings personally and bestow honor to Switzerland. Different Ambassadors expressed in the personal discussion that it was with great pleasure that they were allowed to participate in the reception.

Traditionally, the Federal President welcomes each representative personally and accepts his or her congratulations. The short, but intensive dialogue, which the new Federal President had with some representatives of developing countries, was particularly remarkable. It was evident that a special bond of trust exists and that they set their special hope on our country, which is renowned for its humanitarian tradition within the international community.

The lobby, in which usually the daily politics determine contents of the discussions, host-

ed for once the international diplomatic corps, and the people from all over the world obviously felt at ease. Even representatives of states with little amity could be seen leading intensive dialogues: international confidence building in the lobby of the Swiss Parliament building.

In line with the tradition, the doyen of the diplomatic corps, the Apostolic Nuncio H.E. Mgr *Francesco Canalini*, delivered a speech in place of all those present. Among other things, he assured his support in working for Switzerland and its peace work. In her speech, Federal President *Doris Leuthard* emphasized Switzerland's intentions to "contribute to a better communication and the peaceful settlement of conflicts with its active peace policy" want.

After these two speeches, the ceremonial part of the celebration was finished. The diplomatic corps scattered in the lobby for the aperitif and for international discussions: Invitation to the dialogue – by good old Swiss tradition. •

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conomic and Policy Research, which put out a study in October 2009 of 41 IMF debtor countries. The study found that the austere policies imposed by the IMF, including cutting spending and tightening monetary policy, were more likely to damage than help those economies.

That was also the conclusion of a study released last February by *Yonca Özdemir*¹¹ from the Middle East Technical University in Ankara, comparing IMF assistance in Argentina and Turkey. Both emerging markets faced severe economic crises in 2001, preceded by chronic fiscal deficits, insufficient export growth, high indebtedness, political instability, and wealth inequality.

Where Argentina broke ranks with the IMF, however, Turkey followed its advice at every turn. The end result was that Argentina bounced back, while Turkey is still in financial crisis. Turkey's reliance on foreign investment has made it highly susceptible to the global economic downturn. Argentina chose instead to direct its investment inward, developing its domestic economy.

To find the money for this development, Argentina did not need foreign investors. It issued its own money and credit through its own central bank. Earlier, when the national currency collapsed completely in 1995 and again after 2000, Argentine local governments issued local bonds that traded as currency. Provinces paid their employees with paper receipts called "Debt-Cancelling Bonds" that were in currency units equivalent to the Argentine Peso. The bonds canceled the provinces' debts to their employees and could be spent in the community. The provinces had actually "monetized" their debts, turning their bonds into legal tender.

Argentina is a large country with more resources than Iceland, Latvia or Greece, but

new technologies are now available that could make even small countries self-sufficient. See *David Blume, Alcohol Can Be a Gas*.¹²

Local currency for local development

Issuing and lending currency is the sovereign right of governments, and it is a right that Iceland and Latvia will lose if they join the EU, which forbids member nations to borrow from their own central banks. Latvia and Iceland both have natural resources that could be developed if they had the credit to do it; and with sovereign control over their local currencies, they could get that credit simply by creating it on the books of their own publicly-owned banks.

In fact, there is nothing extraordinary in that proposal. All private banks get the credit they lend simply by creating it on their books. Contrary to popular belief, banks do not lend their own money or their depositors' money. As the U.S. Federal Reserve¹³ attests, banks lend new money, created by double-entry bookkeeping as a deposit of the borrower on one side of the bank's books and as an asset of the bank on the other.

Besides thawing frozen credit pipes, credit created by governments has the advantage that it can be issued interest-free. Eliminating the cost of interest¹⁴ can cut production costs dramatically.

Government-issued money to fund public projects has a long and successful history¹⁵, going back at least to the early eighteenth century, when the American colony of Pennsylvania issued money that was both lent and spent by the local government into the economy. The result was an unprecedented period of prosperity, achieved without producing price inflation and without taxing the people.

The island state of Guernsey, located in the Channel Islands between England and France, has funded infrastructure with government-issued money for over 200 years,

without price inflation and without government debt.

During the First World War, when private banks were demanding 6% interest, Australia's publicly-owned Commonwealth Bank financed the Australian government's war effort at an interest rate of a fraction of 1%, saving Australians some \$12 million in bank charges. After the First World War, the bank's governor used the bank's credit power to save Australians from the depression conditions prevailing in other countries, by financing production and home-building and lending funds to local governments for the construction of roads, tramways, harbors, gasworks, and electric power plants. The bank's profits were paid back to the national government.

A successful infrastructure program funded with interest-free national credit was also instituted in New Zealand after it elected its first Labor government in the 1930s. Credit issued by its nationalized central bank allowed New Zealand to thrive at a time when the rest of the world was struggling with poverty and lack of productivity.

The argument against governments issuing and lending money for infrastructure is that it would be inflationary, but this need not be the case. Price inflation results when "demand" (money) increases faster than "supply" (goods and services). When the national currency is expanded to fund productive projects, supply goes up along with demand, leaving consumer prices unaffected.

In any case, as noted above, private banks themselves create the money they lend. The process by which banks create money is inherently inflationary, because they lend only the principal, not the interest necessary to pay their loans off. To come up with the interest, new loans must be taken out, continually inflating the money supply with new loan-money. And since the money is going to the creditors rather than into producing new goods and services, demand (money) increases with-

out increasing supply, producing price inflation. If credit were extended for public infrastructure projects interest-free, inflation could actually be reduced, by reducing the need to continually take out new loans to find the elusive interest to service old loans.

The key is to use the newly-created money or credit for productive projects that increase goods and services, rather than for speculation or to pay off national debt in foreign currencies (the trap that Zimbabwe fell into). The national currency can be protected¹⁶ from speculators by imposing exchange controls, as Malaysia did in 1998; imposing capital controls, as Brazil and Taiwan are doing now; banning derivatives; and imposing a "Tobin tax," a small tax on trade in financial products.

Making the creditors whole

If the creditors are really interested in having their debts repaid, they will see the wisdom of letting the debtor nation build up its producing economy to give it something to pay with. If the creditors are not really interested in repayment but are using the debt as a tool to exploit the debtor country and strip it of its assets, the creditors' bluff needs to be called.

When the debtor nation refuses to pay, the burden shifts to the creditors to make themselves whole. British economist *Michael Rowbotham*¹⁷ suggests that in the modern world of electronic money, this can be accomplished by creative banking regulators simply with a change in accounting rules. "Debt" today is created with accounting entries, and it can be reversed with accounting entries. Rowbotham outlines two ways the rules might be changed to liquidate impossible-to-repay debt:

"The first option is to remove the obligation on banks to maintain parity between assets and liabilities (...) Thus, if a commercial bank held \$10 billion worth of developing country debt bonds, after cancellation it would be permitted in perpetuity to have a \$10 billion dollar deficit in its assets. This is a simple matter of record-keeping.

"The second option (...) is to cancel the debt bonds, yet permit banks to retain them for purposes of accountancy. The debts would be cancelled so far as the developing nations were concerned, but still valid for the purposes of a bank's accounts. The bonds would then be held as permanent, non-negotiable assets, at face value."

If the banks were allowed either to carry unrepayable loans on their books or to accept payment in local currency, their assets and their solvency would be preserved. Everyone could shake hands and get back to work. •

No National Government is Economising

Back to Washington DC – which was floating above the fray until January 19. On that day, there was a Senate election in Massachusetts (see Inside The United States) and the wheels seemed to fall off as the Democrats lost their overriding majority in the Senate and Mr *Obama's* legislative program hit a potential wall. Or at least some parts of it did, notably the already mentioned "health bill".

When it comes to "stimulus", little has changed. Mr Obama's budget plan for 2011 is due on February 1. The Defence Department portion of it will be \$US 708 Billion, by far the biggest request ever. On top of that, Mr Obama will be "requesting" \$33 Billion for Afghanistan and Iraq. To pay for this, and the rest of the budget, the Treasury's debt limit must be raised. On the day after the Massachusetts election, Senate Democrats proposed to increase the limit by \$US 1.9 TRILLION to \$US 14.294 TRILLION. They need 60 Senate votes to pass this request. There are no longer 60 Democratic Senators.

Whatever the final amount of the debt limit rise, it will be necessary to keep US interest rates VERY low in order to service it. With this in mind, Treasurer *Geithner's* successor as New York Fed President, *William Dudley*, has come out and said that the Fed must keep short-term rates at present levels – "at least six months" or "... it could be as long as a year from now, two years from now. It's going to depend on how the economy develops." Contrast this with what Greece is being forced to do.

This is actually the headline of a Yahoo News story describing the rising fear in both US political parties in light of the huge upset in Massachusetts. If we "upgrade" the word "state" in the headline to mean "sovereign nation", we have a pretty accurate picture of the world today.

In the US, the entire political "landscape" is said to have changed fundamentally and overnight. What has hap-

pened is merely that Americans in one state have been given the opportunity to make their displeasure known in the only way that most politicians ever notice. They have voted down a long-standing incumbent and, in so doing, passed judgement on what is going on in their national capital.

And it is in the national capital cities of the world, from Ankara to Zagreb, where the last bastion of the political mechanism of "govern today – pay tomorrow" still holds firm. Only the debt of sovereign nations still holds a patina of fiscal inviolability, and even that is fraying badly at the edges.

Every state is indeed in play. To the extent that they have blown out the amount of their existing government debt to try to "stimulate" their way out of the GFC, their sovereign fiscal position is suspect. In this context, the US leads the world. While Japan is in a worse debt position, its debt is held inside the country. The European Union has 16 members which use the Euro, several of which are in dire financial straits. The US has fifty states which use the Dollar, ALL of which would already have collapsed financially had they not been propped up by "stimulus" from Washington DC. And no other nation on earth is in a position where more than HALF its sovereign debt paper is owned by foreigners.

One can't eat promises – or government policies

On January 19, the Chinese government announced that they were "freezing" the lending of their major banks for the rest of the month. The world's financial markets promptly swooned. The US Dollar temporarily soared. Commodities (including precious metals) were sold off. Everybody, everywhere and most particularly in the US, retreated to the "safety" of sovereign debt instruments.

China is being counted on to be the very big engine that COULD – pull the world out of its economic and financial

malaise. China cannot do it any more than the US could. The Chinese government is now providing unmistakable evidence that they realise this. They are trying desperately to let the air out of a financial juggernaut of their own making without pulling their own economy down around their ears.

Franz Pick called government debt paper "guaranteed certificates of future confiscation" in the late 1970s. That's a long time ago. What else can this paper be when the only means any government has of servicing and ultimately repaying the debt they incur is the present and future ability of their subjects to produce REAL economic goods?

In the US, state governments are now sitting on unfunded liabilities (pension and medical benefits for their public employees) to the tune of some \$US 3 TRILLION. On a national level, the latest November 2009 trade deficit was \$US 34.6 Billion, the highest since January 2009. The December 2009 deficit run by the federal government was \$US 91.9 Billion – almost double the December 2008 deficit. Over the first fiscal quarter of 2010, Washington DC ran a deficit of \$US 389 Billion – 17.1 percent higher than in the first quarter of fiscal 2009. The deficit for fiscal 2009 as a whole was officially \$US 1.4 TRILLION. Add 17.1 percent to that and you get \$US 1.64 TRILLION for fiscal 2010.

Political economising?

Economising is what national governments everywhere are NOT doing. Nor, except for peripheral nations, is there any prospect of them doing so. What we are left with is a frenzied and global effort to pretend that sovereign debt default remains "unthinkable". Time to start thinking about it – seriously.

Source: *The Privateer, Late January Issue, Number 646, 2010, page 1.*

¹ <http://michael-hudson.com/articles/countries/090817IcelandLatviaWontPay.html>

² http://www.telegraph.co.uk/finance/comment/ambroseevans_pritchard/6804156/Greece-defies-Europe-as-EMU-crisis-turns-deadly-serious.html

³ <http://icelandweatherreport.com/2009/08/evajoly-iceland-is-being-blackmailed.html>

⁴ http://www.creditwritedowns.com/2009/10/latvia-the-insanity-continues.html?wpmobile_switcher=mobile

⁵ <http://ipsnews.net/news.asp?idnews=48594>

⁶ <http://www.bank.lv/eng/main/all/sapinfo/presrunas/rececol>

⁷ <http://www.financemarkets.co.uk/2009/12/07/icelands-economy-shrinks-at-record-pace/>

⁸ http://www.creditwritedowns.com/2009/10/latvia-the-insanity-continues.html?wpmobile_switcher=mobile

⁹ <http://synonblog.dailymail.co.uk/2009/12/what-iceland-can-teach-the-tories.html>

¹⁰ http://www.creditwritedowns.com/2009/10/latvia-the-insanity-continues.html?wpmobile_switcher=mobile

¹¹ http://www.allacademic.com/meta/p_mla_apa_research_citation/3/1/1/1/3/p311136_index.html

¹² <http://alcoholcanbeagas.com/node/587>

¹³ <http://www.rayservers.com/images/ModernMoneyMechanics.pdf>

¹⁴ <http://www.mkeever.com/kent.html>

¹⁵ <http://www.webofdebt.com/articles/energy-costs.php>

¹⁶ <http://www.actindependent.org/icelandprogram.pdf>

¹⁷ <http://www.prosperityuk.com/prosperity/articles/cantwd.html>

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Possible Solutions for the Hunger Crisis – How to Achieve More Social Justice

Excellent illustrated brochure on the IAASTD report

(International Assessment of Agricultural Knowledge, Science and Technology for Development)

Business as usual is not an Option

“Up to the present day, agriculture is the most important source of income and the biggest economic branch of the world. However during decades, governments, international institutions and official agricultural research have been qualifying the billions of small farmers, self-supporting cultivators, shepherds, fishermen, indigenes – often cultivating smallest surfaces and hereby producing the biggest part of all foodstuff worldwide – as backward “phase-out-models” of a pre-industrialized type of economy. The spending of huge public means on direct and indirect subsidising of certain agricultural products, producers, production forms and exports, particularly pursued by industrialized countries have had a profound influence on the production costs and prices of agricultural goods worldwide. Industrial agriculture is exploiting our planet’s natural resources in an unjustifiable way, because it is not sustainable. The basic strategy of replacing the input of human work by fossile energy and by big technique and agricultural chemistry is proving a cul-de-sac in times of climate change and fading oil reserves. Huge masses of pesticides and chemical fertilizers are needed and consume approx. 70 % of our total withdrawal of sweet water.

In spite of overproduction, the industrial model of globalized agriculture is not capable of satisfying the basic need of billions of people for sufficient and balanced food. “Business as usual is not an option” is therefore the central message of the world food report. It formulates the new paradigm of agriculture for the 21st century as follows: small farming structures are the most important guarantors and the greatest hope for the socially, economically and ecologically sustainable food supply for the 9 billion people to come. The *World Agriculture Report* estimates that investments into small farming production is the most urgent, most secure and most promising way to fight hunger and to minimise the ecological effects on agriculture at the same time.”

Source: www.weltagrabericht.de

ef. “Never before so many people have been starving while at the same time the global agriculture is producing more food *per person* than ever. According to estimates by the Food and Agriculture Organization (FAO), over a billion people are suffering from hunger. Another two billion are malnourished, either through a lack of food or through overfeeding. Numbers are still increasing. In the next decades, the world population will grow to over nine billion people. In this period, climate changes will be an immense challenge for agriculture. Clean water, fertile soils and the variety of species, both wild and cultivated, on our planet are threatened mainly by certain forms of agriculture. Nearly 40% of the greenhouse gas emissions are caused directly or indirectly by our current forms of agrarian and food production, the processing of crops, their transport, consumption and disposal.

Agriculture is the basis for income and subsistence for 2.6 billion people, the biggest branch of employment and the decisive economic factor for many developing countries.”

These are the first sentences in the German brochure “Wege aus der Hungerkrise -



The brochure on the IAASTD report (source: www.weltagrabericht.de)

Die Erkenntnisse des Weltagraberichtes und seine Vorschläge für eine Landwirtschaft von morgen” (Possible solutions for the hunger crisis – the insights of the 2008 IAASTD report and its proposals for tomorrow’s agriculture).

In order to make the urgent experiences of the IAASTD report accessible to a broader public, *Benedict Haerlin* (member of the IAASTD supervisory board) and *Tanja Busse* have written a 40 page summary of the report in German which has just been published.

This provides, for the first time, an informative, carefully edited and still inexpensive brochure containing the main messages and insights of the IAASTD report. The brochure has been edited by the German foundations “Zukunftsstiftung Landwirtschaft” and the

“Stiftung eine Welt – Eine Zukunft”. It presents important results and proposals to control the hunger crisis.

The brochure covers topics such as “hunger in abundance”, “food and pathogen factors”, “small-scale and industrial farming”, “global market and food sovereignty”, “water”, “climate and energy”, “What can we do?”.

The clearly designed brochure is richly furnished with graphics, maps and pictures and can be an important basis for working at home, at school and in politics.

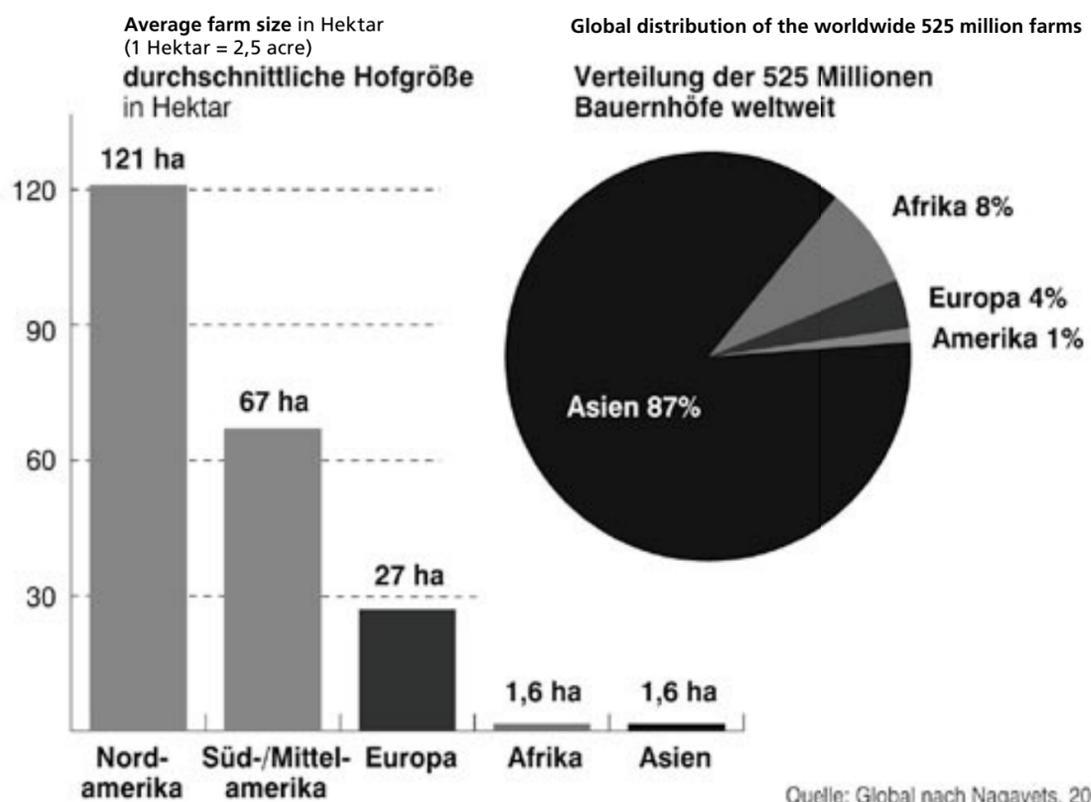
At the same time, the authors operate a website (www.weltagrabericht.de) providing background and current information on the topics of the report. The website considers itself a forum for participation and discussion.

Food sovereignty

“Food sovereignty, the right and the possibility to provide sufficient, healthy food for oneself and one’s community in a self-determined manner, means the decisive step out of the poverty trap to a sustainable economic and ecological development, for the vast majority of today’s starving populations. Self-supply and personal responsibility would be the adequate concept for Europe that – with its overconsumption – is putting pressure on the world. Cheap meat or “biofuel” from monocultures that are destroying the rainforests, as well as the subsidized export of food at dumping prices made of imported materials, are the two sides of the same coin. Both thwart the food sovereignty of developing countries and prevent them from building up a sustainable agriculture – all that with support of WTO’s rules.

Finally, food sovereignty is a good concept for our own nutrition policy: The basis of fair relations between consumers and producers and the basis of good and healthy nourishment. That means that we become aware of what we are eating, how and by whom our food is produced. The basic concept is simple: cooking as often as possible, using preferably unprocessed, varied, mainly vegetarian, regional, ecologically and fairly produced food and enjoying the meal without a hurry. The regaining of our personal food sovereignty step by step, not doggedly, from food corporations, adverts, nutritionists, lists of ingredients, agitation and bargains is one of the most effective and pleasurable steps on the road to sustainability. For this purpose spending a slightly higher percentage of our income is worthwhile in many respects and helps reducing our disposable quota.”

Source: www.weltagrabericht.de (Translation Current Concerns)



Quelle: Global nach Nagayets, 2005

2.6 billion people – 40% of the world population – mainly live from agriculture. 85% of the 525 million farms process less than 20,000 square meters (about 5 acres). But they produce the largest part of all food and cultivate 60% of the worldwide area under crops, often the less fertile and not sufficiently irrigated soils. The fraction of small farmers relative to the world population is shrinking, but their absolute number is still increasing. The area cultivated by them has been diminishing for years. This is why the average size of the very small farms in Asia and Africa is shrinking. However, the size of agricultural firms in Europe, America and Australia is increasing while their number is drastically decreasing. Average numbers are obscuring the particularly extreme contrast between large and small farmers in Latin America. They also include, in North America and Europe, small farms which no longer provide subsistence for their owners. (graphics: www.weltagrabericht.de)

Security and Co-operation in Europe

Europe can redefine its role in the world

by Karl Müller, Germany

Twenty years after the times of radical political change in Europe, the Russian President *Dmitry Medvedev* drew up a new *European security agreement*. With this concept he has drawn on considerations, which had been seriously discussed during that time of radical change. Twenty years ago, politicians all over Europe had realized which chances opened up when large, heavily armed powers did not oppose each other in a hostile way but searched for co-operation, instead. Many responsible politicians all over Europe saw the chances of being able to create an overall European peace order based on mutual confidence and equal rights.

On 21 November 1990, government representatives of 32 European countries as well as the USA and Canada signed the *Charter of Paris*¹ which was passed on the occasion of the *Conference for Security and Co-operation in Europe* (CSCE, today OSCE). It was a public commitment to the creation of a peaceful order in Europe after the reunification of the two German states and the end of the east-west confrontation.

The solemn opening words of the Charter read: "We, the Heads of State or Government of the States participating in the Conference on Security and Co-operation in Europe, have assembled in Paris at a time of profound change and historic expectations. The era of confrontation and division of Europe has ended. We declare that henceforth our relations will be founded on respect and co-operation. Europe is liberating itself from the legacy of the past. The courage of men and women, the strength of the will of the peoples and the power of the ideas of the Helsinki Final Act have opened a new era of democracy, peace and unity in Europe. Ours is a time for fulfilling the hopes and expectations our peoples have cherished for decades: steadfast commitment to democracy based on human rights and fundamental freedoms; prosperity through economic liberty and social justice; and equal security for all our countries."

Assured in 1990: No eastward enlargement of NATO

In the course of the negotiations on the reunification of the two German states – meanwhile substantiated by numerous newly accessible documents (see *Der Spiegel*, Nr. 48 of 23 November 2009) – it was assured to the then Soviet leadership several times that there would be no eastern NATO enlargement.

In particular, the then German Minister of Foreign Affairs *Hans-Dietrich Genscher* (FDP) supported the demands for a comprehensive European peace solution involving Russia. In the mid-1990s, Genscher wrote in his memories that in 1990 his main concern had been "to reduce military confrontation by building cooperative security structures after the underlying political contrasts had disappeared more and more. The pan-European peace order [...] had to be aimed at decidedly."²

However, *Condoleezza Rice*, then female employee in the National Security Council of the US Government and later Foreign Secretary with war president *George W. Bush* had criticized Genscher for his attitude in her book "Sternstunden der Diplomatie", from the very beginning³. In her book she proudly reported how the position of the US American government was enforced against Genscher's wish.

Indeed: In the post 1990s, the US administration ignored all peoples' wishes and their appropriate plans for a radical change. After the collapse of the Soviet Union, the US administrations pursued their target to make the USA the only superpower. Russia's citizens were not supported in their efforts to developing the country but Russia was coated with a "shock strategy" (*Naomi Klein*) characterized by economic exsanguinations and predatory capitalism, consequently it descended into agony.

In 1997, the former security advisor of the US administration *Zbigniew Brzezinski* published his book "The Grand Chessboard. American Primacy and Its Geostategic Imperatives".

Friendly Relations among Participating States

"Now that a new era is dawning in Europe, we are determined to expand and strengthen friendly relations and co-operation among the States of Europe, the United States of America and Canada, and to promote friendship among our peoples. (...)

In accordance with our obligations under the Charter of the United Nations and commitments under the Helsinki Final Act, we renew our pledge to refrain from the threat or use of force against the territorial integrity or political independence of any State, or from acting in any other manner inconsistent with the principles or purposes of those documents.

We recall that non-compliance with obligations under the Charter of the United Nations constitutes a violation of international law.

We reaffirm our commitment to settle disputes by peaceful means. We decide to develop mechanisms for the prevention and resolution of conflicts among the participating States.

With the ending of the division of Europe, we will strive for a new quality in our security relations while fully respecting each other's freedom of choice in that respect. Security is indivisible and the security of every participating State is inseparably linked to that of all the others. We therefore pledge to co-operate

in strengthening confidence and security among us and in promoting arms control and disarmament. (...)

Our relations will rest on our common adherence to democratic values and to human rights and fundamental freedoms. We are convinced that in order to strengthen peace and security among our States, the advancement of democracy, and respect for and effective exercise of human rights, are indispensable. We reaffirm the equal rights of peoples and their right to self-determination in conformity with the Charter of the United Nations and with the relevant norms of international law, including those relating to territorial integrity of States.

We are determined to enhance political consultation and to widen co-operation to solve economic, social, environmental, cultural and humanitarian problems. This common resolve and our growing interdependence will help to overcome the mistrust of decades, to increase stability and to build a united Europe.

We want Europe to be a source of peace, open to dialogue and to co-operation with other countries, welcoming exchanges and involved in the search for common responses to the challenges of the future."

Excerpts from the Charter of Paris, 21 November 1990

Brzezinski plan: Russia must adapt to the rules of the West

Interestingly enough the German edition of the book includes a preface written by Genscher, in which he renounced any criticism of the book, but the sentence was added that "Stability on the Eurasian land mass could only be achieved together with, and not without or even against Russia".

Brzezinski however demanded from Russia to adapt to the transatlantic Europe "Europe of the enlarging EU and NATO" – hence a geopolitical constellation against the agreements of 1990 – and give up any independent policy. He even went as far as suggesting a division of Russia into three parts: a loosely connected Russia, "consisting of a European Russia, a Siberian republic and a far-eastern republic".

Only when *Vladimir Putin* was elected Russian President, Russian policy found its way back to more independence and self-confidence. With the co-operation of Russia new unions developed like the SCO (*Shanghai Cooperation Organization*) or BRIC (a loose union between Brazil, Russia, India and China), in order to counterbalance the imbalance in international relations.

Twenty years after the dissolution of the Eastern Bloc, it turned out that the superpower USA and its closest allies had overstrained their countries with two expensive and long-lasting wars in Iraq and Afghanistan and a world-wide financial crisis deprived the leading powers of the "West", i.e. the USA and Great Britain, of their former role as world economic centers.

Spiegel Online headlined on 9 December 2009, "Extreme economic weakness. UK Shrinks to Mini-power". And the USA are confronted "with the exhaustion of their imperial forces"⁴. US President *Barack Obama* openly had to admit the current dilemma of US politics in his speech on the future US policy in Afghanistan to US army cadets in West Point, on 1 December 2009. He also revealed the gross contradiction of US politics pointing to the threatening internal collapse of a deeply split society and the still existing efforts to remain a superpower.

The fantasies of the only superpower have shattered

At present, it cannot be said with certitude which politics the USA will pursue in the

coming years. It will depend on whether the US administration is able to adopt a realistic view of the conditions in today's world, or whether Brzezinski's and his dangerous concept of the "second chance"⁵ will be taken heed of. We may not forget, what US Foreign Secretary *Hillary Clinton* said in a hearing to the US Senate before her accession to office: "We must use what has been called 'smart power': the full range of tools at our disposal – diplomatic, economic, military, political, legal, and cultural – picking the right tool, or combination of tools, for each situation."⁶ Russia is aware of the situation, and energetically strives for a better economic structure – a structure which would also secure its own survival – and provide for all contingencies by modernizing and a rationalizing its military power.

Provided that the current development continues, it is very likely that the economic dominance of the Anglo-Saxon empire will come to an end. The "new drawing-card of world economy" are states such as Brazil, Russia, India and China, briefly BRIC – as was already said in an analysis of *Deutsche Welle* (German radio channel) on 28 August 2009. Before the end of last year, *Deutschlandfunk* said that the European economy adjusts itself increasingly to these countries as future principal trade partners and at the same time does no longer expect much of the USA or Great Britain.

At this point, the Russian President proposed his pan-European European Security Pact.

Opinions within the OSCE vary. The Greek Prime Minister *Papandreou* appreciated the draft proposal on the occasion of the OSCE conference in Athens on 1 December 2009: "Let's break the deadlock of mistrust. [...] We must renew our resolve to work together towards the convergence of our different strategic perspectives in order to restore confidence and trust among ourselves."⁷ (http://www.osce.org/publications/sg/2009/11/41439_1394_en.pdf) The Minister of State in the German Foreign Ministry, *Werner Hoyer* (FDP), welcomed Russia's effort in his speech to the OSCE meeting and promised: "The project merits detailed examination."

Much will depend on Europe's attitude. If the European Union continues to behave like an "influence agency of the USA" (*John*

Laughland, see *Zeit-Fragen*, No. 50/51 of 22 December 2009), it ignores Europe's most characteristic interests. A worsening of the Russian-American conflicts cannot be in European interests whether now in Central Asia which is rich in energy resources or perhaps around the Caspian Sea or maybe even in Europe itself. Europe is well advised not to think in Cold War categories any longer and not to further the propaganda against Russia. Europe can find a new role: as a promising veto power against renewed US-imperialistic plans and as a mediator between East and West, with realistic relations to the USA and Russia on the foundations of common security.

The gate to an independent European policy has opened

The gate to an independent European policy has opened. The US-dominated European postwar order – including not only the Cold War, but also the supranational compulsory unification of European states up to today's European Union – is gradually running out. Not only in the Third and the Second World – which *Peter Scholl-Latour* shows in his latest book⁷ – people have realized that the US-American policy, its management and the social order in the 20th century have been and still are a historical mistake. The peoples of Europe, too, begin to realize this and want to breathe more freely. However, where should the first steps to a greater European independence be taken? Should they not be taken where it has become obvious that subordination under US standards threatens to destroy central European humanistic values or has already done so? In that case we have to think things over in all their contexts – from the education of our children up to peace in Europe and the world.

¹ http://www.osce.org/documents/mcs/1990/11/4045_en.pdf

² Hans-Dietrich Genscher. *Erinnerungen*, 1995, p. 712

³ Philip Zelikow, Condoleezza Rice. *Sternstunden der Diplomatie. Die deutsche Einheit und das Ende der Spaltung Europas*, Berlin 1997

⁴ In summer 2008, *Hauke Ritz* formulated an analysis which is very worth reading, "Die Welt als Schachbrett – Der neue Kalte Krieg des Obama-Beraters Zbigniew Brzezinski" (The world as chessboard – the new cold war of the Obama advisor Zbigniew Brzezinski), unabridged at www.hintergrund.de

⁵ The title of his 2008 second geostrategic book "Second Chance: Three Presidents and the Crisis of American Superpower"

⁶ <http://foreign.senate.gov/testimony/2009/ClintonTestimony090113a.pdf>

⁷ Peter Scholl-Latour, *Die Furcht des Weissen Mannes. Ein Abgesang*, Berlin 2009

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Draft for a European Security Treaty

On June 5, 2008, the President of Russia put forward an initiative to develop a new pan-European security treaty, the main idea of which is to create – in the context of military and political security in the Euro-Atlantic region – a common undivided space in order to finally do away with the Cold War legacy. In view of this Dmitry Medvedev suggested formalising in the international law the principle of indivisible security as a legal obligation pursuant to which no nation or international organisation operating in the Euro-Atlantic region is entitled to strengthen its own security at the cost of other nations or organisations.

Based on the results of discussions that have taken place in the last year at various venues, Russia has prepared a draft European Security treaty. The Russian President has sent this draft to the heads of relevant states and to chief executives of international organisations operating in the Euro-Atlantic region such as NATO, the European Union, the CSTO, the CIS, and the OSCE. Dmitry Medvedev emphasised that Russia is open to any proposals on the subject matter of its initiative and counts on the positive response from its partners and the beginning of a substantial discussion on specific elements of the draft treaty, which text is given below.*

The Parties to this Treaty,

Desiring to promote their relations in the spirit of friendship and cooperation in conformity with international law,

Guided by the principles set forth in the Charter of the United Nations, Declaration on Principles of International Law concerning Friendly Relations and Cooperation among States in accordance with the Charter of the United Nations (1970), Helsinki Final Act of the Conference for Security and Cooperation in Europe (1975), as well as provisions of the Manila Declaration on the Peaceful Settlement of International Disputes (1982) and Charter for European Security (1999),

Reminding that the use of force or the threat of force against the territorial integrity or political independence of any state, or in any other way inconsistent with the goals and principles of the Charter of the United Nations is inadmissible in their mutual relations, as well as international relations in general,

Acknowledging and supporting the role of the UN Security Council, which bears the primary responsibility for maintaining international peace and security,

Recognizing the need to join efforts in order to respond effectively to present-day security challenges and threats in the globalized and interdependent world,

Intending to build effective cooperation mechanisms that could be promptly activated with a view to solving issues or differences that might arise, addressing concerns and adequately responding to challenges and threats in the security sphere,

Have agreed as follows:

Article 1

According to the Treaty, the Parties shall cooperate with each other on the basis of the principles of indivisible, equal and undiminished security. Any security measures taken by a Party to the Treaty individually or together with other Parties, including in the framework of any international organization, military alliance or coalition, shall be implemented with due regard to security interests of all other Parties. The Parties shall act in accordance with the Treaty in order to give effect to these principles and to strengthen security of each other.

Article 2

1. A Party to the Treaty shall not undertake, participate in or support any actions

or activities affecting significantly security of any other Party or Parties to the Treaty.

2. A Party to the Treaty which is a member of military alliances, coalitions or organizations shall seek to ensure that such alliances, coalitions or organizations observe principles set forth in the Charter of the United Nations, Declaration on Principles of International Law concerning Friendly Relations and Cooperation among States in accordance with the Charter of the United Nations, Helsinki Final Act, Charter for European Security and other documents adopted by the Organization for Security and Cooperation in Europe, as well as in Article 1 of this Treaty, and that decisions taken in the framework of such alliances, coalitions or organizations do not affect significantly security of any Party or Parties to the Treaty.

3. A Party to the Treaty shall not allow the use of its territory and shall not use the territory of any other Party with the purpose of preparing or carrying out an armed attack against any other Party or Parties to the Treaty or any other actions affecting significantly security of any other Party or Parties to the Treaty.

Article 3

1. A Party to the Treaty shall be entitled to request, through diplomatic channels or the Depositary, any other Party to provide information on any significant legislative, administrative or organizational measures taken by that other Party, which, in the opinion of the Requesting Party, might affect its security.

2. Parties shall inform the Depositary of any requests under para.1 of this Article and of responses to them. The Depositary shall bring that information to the attention of the other Parties.

3. Nothing in this Article prevents the Parties from undertaking any other actions to ensure transparency and mutual trust in their relations.

Article 4

The following mechanism shall be established to address issues related to the substance of this Treaty, and to settle differences or disputes that might arise between the Parties in connection with its interpretation or application:

- Consultations among the Parties;
- Conference of the Parties;
- Extraordinary Conference of the Parties.

Article 5

1. Should a Party to the Treaty determine that there exists a violation or a threat of violation of the Treaty by any other Party or Parties, or should it wish to raise with any other Party or Parties any issue relating to the substance of the Treaty and requiring, in its opinion, to be considered jointly, it may request consultations on the issue with the Party or Parties which, in its opinion, might be interested in such consultations. Information regarding such a request shall be brought by the Requesting Party to the attention of the Depositary which shall inform accordingly all other Parties.

2. Such consultations shall be held as soon as possible, but not later than [...] days from the date of receipt of the request by the relevant Party unless a later date is indicated in the request.

3. Any Party not invited to take part in the consultations shall be entitled to participate on its own initiative.

Article 6

1. Any participant to consultations held under Article 5 of this Treaty shall be entitled, after having held the consultations,

to propose the Depositary to convene the Conference of the Parties to consider the issue that was the subject of the consultations.

2. The Depositary shall convene the Conference of the Parties, provided that the relevant proposal is supported by not less than (two) Parties to the Treaty, within [...] days from the date of receipt of the relevant request.

3. The Conference of the Parties shall be effective if it is attended by at least two thirds of the Parties to the Treaty. Decisions of the Conference shall be taken by consensus and shall be binding.

4. The Conference of the Parties shall adopt its own rules of procedure.

Article 7

1. In case of an armed attack or a threat of such attack against a Party to the Treaty, immediate actions shall be undertaken in accordance with Article 8(1) of the Treaty.

2. Without prejudice to the provisions of Article 8 of the Treaty, every Party shall be entitled to consider an armed attack against any other Party an armed attack against itself. In exercising its right of self-defense under Article 51 of the Charter of the United Nations, it shall be entitled to render the attacked Party, subject to its consent, the necessary assistance, including the military one, until the UN Security Council has taken measures necessary to maintain international peace and security. Information on measures taken by Parties to the Treaty in exercise of their right of self-defense shall be immediately reported to the UN Security Council.

Article 8

1. In cases provided for by Article 7 of this Treaty, the Party which has been attacked or threatened with an armed attack shall bring that to the attention of the Depositary which shall immediately convene an Extraordinary Conference of the Parties to decide on necessary collective measures.

2. If the Party which became subject to an armed attack is not able to bring that to the attention of the Depositary, any other Party shall be entitled to request the Depositary to convene an Extraordinary Conference of the Parties, in which case the procedure provided for in Para.1 of this Article shall be applied.

3. The Extraordinary Conference of the Parties may decide to invite third states, international organizations or other concerned parties to take part in it.

4. The Extraordinary Conference of the Parties shall be effective if it is attended by at least four fifths of the Parties to the Treaty. Decisions of the Extraordinary Conference of the Parties shall be taken by unanimous vote and shall be binding. If an armed attack is carried out by, or a threat of such attack originates from a Party to the Treaty, the vote of that Party shall not be included in the total number of votes of the Parties in adopting a decision.

The Extraordinary Conference of the Parties shall adopt its own rules of procedure.

Article 9

1. This Treaty shall not affect and shall not be interpreted as affecting the primary responsibility of the UN Security Council for maintaining international peace and security, as well as rights and obligations of the Parties under the Charter of the United Nations.

2. The Parties to the Treaty reaffirm that their obligations under other international agreements in the area of security,

which are in effect on the date of signing of this Treaty are not incompatible with the Treaty.

3. The Parties to the Treaty shall not assume international obligations incompatible with the Treaty.

4. This Treaty shall not affect the right of any Party to neutrality.

Article 10

This Treaty shall be open for signature by all States of the Euro-Atlantic and Eurasian space from Vancouver to Vladivostok as well as by the following international organizations: the European Union, Organization for Security and Cooperation in Europe, Collective Security Treaty Organization, North Atlantic Treaty Organization and Community of Independent States in ... from ... to ...

Article 11

1. This Treaty shall be subject to ratification by the signatory States and to approval or adoption by the signatory international organizations. The relevant notifications shall be deposited with the government of ... which shall be the Depositary.

2. In its notification of the adoption or approval of this Treaty, an international organization shall outline its sphere of competence regarding issues covered by the Treaty.

It shall immediately inform the Depositary of any relevant changes in its sphere of competence.

3. States mentioned in Article 10 of this Treaty which did not sign the Treaty during the period indicated in that Article may accede to this Treaty by depositing the relevant notification with the Depositary.

Article 12

This Treaty shall enter into force ten days after the deposit of the twenty fifth notification with the Depositary in accordance with Article 11 of the Treaty.

For each State or international organization which ratifies, adopts or approves this Treaty or accedes to it after the deposit of the twenty fifth notification of ratification, adoption, approval or accession with the Depositary, the Treaty shall enter into force on the tenth day after the deposit by such State or organization of the relevant notification with the Depositary.

Article 13

Any State or international organization may accede to this Treaty after its entry into force, subject to the consent of all Parties to this Treaty, by depositing the relevant notification with the Depositary.

For an acceding State or international organization, this Treaty shall enter into force 180 days after the deposit of the instrument of accession with the Depositary, provided that during the said period no Party notifies the Depositary in writing of its objections against such accession.

Article 14

Each Party shall have the right to withdraw from this Treaty should it determine that extraordinary circumstances pertaining to the substance of the Treaty have endangered its supreme interests. The Party intending to withdraw from the Treaty shall notify the Depositary of such intention at least ... days in advance of the planned withdrawal. The notification shall include a statement of extraordinary circumstances endangering, in the opinion of that Party, its supreme interests.

Source: <http://eng.kremlin.ru/text/docs/2009/11/223072.shtml>
Draft for a European Security Treaty,
29 November, 2009
(Unofficial translation)

*Source: <http://eng.kremlin.ru/text/news/2009/11/223078.shtml>

The Right to Self-Determination

A small mountain commune chooses to remain autonomous

Interview with Andrea Nold, commune president of Conters/Prättigau in the Swiss canton Grisons



Commune president Andrea Nold. (picture rc)

rc. On 11 December 2009, the communal assembly of the Swiss commune Conters in Prättigau debated the topic of a merger, leading to a surprisingly courageous result: the present electors agreed that there was no urge to merge with other communes and that they wanted to stay independent as long as possible. In the following interview with the commune president Andrea Nold, we asked him for the reasons for this clear position. He had moved to this commune 23 years ago in order to live in a small autonomous mountain village where structures allow more participation. He has been president of the commune council for four years now. Like the other members of the council, he is not member of a party.

With its 235 inhabitants, Conters is a typical mountain commune which has developed in the 20th century. Just like in other Grison valleys, the commune has developed from a commune of farmers to a modern commune with a high quality of life. At the beginning of the past century, Conters bought Alp Parsenn. Since it could make use of its resources in woods, the commune did not have to collect commune tax until the seventies. Then, since it was late in introducing a commune tax, the commune ran into financial difficulties and it was not before the 1990s that it could be put back on a sound financial base, also due to support from its partner communities Embrach and Russikon.

Today, with its slowly rising number of inhabitants, with a primary school including a day school, a privately organized children's day care, one restaurant in the village and three in the ski resort, Conters is a lively and attractive commune facing the future with optimism. This is also due to its sound financial situation with a low tax rate of 70%¹, owing to profitable building laws agreements signed with the Parsenn cable car project and to the water tax.

Current Concerns: The Conters communal assembly discussed the merger of communes on 11 December 2009. What was the reason for this?

Andrea Nold: Like in other places, there is much discussion about political structural reform. So the canton is promoting commune mergers with consulting and lavish one-time payments. Additionally, there is the pressure from the projected SP (Social Democratic Party) initiative "50 communities are enough" (currently, there are nearly 200 communities in Grisons). I do not understand the motivation of a party to advocate for such a structural reform which will eventually reduce democracy. For me, democracy is if the citizens say what they want and politics implements it. It is a conflict between to concepts: either a structure which grants people as much participation as possible or a structure in which the people at the top set the agenda. There is no balance between advantages and drawbacks on the various levels. At the communal assembly, we were discussing this in a committed and open way and now we have an idea of the electors' opinion. On this ground, we can position ourselves in talks with neighboring communes and the canton. This is even more important since several merger intentions were uttered in our valley.

The merger proponents claim that it is difficult to find people willing to work on a voluntary basis in political positions and other



"The small-scale structure allows people to participate personally in shaping their political home, their living space and, eventually, their quality of life." (picture rc)

projects. What is the situation like in your commune?

As a rule, we have no problem in finding good candidates for communal posts. This has to do with the fact that people identify with their commune and thus accept and support the authorities. There is hardly any party politics in our administration. The motivation to take over a post is the attempt to shape the village life into a space of high-quality politics, society and infrastructure. In a small commune, relatively many people are participating in the political decision making process which means that there is a broad responsibility.

How do you find people for the various tasks in the commune?

Through personal contact. People in the village know each other and everyone's capabilities. So there is hardly a lack of proposals. Each person taking over a function fulfills the duty according to his or her capabilities.

Commune mergers are said to be cheaper for the taxpayer.

This claim has even been questioned from official quarters. It would hardly apply for our commune. A merger would increase bureaucracy and procedures would become more expensive with officials who do not know the conditions in the village.

In addition to this, a lot of work is done by volunteers or for only little money. Many tasks like educational institutions, fire brigade, health system, waste disposal etc. are already accomplished in cooperation with neighboring communes. There is not much potential for savings in this.

In infrastructure, savings could only be realized with reduced quality. We have always been striving to support a useful and sustainable infrastructure.

If the target was to reduce costs by all means, we would have to realize concepts like the one proposed by the *Avenir Suisse*

think tank, advertising a cutback in structures and depopulation in remote mountain valleys. This, however, would mean to give up the diversity which is so typical for our canton.

What do you consider to be the advantages of a commune maintaining its independence? What do you expect from it?

The small-scale structure allows people to take a personal interest and thus shape their political home, their space to live and, eventually, their quality of life. It is a give and take which creates solidarity and allows people to experience self-confidence.

How does the youth identify with the commune?

This is a difficult question. In conversations, the youth express that they stand by their commune and that they are proud of it. Due to the increased mobility in the past years, the youth could extend their activities to a greater radius. It is hard to predict what the future is going to look like and how many of them will stay in the commune later. A strong and authentic commune will continue to be attractive in the future.

What will you do when all neighboring communes will merge and the canton increases the pressure?

It is difficult to predict how we will resist. However, my wish is an open discussion about all the consequences of mergers. As long as the problem is only dealt with on the level of administrative advantages and all undisputed drawbacks of mergers are suppressed, I will try to contribute to the discussion with the opinions and issues of our commune. We will definitely not yield without fighting. The question how other communes in the canton will react on a loss of their autonomy will be essential for our strategy.

If a merger cannot be avoided, we will try to make the best of it and do everything to keep the historically developed commune alive. But, in any case we would consider it to be an intrusion into the autonomy of communities and the freedom of citizens.

Thank you very much for the interview. Thank you.

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¹ Swiss communes can decide on their tax level independently; it is set in relation to cantonal taxes as percentage of the so-called simple state tax, i.e. the tax of the canton, which is 100%.