

Current Concerns

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“Freefall”

From the failure of the markets to the re-organization of the world economy

by Joseph E. Stiglitz

cc. The economic crisis, which we have experienced since the autumn of 2008, bears worldwide consequences. The threatening insolvency of different states constitutes its preliminary climax. A sustainable recovery of the economy is nowhere in sight.

Alarmed by the devastating effects of this crisis, especially for the developing countries, and because they did not agree with the fast solutions of a few G 20 countries, the then president of the UN General Assembly Miguel d'Escoto Brockmann together with Joseph Stiglitz summoned a UN crisis summit last summer. Its central topic was that the crisis concerned the entire international community and thus all peoples were to be included equally in the search for a solution. Many ideas of the report, which Stiglitz and others had compiled in a preparatory commission, were discussed at this crisis summit and submitted in a final declaration. The Stiglitz report called for fundamental reforms of the international financial markets, among them a representative World Economy Council as well as national control on capital movement. This attempt had then been rejected by the industrialized countries.

It is all the more pleasant that Joseph Stiglitz has now published his book “Freefall: America, Free Markets and the Sinking of the World Economy”, in which he describes in an understandable and humane way and borne by the respect for the nation states and their sovereignty, how he envisages the crisis and its causes from the inside of the events. The wars starting in the 1990s and their immense costs requiring an artificial inflation of money (see “The true costs of war”), the devastating effects of conditions for the Third World (see “The shadow of globalization”), deregulation and uncontrolled markets, wrong incentives and unfair distribution of wealth – they have all brought the world to the brink of the abyss.

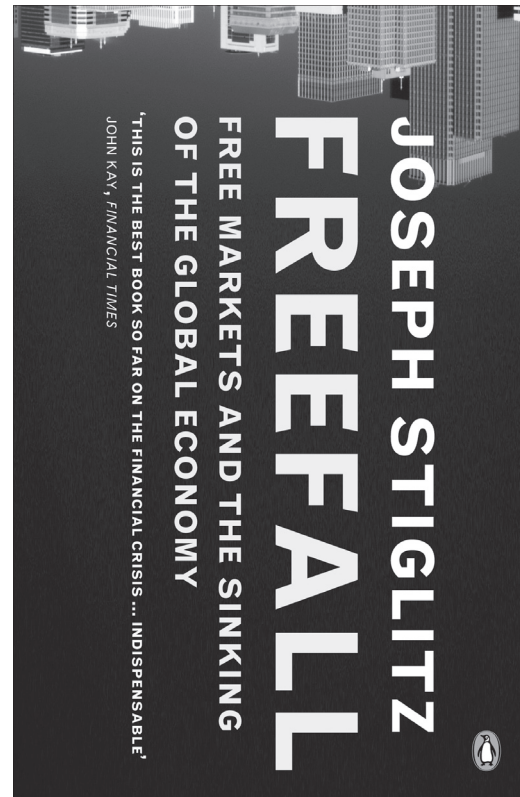
Instead of proposing hectic measures, Stiglitz invites us to share with him a comprehensive thinking. With a pleasant calmness and inspired by the desire to avoid future crises, Stiglitz presents the task of the future – which we all face – in its entire complexity. He also invites us to search for suitable and humane solutions: After everything has failed, we face a new task, which requires a contribution of all forces; even the reader is asked to share the responsibility. Without any individual accusation and with an openness that reveals humane greatness, he lists up the omissions and wrong decisions, which led to today's disaster. The question arises, how individual countries can regain their sovereignty, and how a consent can be achieved, so that they may address the task in a common effort.

In the following, we print the preface to his book and wish it a great readership: The book can be understood by each attentive reader.

To my students, from whom I have learned so much, in the hope that they will learn from our mistakes.

In the great recession that began in 2008, millions of people in America and all over the world lost their homes and jobs. Many more suffered the anxiety and fear of doing so, and almost anyone who put away money for retirement or a child's education saw those investments dwindle to a fraction of their value. A crisis that began in America soon turned global, as tens of millions lost their jobs worldwide – 20 million in China alone – and tens of millions fell into poverty.¹

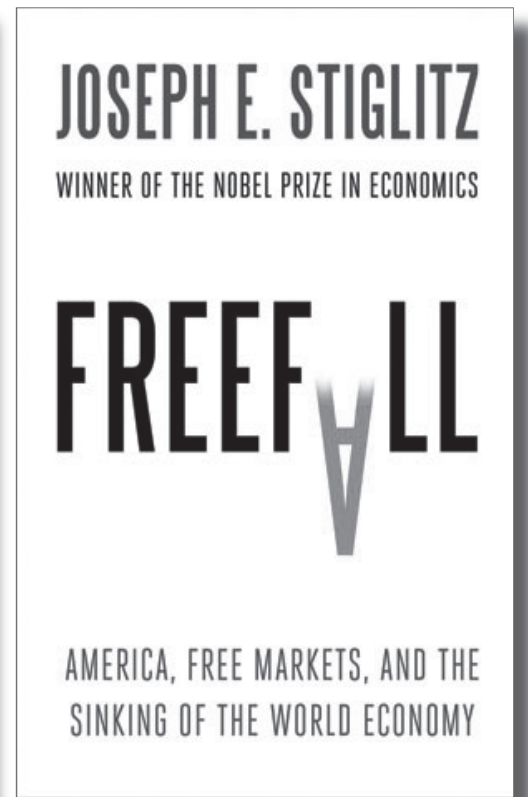
This is not the way things were supposed to be. Modern economics, with its faith in free markets and globalization, had promised prosperity for all. The much-touted New Economy – the amazing innovations that



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marked the latter half of the twentieth century, including deregulation and financial engineering – was supposed to enable better risk management, bringing with it the end of the business cycle. If the combination of the New Economy and modern economics had not eliminated economic fluctuations, at least it was taming them. Or so we were told.

The Great Recession – clearly the worst downturn since the Great Depression seventy-five years earlier – has shattered these illusions. It is forcing us to rethink long-cherished views. For a quarter century, certain free market doctrines have prevailed: Free and unfettered markets are efficient; if they make mistakes, they quickly correct them. The best government is a small government, and regu-



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lation only impedes innovation. Central banks should be independent and only focus on keeping inflation low. Today even the high priest of that ideology, Alan Greenspan, the chairman of the Federal Reserve Board during the period in which these views prevailed, has admitted that there was a flaw in this reasoning – but his confession came too late for the many who have suffered as a consequence.

This book is about a battle of ideas, about the ideas that led to the failed policies that precipitated the crisis and about the lessons that we take away from it. In time, every crisis ends. But no crisis, especially one of this severity, passes without leaving a legacy. The

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The Euro Sunk Into a Mire of Debt

As in former times, when the French Revolution was about to trigger off, European politicians have currently lost all sense for the rights, sorrows, and expectations of their citizens. People do need an economically sound basis for their work, their savings, and their planning for life as well as for their future, i.e. stable money.

It is the indispensable foundation of a society of free citizens. Whenever this is missing, democracy, the state based on the rule of law, market economy and the social system are bound to disintegrate and the civil society collapses. At all times, the devaluation of money has always been the source and consequence of such a catastrophe, as we, the citizens, know from bitter experience. Hence, the European political class obviously does not. This experience must have gone astray, just like 200 years ago at the royal court and in the aristocracy of France's Sun King. How else can we explain that these politicians give priority to the remaining few notorious monetary sinners in the Euro zone (Greece is not the only one) against the monetary stability?

What is going on in the minds of politicians, who, over night, decide on a “bail-out” of 750 billion euros, which trans-

forms old debts into new ones? However, these bailouts do not rescue states but their financial backers – the banks. Where do the funds come from? Taxpayers and the currency's guardians compensate for it: the European Central Bank (ECB) and the International Monetary Fund (IMF) abandon their independence. They turn into state bankers. They breach their statutes and provide fresh “inflationary” funds to allow for the purchase of state debts. But the biggest and most obvious lie is that the indebted countries will henceforth be put in a position to reimburse each cent of this credit. The underlying conditions of the so-called help will render it impossible. Greece and all the other Euro-countries are up to their knees in the mud of the crisis so that they will not be able to pay off their debts. Just as if there were no alternatives to set indebted countries and banks back on their feet. Repeatedly and in depth, we have pointed out to the fact that Greece and the other problem countries have to leave the Euro zone. Since, only beyond the conditions in the Euro zone, they may be able to reorganize – like many other European countries. Why block their way? They resort to their old currency and de-

valuate it. Thus they regain their international competitiveness. If more tourists are coming to Greece, it can gain on foreign exchange and pay off its legacy debts. An international debtors' conference shall negotiate Greece's old debts. Banks have to dispense of their claims, at least partially. They knew that higher interest rates are inextricably linked with higher risks.

How can last weekend's outbreak of European political hustle and bustle be explained? Have politicians lost their minds? Do they really believe in regaining confidence of people and markets by inflationary excess? The bigger and more fantastic the dimensions of these bailout programmes become, the cooler the markets are going to calculate their inflationary gains, i.e. the speculations of the monetary devaluation and the subsequent purchase of self-devaluating assets!

When, more than 200 years ago, at the beginning of the French Revolution, an inflation was triggered off, the rulers had lost all contact with the people and reality. In France, the court freed itself from the debts with the help of a dubious banker by the name of John Law. His

name became a symbol of the fatal connection between high finance and politics that destroys any public welfare. Is history repeating itself under the banner of Europe?

The signatories have filed a petition with Germany's Federal Constitutional Court, which is to scrutinize the bailouts legal intent presented in the name of Europe. Its economic explosive content is evident anyhow, like the ticking of a time bomb. Defusing it in court is not enough. The public has to go along. This is the reason for our appeal. Because it is clear: The monetary union is turning into a community liability as Europe's politicians crush the legal basis of the community's currency. It initiates and keeps going an inflationary merry-go-round. And this would mean the end of the European dream. We urgently have to avert that.

Wilhelm Hankel, Wilhelm Nölling,
Karl Albrecht Schachtschneider,
Dieter Spethmann, Joachim Starbatty

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legacy of 2008 will include new perspectives on the long-standing conflict over the kind of economic system most likely to deliver the greatest benefit. The battle between capitalism and communism may be over, but market economies come in many variations and the contest among them rages on.

I believe that markets lie at the heart of every successful economy but that markets do not work well on their own. In this sense, I’m in the tradition of the celebrated British economist John Maynard Keynes, whose influence towers over the study of modern economics. Government needs to play a role, and not just in rescuing the economy when markets fail and in regulating markets to prevent the kinds of failures we have just experienced. Economies need a balance between the role of markets and the role of government – with important contributions by non-market and nongovernmental institutions. In the last twenty-five years, America lost that balance, and it pushed its unbalanced perspective on countries around the world.

“I believe that markets lie at the heart of every successful economy but that markets do not work well on their own.”

This book explains how flawed perspectives led to the crisis, made it difficult for key private-sector decision makers and public-sector policymakers to see the festering problems, and contributed to policymakers’ failure to handle the fallout effectively. The length of the crisis will depend on the policies pursued. Indeed, mistakes already made will result in the downturn being longer and deeper than it otherwise would have been. But managing the crisis is only my first concern; I am also concerned about the world that will emerge after the crisis. We won’t and can’t go back to the world as it was before.

Before the crisis, the United States, and the world generally, faced many problems, not the least of which was that of adapting to climate change. The pace of globalization was forcing rapid changes in economic structure, stretching the coping capacity of many economies. These challenges will remain, in mag-

nified form, after the crisis, but the resources that we have to deal with then will be greatly diminished.

The crisis will, I hope, lead to changes in the realm of policies *and* in the realm of ideas: If we make the right decisions, not merely the politically or socially expedient ones, we will not only make another crisis less likely, but perhaps even accelerate the kinds of real innovations that would improve the lives of people around the world. If we make the wrong decisions, we will emerge with a society more divided and an economy more vulnerable to another crisis and less well equipped to meet the challenges of the twenty-first century. One of the purposes of this book is to help us understand better the post-crisis global order that eventually will arise and how what we do today will help shape it for better or for worse.

“Economies need a balance between the role of markets and the role of government – with important contributions by nonmarket and nongovernmental institutions.”

One might have thought that with the crisis of 2008, the debate over market fundamentalism – the notion that unfettered markets by themselves can ensure economic prosperity and growth – would be over. One might have thought that no one ever again – or at least until memories of this crisis have receded into the distant past – would argue that markets are self-correcting and that we can rely on the self-interested behavior of market participants to ensure that everything works well.

Those who have done well by market fundamentalism offer a different interpretation. Some say our economy suffered an “accident”, and accidents happen. No one would suggest that we stop driving cars just because of an occasional collision. Those who hold this position want us to return to the world before 2008 as quickly as possible. The bankers did nothing wrong, they say.² Give the banks the money they ask for, tweak the regulations a little bit, give a few stern lectures to the regulators not to let the likes of Bernie Madoff get away with fraud again, add a few

more business school courses on ethics, and we will emerge in fine shape.

This book argues that the problems are more deep-seated. Over the past twenty-five years this supposedly self-regulating apparatus, our financial system, has repeatedly been rescued by the government. From the system’s survival, we drew the wrong lesson – that it was working on its own. Indeed, our economic system hadn’t been working so well for most Americans before the crisis. Somebody was doing well, but it was not the average American.

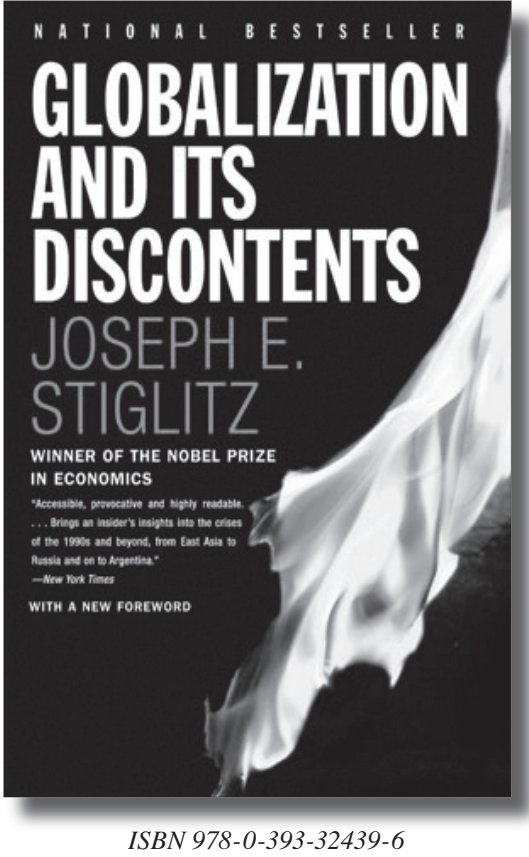
An economist looks at a crisis in the same way a doctor approaches disease pathology: both learn much about how things work normally by seeing what happens when things are not normal. As I approached the crisis of 2008, I felt I had a distinct advantage over other observers. I was, in a sense, a “crisis veteran”, a crisologist. This was not the first major crisis in recent years. Crises in developing countries have occurred with an alarming regularity – by one count, 124 between 1970 and 2007.³ I was chief economist at the World Bank at the time of the last global financial crisis, in 1997-1998. I watched a crisis that began in Thailand spread to other countries in East Asia and then to Latin America and Russia. It was a classic example of contagion – a failure in one part of the global economic system spreading to other parts. The full consequences of an economic crisis may take years to manifest themselves. In the case of Argentina, the crisis began in 1995, as part of the fallout from Mexico’s own crisis, and was exacerbated by the East Asian crisis of 1997 and the Brazilian crisis of 1998, but the full collapse didn’t take place until late 2001.

“Back in 1997, I watched in horror as the U.S. Treasury and the International Monetary Fund (IMF) responded to the East Asian crisis by proposing a set of policies that harkened back to the misguided policies associated with President Herbert Hoover during the Great Depression and were bound to fail.”

Economists might feel proud about the advances in economic science over the seven decades since the Great Depression, but that doesn’t mean that there has been unanimity about how crises should be handled. Back in 1997, I watched in horror as the U.S. Treasury and the International Monetary Fund (IMF) responded to the East Asian crisis by proposing a set of policies that harkened back to the misguided policies associated with President Herbert Hoover during the Great Depression and were bound to fail.

There was, then, a sense of déjà vu as I saw the world slipping once again into a crisis in 2007. The similarities between what I saw then and a decade earlier were uncanny. To mention but one, the initial public denial of the crisis: ten years earlier, the U.S. Treasury and the IMF had at first denied that there was a recession / depression in East Asia. Larry Summers, then Undersecretary of Treasury and now President Obama’s chief economic adviser, went ballistic when Jean-Michel Severino, then the World Bank’s vice president for Asia, used the R-word (Recession) and the D-word (Depression) to describe what was happening. But how else would one describe a downturn that left 40 percent of those in Indonesia’s central island of Java unemployed?

So too in 2008, the Bush administration at first denied there was any serious problem. We had just built a few too many houses, the president suggested.⁴ In the early months of the crisis, the Treasury and the Federal Reserve veered like drunk drivers from one course to another, saving some banks while letting others go down. It was impossible to discern the principles behind their decision making. Bush administration officials argued that they were being pragmatic, and to be fair, they were in uncharted territory.



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As the clouds of recession began to loom over the U.S. economy in 2007 and early 2008, economists were often asked whether another depression, or even deep recession, was possible. Most economists instinctively replied, NO! Advances in economic science – including knowledge about how to manage the global economy – meant that such a catastrophe seemed inconceivable to many experts. Yet, ten years ago, when the East Asian crisis happened, we had failed, and we had failed miserably.

Incorrect economic theories not surprisingly lead to incorrect policies, but, obviously, those who advocated them thought they would work. They were wrong. Flawed policies had not only brought on the East Asian crisis of a decade ago but also exacerbated its depth and duration and left a legacy of weakened economies and mountains of debt. The failure ten years ago was also partly a failure of global politics. The crisis struck in the developing countries, sometimes called the “periphery” of the global economic system. Those running the global economic system were not so much worried about protecting the lives and livelihoods of those in the affected nations as they were in preserving Western banks that had lent these countries money. Today, as America and the rest of the world struggle to restore their economies to robust growth, there is again a failure of policy and politics.

“Incorrect economic theories not surprisingly lead to incorrect policies [...]”

Freefall

When the world economy went into freefall in 2008, so too did our beliefs. Long-standing views about economics, about America, and about our heroes have also been in freefall. In the aftermath of the last great financial crisis, *Time* magazine on February 15, 1999, ran a cover picture of Federal Reserve Chairman Alan Greenspan and Treasury Secretary Robert Rubin, who were long given credit for the boom in the 1990s, together with their protégé Larry Summers. They were labeled the “Committee to Save the World,” and in the popular mindset they were thought of as supergods. In 2000, the best-selling investigative journalist Bob Woodward wrote a Greenspan hagiography entitled *Maestro*.⁵

Having seen firsthand the handling of the East Asian crisis, I was less impressed than *Time* magazine or Bob Woodward. To me, and to most of those in East Asia, the policies foisted on them by the IMF and the U.S. Treasury at the behest of the “Committee to Save the World” had made the crises far worse than they otherwise would have been. The policies showed a lack of understanding of the fundamentals of modern macroeconomics, which call for expansionary monetary and fiscal policies in the face of an economic downturn.⁶

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Joseph E. Stiglitz



Joseph E. Stiglitz (photo priv.)

Economic scientist, became a full professor at Yale in 1970. He has taught at Princeton, Stanford, MIT and is now University Professor at Columbia University in New York and at the French *Ecole Polytechnique* and the *Institut d'études politiques de Paris*. Stiglitz was a member of the Council of Economic Advisers from 1993-95, during the Clinton administration, and served as CEA chairman from 1995-97. He then became Chief Economist and Senior Vice-President of the World Bank. Disagreement over it course made him resign in 2000.

In 2001, he was awarded the Nobel Prize in economics for his analyses of markets with asymmetric information, together with George A. Akerlof and Michael Spence.

He is a co-founder of the *Institute for New Economic Thinking (INET)*, which was founded in October 2009 for the purpose of developing new approaches to economics.

Chair of Columbia University’s Committee on Global Thought, co-founder and President of the Initiative for Policy Dialogue (IPD).

Chair of the Management Board and Director of Graduate Summer Programs, Brooks World Poverty Institute, University of Manchester.

President Elect of the International Economic Association.

Chair of the Commission of Experts of the President of the United Nations General Assembly on Reforms of the International Monetary and Financial System.

Recognized around the world as a leading economic educator, he has written textbooks that have been translated into more than a dozen languages. He founded one of the leading economics journals, *The Journal of Economic Perspectives*. His book *Globalization and Its Discontents* (W.W. Norton June 2001) has been translated into 35 languages, besides at least two pirated editions, and in the non-pirated editions has sold more than one million copies worldwide. Other recent books include *The Roaring Nineties* (W.W. Norton), *Towards a New Paradigm in Monetary Economics* (Cambridge University Press) with Bruce Greenwald, *Fair Trade for All* (Oxford University Press), with Andrew Charlton, and *Making Globalization Work*, (WW Norton and Penguin/ Allen Lane, September 2006). His most recent book, *The Three Trillion Dollar War: The True Cost of the Iraq Conflict*, with Linda Bilmes of Harvard University, was published in March 2008 by WW Norton and Penguin/ Allen Lane. His newest book, *Freefall: America, Free Markets, and the Sinking of the World Economy*, was published in January 2010 by WW Norton and Penguin/ Allen Lane.

Source: <http://www2.gsb.columbia.edu/faculty/jstiglitz/index.cfm>

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As a society, we have now lost respect for our long-standing economic gurus. In recent years, we had turned to Wall Street as a whole – not just the demigods like Rubin and Greenspan – for advice on how to run the complex system that is our economy. Now, who is there to turn to? For the most part, economists have been no more helpful. Many of them had provided the intellectual armor that the policymakers invoked in the movement toward deregulation.

“As a society, we have now lost respect for our long-standing economic gurus.”

Unfortunately, attention is often shifted away from the battle of ideas toward the role of individuals: the villains that created the crisis, and the heroes that saved us. Others will write (and in fact have already written) books that point fingers at this policymaker or another, this financial executive or another, who helped steer us into the current crisis. This book has a different aim. Its view is that essentially all the critical policies, such as those related to deregulation, were the consequence of political and economic “forces” – interests, ideas, and ideologies – that go beyond any particular individual.

When President Ronald Reagan appointed Greenspan chairman of the Federal Reserve in 1987, he was looking for someone committed to deregulation. Paul Volcker, who had been the Fed chairman previously, had earned high marks as a central banker for bringing the U.S. inflation rate down from 11.3 percent in 1979 to 3.6 percent in 1987.7 Normally, such an accomplishment would have earned automatic reappointment. But Volcker understood the importance of regulations, and Reagan wanted someone who would work to strip them away. Had Greenspan not been available for the job, there were plenty of others able and willing to assume the deregulation mantle. The problem was not so much Greenspan as the deregulatory ideology that had taken hold.

While this book is mostly about economic beliefs and how they affect policies, to see the link between the crisis and these beliefs, one has to unravel what happened. This book is not a “whodunit”, but there are important elements of the story that are akin to a good mystery:

“Finding root causes is like peeling back an onion. Each explanation gives rise to further questions at a deeper level [...].”

How did the largest economy in the world go into freefall? What policies and what events triggered the great downturn of 2008? If we can’t agree on the answers to these questions, we can’t agree on what to do, either to get us out of the crisis or to prevent the next one. Parsing out the relative role of bad behavior by the banks, failures of the regulators, or loose monetary policy by the Fed is not easy, but I will explain why I put the onus of responsibility on financial markets and institutions.

Finding root causes is like peeling back an onion. Each explanation gives rise to further questions at a deeper level: perverse incentives may have encouraged shortsighted and risky behavior among bankers, but why did they have such perverse incentives? There is a ready answer: problems in corporate governance, the manner in which incentives and pay get determined. But why didn’t the market exercise discipline on bad corporate governance and bad incentive structures? Natural selection is supposed to entail survival of the fittest; those firms with the governance and incentive structures best designed for long-run performance should have thrived. That theory is another casualty of this crisis. As one thinks about the problems this crisis revealed in the financial sector, it becomes obvious



“To me, the Great Recession of 2008 seemed the inevitable consequence of policies that had been pursued over the preceding years.” In the picture part of the trillion dollar US-war machine. (photo reuters)

that they are more general and that there are similar ones in other arenas.

What is also striking is that when one looks beneath the surface, beyond the new financial products, the subprime mortgages, and the collateralized debt instruments, this crisis appears so similar to many that have gone before it, both in the United States and abroad. There was a bubble, and it broke, bringing devastation in its wake. The bubble was supported by bad bank lending, using as collateral assets whose value had been inflated by the bubble. The new innovations had allowed the banks to hide much of their bad lending, to move it off their balance sheets, to increase their effective leverage – making the bubble all the greater, and the havoc that its bursting brought all the worse. New instruments (credit default swaps), allegedly for managing risk but in reality as much designed for deceiving regulators, were so complex that they amplified risk. The big question, to which much of this book is addressed, is, How and why did we let this happen *again*, and on such a scale?

While finding the deeper explanations is difficult, there are some simple explanations that can easily be rejected. As I mentioned, those who worked on Wall Street wanted to believe that individually they had done nothing wrong, and they wanted to believe that the system itself was fundamentally right. They believed they were the unfortunate victims of a once-in-a-thousand-year storm. But the crisis was not something that just happened to the financial markets; it was manmade – it was something that Wall Street did to itself and to the rest of our society. For those who don’t buy the “it just happened” argument, Wall Street advocates have others: The government made us do it, through its encouragement of homeownership and lending to the poor. Or, the government should have stopped us from doing it; it was the fault of the regulators. There is something particularly unseemly about these attempts of the U.S. financial system to shift the blame in this crisis, and later chapters will explain why these arguments are unpersuasive.

Believers in the system also trot out a third line of defense, the same one used a few years earlier at the time of the Enron and WorldCom scandals. Every system has its rotten apples, and, somehow, our “system” – including the regulators and investors – simply didn’t do a good enough job protecting itself against them. To the Ken Lays (the CEO of Enron) and Bernie Ebbers (the CEO of WorldCom) of the early years of the decade, we now add Bernie Madoff and a host of others (such as Alien Stanford and Raj Rajaratnam) who are now facing charges. But what went wrong – then and now – did not involve just a few people. The defenders of the financial sector didn’t get it that it was their barrel that was rotten.⁸

Whenever one sees problems as persistent and pervasive as those that have plagued the U.S. financial system, there is only one conclusion to reach: the problems are systemic. Wall Street’s high rewards and single-minded

focus on making money might attract more than its fair share of the ethically challenged, but the universality of the problem suggests that there are fundamental flaws in the system.

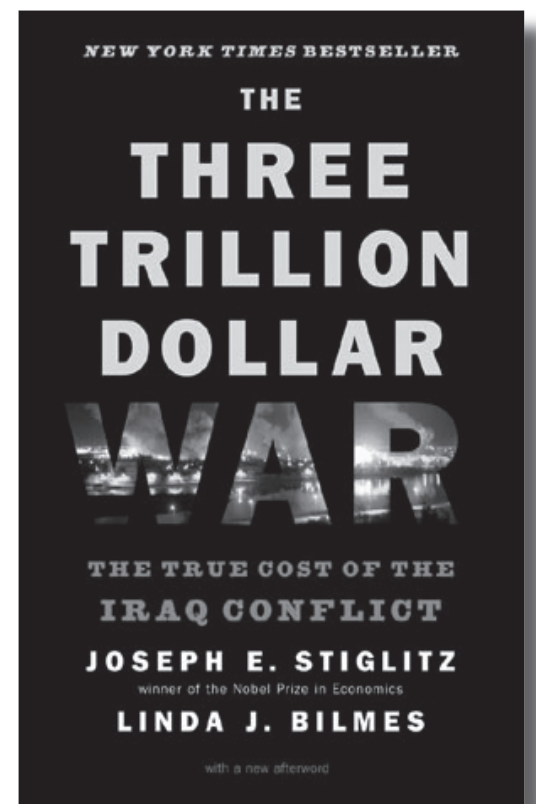
“But the crisis was not something that just happened to the financial markets; it was manmade – it was something that Wall Street did to itself and to the rest of our society.”

Difficulties in interpretation

In the policy realm, determining success or failure presents a challenge even more difficult than ascertaining to whom or to what to give credit (and who or what to blame). But what is success or failure? To observers in the United States and Europe, the East Asian bailouts in 1997 were a success because the United States and Europe had not been harmed. To those in the region who saw their economies wrecked, their dreams destroyed, their companies bankrupted, and their countries saddled with billions in debt, the bailouts were a dismal failure. To the critics, the policies of the IMF and U.S. Treasury had made things worse. To their supporters, they had prevented disaster. And there is the rub. The questions are, What would things have been like if other policies had been pursued? Had the actions of the IMF and U.S. Treasury prolonged and deepened the downturn, or shortened it and made it shallower? To me, there is a clear answer: the high interest rates and cutbacks in expenditures that the IMF and Treasury pushed – just the opposite of the policies that the United States and Europe followed in the current crisis – made things worse.⁹ The countries in East Asia eventually recovered, but it was in spite of those policies, not because of them.

Similarly, many who observed the long expansion of the world economy during the era of deregulation concluded that unfettered markets worked – deregulation had enabled this high growth, which would be sustained. The reality was quite different. The growth was based on a mountain of debt; the foundations of this growth were shaky, to say the least. Western banks were repeatedly saved from the follies of their lending practices by bailouts – not just in Thailand, Korea, and Indonesia, but in Mexico, Brazil, Argentina, Russia . . . the list is almost endless.¹⁰ After each episode the world continued on, much as it had before, and many concluded that the markets were working fine by themselves. But it was government that repeatedly saved markets from their own mistakes. Those who had concluded that all was well with the market economy had made the wrong inference, but the error only became “obvious” when a crisis so large that it could not be ignored occurred *here*.

These debates over the effects of certain policies help to explain how bad ideas can



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persist for so long. To me, the Great Recession of 2008 seemed the inevitable consequence of policies that had been pursued over the preceding years.

That those policies had been shaped by special interests – of the financial markets – is obvious. More complex is the role of economics. Among the long list of those to blame for the crisis, I would include the economics profession, for it provided the special interests with arguments about efficient and self-regulating markets – even though advances in economics during the preceding two decades had shown the limited conditions under which that theory held true. As a result of the crisis, economics (both theory and policy) will almost surely change as much as the economy, and in the penultimate chapter, I discuss some of these changes.

I am often asked how the economics profession got it so wrong. There are always “bearish” economists, those who see problems ahead, predicting nine out of the last five recessions. But there was a small group of economists who not only were bearish but also shared a set of views about *why* the economy faced these inevitable problems. As we got together at various annual gatherings, such as the World Economic Forum in Davos every winter, we shared our diagnoses and tried to explain why the day of reckoning that we each saw so clearly coming had not yet arrived.

We economists are good at identifying underlying forces; we are not good at predicting precise timing. At the 2007 meeting in Davos, I was in an uncomfortable position. I had predicted looming problems, with increasing forcefulness, during the preceding annual meetings.

“As a result of the crisis, economics (both theory and policy) will almost surely change as much as the economy [...].”

Yet, global economic expansion continued apace. The 7 percent global growth rate was almost unprecedented and was even bringing good news to Africa and Latin America. As I explained to the audience, this meant that either my underlying theories were wrong, or the crisis, when it hit, would be harder and longer than it otherwise would be. I obviously opted for the latter interpretation.

The current crisis has uncovered fundamental flaws in the capitalist system, or at least the peculiar version of capitalism that emerged in the latter part of the twentieth century in the United States (sometimes called American-style capitalism). It is not just a matter of flawed individuals or specific mistakes, nor is it a matter of fixing a few minor problems or tweaking a few policies.

It has been hard to see these flaws because we Americans wanted so much to believe in

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our economic system. “Our team” had done so much better than our arch enemy, the Soviet bloc. The strength of our system allowed us to triumph over the weaknesses of theirs. We rooted for our team in all contests: the United States vs. Europe, the United States vs. Japan. When U.S. Secretary of Defense Donald Rumsfeld denigrated “Old Europe” for its opposition to our war in Iraq, the contest he had in mind – between the sclerotic European social model and U.S. dynamism – was clear. In the 1980s, Japan’s successes had caused us some doubts. Was our system really better than Japan, Inc.? This anxiety was one reason why some took such comfort in the 1997 failure of East Asia, where so many countries had adopted aspects of the Japanese model.¹¹ We did not publicly gloat over Japan’s decade-long malaise during the 1990s, but we did urge the Japanese to adopt our style of capitalism.

“The current crisis has uncovered fundamental flaws in the capitalist system, or at least the peculiar version of capitalism that emerged in the latter part of the twentieth century in the United States [...].”

Numbers reinforced our self-deception. After all, our economy was growing so much faster than almost everyone’s, other than China’s – and given the problems we thought we saw in the Chinese banking system, it was only a matter of time before it collapsed too.¹² Or so we thought.

This is not the first time that judgments (including the very fallible judgments of Wall Street) have been shaped by a misguided reading of the numbers. In the 1990s, Argentina was touted as the great success of Latin America – the triumph of “market fundamentalism” in the south. Its growth statistics looked good for a few years. But like the United States, its growth was based on a pile of debt that supported unsustainable levels of consumption. Eventually, in December 2001, the debts became overwhelming, and the economy collapsed.¹³

Even now, many deny the magnitude of the problems facing our market economy. Once we are over our current travails – and every recession does come to an end – they look forward to a resumption of robust growth. But a closer look at the U.S. economy suggests that there are some deeper problems: a society where even those in the middle have seen incomes stagnate for a decade, a society marked by increasing inequality; a country where, though there are dramatic exceptions, the statistical chances of a poor American making it to the top are lower than in “Old Europe”,¹⁴ and where average performance in standardized education tests is middling at best.¹⁵ By all accounts, several of the key economic sectors in the United States *besides finance* are in trouble, including health, energy, and manufacturing.

But the problems that have to be addressed are not just within the borders of the United States. The global trade imbalances that marked the world before the crisis will not go away by themselves. In a globalized economy, one cannot fully address America’s problems without viewing those problems broadly. It is *global* demand that will determine global growth, and it will be difficult for the United States to have a robust recovery – rather than slipping into a Japanese-style malaise – unless the world economy is strong. And it may be difficult to have a strong global economy so long as part of the world continues to produce far more than it consumes, and another part – a part which should be saving to meet the needs of its aging population – continues to consume far more than it produces.

When I began writing this book, there was a spirit of hope: the new president, Barack Obama, would right the flawed policies of the Bush administration, and we would make

“Indeed, many of those in the sector feel that they are as much victims as those outside. They have lost much of their life savings.”

progress not only in the immediate recovery but also in addressing longer-run challenges. The country’s fiscal deficit would temporarily be higher, but the money would be well spent: on helping families keep their homes, on investments that would increase the country’s long-run productivity and preserve the environment, and, in return for any money that was given to the banks, there would be a claim on future returns that would compensate the public for the risk it bore.

Writing this book has been painful: my hopes have only partially been fulfilled. Of course, we should celebrate the fact that we have been pulled back from the brink of disaster that so many felt in the fall of 2008. But some of the giveaways to the banks were as bad as any under President Bush; the help to homeowners was less than I would have expected. The financial system that is emerging is less competitive, with too-big-to-fail banks presenting an even greater problem. Money that could have been spent restructuring the economy and creating new, dynamic enterprises has been given away to save old, failed firms. Other aspects of Obama’s economic policy have been decidedly movements in the right direction. But it would be wrong to have criticized Bush for certain policies and not raise my voice when those same policies are carried on by his successor.

Writing this book has been hard for another reason. I criticize – some might say, vilify – the banks and the bankers and others in the financial market. I have many, many friends in that sector – intelligent, dedicated men and women, good citizens who think carefully about how to contribute to a society that has rewarded them so amply. They not only give generously but also work hard for the causes they believe in. They would not recognize the caricatures that I depict here, and I don’t recognize these caricatures in them. Indeed, many of those in the sector feel that they are as much victims as those outside. They have lost much of their life savings. Within the sector, most of the economists who tried to forecast where the economy was going, the dealmakers who tried to make our corporate sector more efficient, and the analysts who tried to use the most sophisticated techniques possible to predict profitability and to ensure that investors get the highest return possible were not engaged in the malpractices that have earned finance such a bad reputation.

“The system that failed so miserably didn’t just happen. It was created.”

As seems to happen so often in our modern complex society, “stuff happens”. There are bad outcomes that are the fault of no single individual. But this crisis was the result of actions, decisions, and arguments by those in the financial sector. The system that failed so miserably didn’t just happen. It was created. Indeed, many worked hard – and spent good money – to ensure that it took the shape that it did. Those who played a role in creating the system and in managing it – including those who were so well rewarded by it – must be held accountable.

IF we can understand what brought about the crisis of 2008 and why some of the initial policy responses failed so badly, we can make future crises less likely, shorter, and with fewer innocent victims. We may even be able to pave the way for robust growth based on solid foundations, not the ephemeral debt-based growth of recent years; and we may even be able to ensure that the fruits of that growth are shared by the vast majority of citizens.

Memories are short, and in thirty years, a new generation will emerge, confident that it will not fall prey to the problems of the past. The ingenuity of man knows no bounds, and whatever system we design, there will be

those who will figure out how to circumvent the regulations and rules put in place to protect us. The world, too, will change, and regulations designed for today will work imperfectly in the economy of the mid-twenty-first century. But in the aftermath of the Great Depression, we did succeed in creating a regulatory structure that served us well for a half century, promoting growth and stability. This book is written in the hope that we can do so again.

1. Sharon LaFraniere, “China Puts Joblessness for Migrants at 20 Million,” New York Times, February 2, 2009, p. A10. The Department of Economic and Social Affairs of the United Nations Secretariat estimates that between 73 and 103 million more people will remain poor or fall into poverty in comparison with a situation in which pre-crisis growth would have continued. United Nations, “World Economic Situation and Prospects 2009,” May 2009, available at <http://www.un.org/esa/policy/wess/wesp2009files/wesp09update.pdf>. The International Labour Organization (ILO) estimates that global unemployment could increase by more than 50 million by the end of 2009, with some 200 million workers pushed back into extreme poverty. See Report of the Director-General, “Tackling the Global Jobs Crisis: Recovery through Decent Work Policies,” presented at the International Labour Conference, June 2009, available at http://www.ilo.org/global/What_we_do/Officialmeetings/ilc/ILCSessions/98thSession/ReportssubmittedtotheConference/lang--en/docName--WCMS_106162/index.htm.

2. Alan Schwartz, who headed Bear Stearns, the first of the big investment banks to go under—but in a way that still cost taxpayers billions—was asked by the Senate Banking Committee if he thought he had made any mistakes: “I can guarantee you it’s a subject I’ve thought about a lot. Looking backwards and with hindsight, saying, ‘If I’d have known exactly the forces that were coming, what actions could we have taken beforehand to have avoided this situation?’ And I just simply have not been able to come up with anything ... that would have made a difference to the situation that we faced.” Statement before the U.S. Senate Committee on Banking, Housing, and Urban Affairs, Hearing on “Turmoil in U.S. Credit Markets: Examining the Recent Actions of Federal Financial Regulators,” Washington, DC, April 3, 2008.

3. Luc Laeven and Fabian Valencia, “Systemic Banking Crises: A New Database,” International Monetary Fund Working Paper, WP/08/224, Washington, DC, November 2008.

4. George W. Bush suggested in an interview that “the economy is down because we’ve built too many houses.” Interview with Ann Curry on the Today Show NBC, February 18, 2008.

5. Bob Woodward, *Maestro: Greenspan’s Fed and the American Boom* (New York: Simon and Schuster, 2000).

6. There is another explanation for the differences in policies: the United States and Europe acted in ways that responded to the interests of their electorates – the policies that were foisted on East Asia would have been unacceptable to Americans and Europeans. By the same token, in East Asia, the International Monetary Fund (IMF) and the U.S. Treasury were, in part at least, responding to the interests of their “constituencies,” the creditors in their financial markets, which were focused on getting repaid what they had lent to these countries – I even if doing so entailed socializing private obligations. For a more extensive discussion of these episodes, see Joseph E. Stiglitz, *Globalization and Its Discontents* (New York: W.W. Norton, 2002).

7. U.S. Department of Labor, Bureau of Labor Statistics, Consumer Price Index, All Urban Consumers, All Items, available at <ftp://ftp.bls.gov/pub/special.requests/cpi/cpiaui.txt>.

8. See Susan S. Silbey, “Rotten Apples or a Rotting Barrel: Unchallengeable Orthodoxies in Science,” paper presented at Arizona State University Law School, March, 19-20, 2009. The fraction of those who contributed to the crisis, who crossed the line and engaged in illegal behavior, is small: they were well advised by their lawyers on how to stay out of prison, and their lobbyists worked hard to make sure that the laws gave them great latitude. Still, the list of those facing conviction is increasing. Alien Stanford faces up to 375 years in jail if convicted on twenty-one charges of multibillion-dollar fraud, money laundering, and obstruction. Stanford was aided by his chief financial officer, James Davis, who pleaded guilty to three counts of mail fraud, conspiracy to commit fraud, and conspiracy to obstruct an investigation. Two Credit Suisse brokers were charged with lying to customers—leading to losses of \$900 million; one was convicted by a jury and one pleaded guilty.

9. There is an obvious retort: the circumstances differ. Were these countries to pursue expansionary fiscal policies, the effects would have been counterproductive (so went the argument). It is worth noting that the East Asian countries that followed the traditional Keynesian recipe (Malaysia and China) did far better than those that were forced to follow the IMF dictates. In order to have lower interest rates, Malaysia had to impose temporary restrictions on capital flows. But Malaysia’s downturn was shorter and shallower than those of other East Asian countries, and it emerged with less of a legacy of debt. See Ethan Kaplan and Dani Rodrik,

“Did the Malaysian Capital Controls Work?” in S. Edwards and J. Frankel (eds.), *Preventing Currency Crises in Emerging Markets* (Boston: NBER, 2002).

10. To the list of international bailouts, we should add the “domestic” bailouts, where governments have had to bail out their own banks without turning to the assistance of others. In this long list, one should include the savings and loan debacle in the United States in the 1980s and the bank collapses in Scandinavia in the late 1980s and early 1990s.

11. The close cooperation between government and the private sector in Malaysia led many to refer to “Malaysia, Inc.” With the crisis, discussions of government-private sector cooperation were relabeled as crony capitalism.

12. See Nicholas Lardy, *Chinas Unfinished Economic Revolution* (Washington, DC: Brookings Institution Press, 1998), for the standard interpretation. The irony that it was U.S. banks that collapsed, not those of China, has not escaped those on both sides of the Pacific.

13. The nation’s output fell by an additional 10.9 percent in 2002 (relative to 2001) on top of an accumulated fall of 8.4 percent since its previous peak year (1998), for a total 18.4 percent loss of output and a decrease in per capita income of more than 23 percent. The crisis also caused a rise in joblessness to 26 percent in the wake of the enormous contraction of consumption, investment, and output. See Hector E. Maletta, “A Catastrophe Foretold: Economic Reform, Crisis, Recovery and Employment in Argentina,” September 2007, available at <http://ssrn.com/abstract=903124>.

14. In a study of eight North American and European economies (United Kingdom, United States, West Germany, Canada, Norway, Denmark, Sweden, and Finland), the United States had the lowest intergenerational income mobility. The intergenerational partial correlation (a measure of immobility) of the United States is twice that of the Nordic countries. Only the United Kingdom comes close to having similar immobility. The study concludes that the “idea of the US as ‘the land of opportunity’ persists and clearly seems misplaced.” See Jo Blanden, Paul Gregg, and Stephen Machin, “Intergenerational Mobility in Europe and North America,” London School of Economics Centre for Economic Performance, April 2005, available at <http://www.suttontrust.com/reports/IntergenerationalMobility.pdf>. French mobility also exceeds that of the United States. See Arnaud LeFranc and Alain Tranjoy, “Intergenerational Earnings Mobility in France: Is France More Mobile than the US?” *Annales d’Economie et de Statistique*, no. 78 (April-June 2005), pp. 57-77.

15. The Program for International Student Assessment (PISA) is a system of international assessments that measures fifteen-year-olds’ performance in reading literacy, mathematics literacy, and science literacy every three years. On average, U.S. students scored lower than the OECD average (the mean of the thirty countries in the Organisation for Economic Co-operation and Development) on the combined science literacy scale (489 vs. 500) and the mathematics literacy scale (474 vs. 498). In science, U.S. students lagged behind sixteen of the other twenty-nine OECD countries; in math, they lagged behind twenty-three OECD countries. See S. Baldi, Y. Jin, M. Skemer, P. J. Green, and D. Herget, *Highlights from PISA 2006: Performance of U.S. 15-Year-Old Students in Science and Mathematics Literacy in an International Context* (NCES 2008-016) (U.S. Department of Education, Washington, DC: National Center for Education Statistics, December 2007).

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The French Understanding of Sovereignty With Regard to the Construction of Europe

by Alain Bournazel, France

In France, the concept of sovereignty has a very long history. Without doubt, France is – alongside England – the first country to apprehend the concept of sovereignty.

Since the end of the 10th century, i.e. since the advent of the Capetian dynasty, France has been constructed around the concept of sovereignty. This will to sovereignty has manifested itself:

- vis-à-vis the German Emperor to whom the French king refused to pay his respect.
- and vis-à-vis the Holy See. Remember that the French King Philippe IV the Fair forced the Pope to leave Rome and settle in Avignon on the river Rhone.

That was also the time when the French king’s jurists did not hesitate to reaffirm that the “King of France was the emperor of his realm”.

- The French Revolution adopted the concept of sovereignty that had also applied in the time of the monarchy. Later General de Gaulle, founder of the Fifth Republic, renewed the concept of sovereignty, by leaning on several strong principles:
- A sovereign country is a country which maintains its self-determination; it may never submit to another power, be that another state or an international organization.
- A sovereign country can very well co-operate with other countries or in international bodies, but it must remain master of its own decisions at all times.

These two basic principles had guided General de Gaulle when he asked his partners to introduce two fundamental rules, one in the Treaty of Rome and the other in the context of the North Atlantic Treaty Organization (NATO).

Concerning the Treaty of Rome, General de Gaulle had the so-called Luxembourg Compromise implemented in 1967. This provision enabled a state to insist on its right not to apply a regulation in case it did not approve of this regulation issued by the European Community.

Concerning NATO, General de Gaulle was always loyal to this agreement. Yet the French troops were withdrawn from the command of the NATO so as not to have to operate under American command.

Valéry Giscard d’Estaing, François Mitterand and Jacques Chirac circumvented



General de Gaulle, founder of the Fifth Republic, renewed the concept of sovereignty, by leaning on several strong principles: A sovereign country is a country, which maintains its self-determination; it may never submit to another power, be that another state or an international organization. A sovereign country can very well co-operate with other countries or in international bodies, but it must remain master of its own decisions at all times. (photo keystone)

General de Gaulle’s principles and increasingly integrated France into the European Organisation. But many French nostalgically reminisce the great time of General de Gaulle.

In the course of his electoral campaign, Nicolas Sarkozy deliberately arranged his discourses around the concept of national sovereignty. He vaunted a policy of independence, he criticized the Euro, he made use of symbols of national sovereignty, and he continually referred to the important figure of General de Gaulle.

The French have been deceived. Today they realise that they have become the victims of a swindle. France does no longer have its own economic policy; it is being determined by the European Union. France no longer has its own foreign policy; it is being determined by the USA.

Today we are facing a double problem, on the European as well as on the national level:

On the European level, we find that the system installed by the Brussels bureaucracy is unable to offer solutions for Europe’s problems. The edifice of the European Union has become unsound and is in danger of collapsing.

The European economy is rampant, unemployment rates are increasing and poverty is on the rise in all states. Europe has come down with the Euro. The situation in Greece is alarming, since that country would be insolvent without outside help. But Greece is not alone. The same applies to Spain, Portugal and Italy, and perhaps to France as well and soon to further countries. Sooner or later they will all be affected. This is not astonishing. It was preposterous to commit all member states to the same economic policy and to force the same currency onto such different states as for instance Germany and Greece.

What I have to say about France is simple. The French are tired of Sarkozy, they no longer have confidence in him, they no longer want him. The president has committed two decisive errors:

- The first one was last year in the European elections
- The second one was this year in the French regional elections.

In the course of these two votes, the UMP, the president’s party, suffered massive losses. This must mainly be ascribed to the president himself, whose style, methods and goals meet with ever growing opposition.

Without doubt, we are in a period of upheaval. The world cannot go on as it does, the European Union cannot remain in its present form. The people of Europe cannot remain subjected to the USA and to the Brussels bureaucrats.

All this must be stopped, the people of Europe are longing for liberty, justice, and fraternity. We say no to the subjection of Europe to a soulless bureaucracy, we say no to the extinction of national states by a soulless globalization.

On the other hand, we say yes to the free co-operation among nations, we say yes to the friendship of the peoples. My wish for France is to make her contribution – on account of its long tradition of national sovereignty – to a fresh wind of freedom blowing over enslaved Europe.

Freedom, justice, fraternity, and also benevolence should be the ideals uniting us in future.

Less Media use means Less Violence!

rh. In the last year, a ban on killer games was required several times and well justified by the scientific as well as by the political side. The empirical research evidence on the harmful effects of media violence and, in particular, interactive violent video games are manifold and irrefutable. Nine years ago, the *Stanford University’s Pediatric Department* with its experimental study on violence reduction by the reduction of media consumption in California’s elementary schools produced evidence that less media violence consumption results in considerably less violence of primary school children.

The landmark study, oriented on *Bandura’s* social cognitive learning theory, was carried out by the *Department for Pediatrics and Medicine* at Stanford University under the direction of *Thomas N. Robinson* and published in 2001. The aim of the study was to find out “whether reducing consumption of TV, video and computer games of children leads to less aggressive behavior.” According to the researchers is this “a question of great clinical, practical and political importance”. The experiment’s result with third and fourth graders of an elementary school in San José was a 50 per cent decline in violent language and a 40 per cent decline in physical violence, just because the children were encouraged to turn off their television and video equipment as well as their computer games for a few weeks.

Prior to the experiment violent behavior in this and in a second comparably primary school, was examined by questionnaires, observations raised on the schoolyard and interviews with parents and peers. All these components of violent behavior were surveyed carefully. Then, the teachers of the one school carried out the SMART Curriculum consisting of 18 lessons, with the aim that pupils should voluntarily reduce their consumption of video games, should watch less television and should use less other electronic media.¹ After that, two-third of the pupils agreed to give up television and electronic media completely, initially for 10 days, and over half of them limited their media consumption to seven hours per week for 20 weeks. Everything was accompanied and monitored carefully in collaboration with the parents.

Afterwards the change of aggressive behavior was measured again using interviews, questionnaires and observations. Violent behaviour among pupils decreased by almost 50 per cent in the school that had performed the curriculum. The experiment, which during the last years was repeated in other American schools and accompanied scientifically, shows without any doubt: Less media consumption equals less violence! Professor Robinson: “By this study it is highlighted that something quite practical can be done in the real world and then the effect it shows.”²

¹ The curriculum “SMART” (Stanford Media Awareness for Reduction of Television) was published later and may be viewed and ordered by <http://hprc.stanford.edu/pages/store/itemDetail.asp?169>

² Quoted by Dave Grossman/Lauren Christensen: On Combat, p. 238

Source: Archives of Pediatrics and Adolescent Medicine, Vol. 155, Jan. 2001

We need schooling for peace

by Alfred de Zayas*, www.alfreddezayas.com

Human dignity is the source of Human Rights. But the source of human dignity is to be found somewhere else, to be precise in human metaphysics, in religion, in spirituality and in ethics. The norms of International Law are merely instructions for the implementation of Human Rights. So normative positivism doesn’t give us all solutions. Primarily it is the education to dignity and to respect of others, and the education to freedom and solidarity, which can rescue humanity from barbarism. This implies a true re-education, it means to remove us from the war culture surrounding us, the culture of violence and the culture of video games which are full of violence and aggression, games which are poisoning today’s youths.

The normative development concerning the protection of women and children in armed conflicts is far reaching and complex. Even the early *Haag Agreement* of 1907 (the 4th Haag Convention) concentrates on the protection of the civil population, in the articles 46-52 as well as the *Martens-clause* in the Preamble. The 4th Geneva Convention of 1949 and the 1977 protocols have greatly improved this protection. But the normative development is not restricted to the Humanitarian International Law, as Human Rights are valid in peace times as well as in war times. Thus, the *International Covenant on Civil and Political Rights* can be called upon during armed conflicts (for example article 3, 6, 17, 24), as well as the *International Convention against Torture*, the *International Convention on the Elimination of*

All Forms of Racial Discrimination. These conventions have been established by expert committees, which examine periodical reports from member states and judge the individual petitions. For more than 30 years, a valid jurisdiction has been established. There is also an international mechanism.

I travelled t with the Special Rapporteur on the Enforcement of Rights, *Andreas Mavrommatis*, to Jamaica, where we worked well together with the Government. Unfortunately the determinations of the Human Rights Committee are not compulsory, strictly speaking. Most of the member states of this facultative protocol, however, accept the decisions of the Committee. The problem is somewhere else – often they don’t have any national mechanism available for their practical enforcement. For this, specific laws would have to be adopted, such as the ordinance 288 in 1996 in Columbia.

The raping of women is a crime in all jurisdictions. Unfortunately, in spite of this, rape occurs again and again within the context of armed conflicts. The international criminal law recognizes that rape is not only a war crime, but it is also a crime against humanity. This is the jurisdiction of the *International Criminal Tribunal for the Former Yugoslavia* and of the *International Criminal Tribunal for Ruanda*.

One should clearly keep in mind that one also encounters a lot of “soft law” and law “de lege ferenda” (a legal situation which will be valid under a law, which is still to be enacted). Among others the *Luarca Decla-*

ration on the Human Right to Peace of 2006 and the *Bilbao Declaration* of 2010, recognize women and children as especially vulnerable groups. These declarations are directed against structural violence and war as the greatest scourges of humanity. But si vis pacem, cole justitiam. If one wants peace, one must cherish justice. Berkeley University, as well, launched its *project 2048*, which approaches Human Rights holistically and aspires to include the Human Right to Peace and the creation of an *International Tribunal for Human Rights*. The *millennium goals* in the articles 3, 4 and 5 demand the protection of women and the reduction of childhood mortality.

We observe that the norms and the mechanisms already exist. Of course, one has to know them better, teach them at schools, and strengthen them in practice. What we are still missing, is a guarantee for their enforcement. To achieve this goal, a greater mobilisation of the civil population is needed. The victims must demand their rights. As a matter of fact, it is a civic duty to protest against human rights abuses. Tolerating abuses means to encourage torturers. What we need most of all is a paradigm shift, which rejects the war culture and encourages peace culture instead. Therefore we need schooling for peace.

* Professor Dr iur et phil *Alfred de Zayas* is US-American, former Secretary of the UN Human Rights Committee, former chief of the Complaints Department in the office of the UN-High Commissioners for Human Rights.

What are the Goals for Switzerland?

On the Federal Council's Foreign Policy Report 2009

by Dr iur Marianne Wüthrich, Zurich

Both the National Council and the Council of States dealt with the Federal Council's Foreign Policy Report 2009 (FPR)¹ in their spring session 2010 and decided by majority vote to take note of the report.² On behalf of the Parliament, the EDA (Federal Department of Foreign Affairs) did not only submit the annual report on its activities in September 2009, but presented the whole range of Switzerland's extremely various and valuable activities worldwide, concerning foreign policy, on 240 pages.

The EDA under the direction of Federal Councilor Micheline Calmy-Rey has a wide range of possibilities to contribute to a more humane world and to protect the national political and economic interests of Switzerland at the same time. Switzerland avails itself of these possibilities in a very impressive way. There is no necessity at all to quit the path of a neutral small state befriended with all peoples of the world and seek to join NATO or the European Union. The aspirations of some of the EDA's exponents for a stronger integration of sovereign Switzerland into the EU, even aiming in the long run at the full entry, is completely unjustified. This membership would entail the renouncement of much that makes up Switzerland – the policy of neutrality and the strong direct-democratic and federal structures. There were some remarkably critical statements against these tendencies in the FPR to be heard in Parliament.

As a neutral country that is not integrated into supranational structures, Switzerland has the opportunity to support humane living conditions and assist in peaceful settlements of conflicts between parties everywhere in the world. (see FPR, p. 5)

Humanitarian aid
"Swiss humanitarian aid has a global mandate, namely to save lives and alleviate suffering wherever crises, conflicts and disasters occur that directly affect the civilian population. It provides support in accordance with the principles of international humanitarian law. It delivers aid according to the principles of humanity, independence, impartiality and neutrality." (p. 148)

Thus the offered emergency aid in 2008 in context with the earthquakes in China, with inundations in Bolivia and with innumerable other emergencies in the world. Switzerland helps the victims of war in an impartial way; it for example supports the Palestinian and the Iraqi refugees in the Middle East in close co-operation with the ICRC, the UN and with NGOs. The reader of the FPR 2009 encounters an abundance of similar humanitarian employments of Switzerland all over the world.

Strengthening humanitarian international law
"Switzerland has traditionally campaigned for the promotion and development of international law as a constant feature of its foreign policy. This is indeed in its interest as a nation that has neither significant political power nor military might. Its focus is on human rights and international humanitarian law." (FPR, p. 134)

One of the many examples: Switzerland's employment after the Gaza War in 2008/2009 included an effort to observe humanitarian international law that Switzerland made with the Israeli authorities and, above all, an effort allow relief organizations fast access to the civilian population in the Gaza Strip. Switzerland was the first country that was allowed to deliver humanitarian relief supplies in the Gaza Strip and it succeeded in making the entry of a medical emergency team of the ICRC possible. It is also working towards the reliable opening of the border crossings to the Gaza Strip. (FPR, p. 82)

Due to its neutral position and independence from power blocs, Switzerland can and often does help, together with the Geneva resident ICRC, more than the great powers whose efforts at aid are sometimes biased.



"On the contrary, today's world with its wars and the associated human misery urgently needs neutral states, which are not integrated into political and military alliances.» (photo caro)

Development of co-operation – help for self-help
The SDC and the SECO (State Secretariat for Economic Affairs) support the population in many Third World countries with numerous projects to find a solution of their development problems. Other industrial nations do this, too, however the Swiss development organizations benefit from their being used to tackle problems on a direct democratic basis and find solutions on the same eye level with other people. Impressive examples for the work of the SDC and the SECO are published in the SDC magazine "One World", published by the Swiss Confederation.

Peaceful conflict resolution – the good services of neutral Switzerland
A focus of Swiss foreign policy is the effort to achieve more peace in the world. As a neutral small state, Switzerland can take over various tasks, which it is able to fulfill better than other participants just due to its neutral status. Thus, Switzerland's neutrality does not only serve the own country. On the contrary, today's world with its wars and the associated human misery urgently needs neutral states, which are not integrated into political and military alliances. Moreover, peaceful conflict resolution corresponds with centuries of tradition tested within the confederation and outside. Therefore, it is also no coincidence that in 1863 the Red Cross was founded in Geneva and still has its seat there. Only a neutral small state could – and can today – take over the honorable role as ICRC chief executive, as the confidence of all the governments and subpopulations involved is an indispensable condition for successful humanitarian activities. The neutral ground, which our country can offer, is equally valuable for meetings of hostile parties. In the Foreign Policy Report 2009, the EDA mentions several examples of good services from the most recent time.

Dialogue and mediation as means for conflict resolution
"One of Switzerland's traditional strengths is its ability to engage in and promote dialogue. Dialogue is essential for resolving conflict situations and other complex challenges of a sensitive nature. (...) Over the years, Switzerland has involved itself actively in efforts to bring violence to an end in a number of regions of conflict, at the same time adding new aspects of human security to the international agenda. In future, Switzerland will place even greater emphasis on the instrument of dialogue. (...)Switzerland's point of view is that efforts to involve all parties are a prerequisite for a sustainable peaceful solution." As a mediator, Switzerland "has acquired a great deal of experience and know-how in the area of mediation – know-how which is much in demand both from the parties in the conflict and from international negotiation teams." (FPR, pp. 119, 120.)

Thus, in the controversy on the Iranian nuclear program, Switzerland has established many contacts since 2006 with Iran, the IAEA and the western great powers and brought together all parties in Geneva in 2008.

In the Middle East Switzerland has maintained a civilian peace promotion program for years. It supports different Israeli-Palestinian organizations, which advocate a non-violent solution of the conflict. It advocates in particular the advancement of the Geneva initiative and its spreading by Israeli and Palestinian NGOs. Concerning Lebanon, an informal meeting between all parties took place in Switzerland at the beginning of 2008, on the occasion of which Switzerland offered its support for the elaboration of a new national security doctrine. Finally, Switzerland continued the dialogue on a diplomatic level with all parties concerned with the Middle East conflict, in order to find practicable solutions for the complex problems of the peace process. (cf. FPR, pp. 123, 124)

Supply of the good services in their classical form
"The protection of foreign interests is an instrument that enjoys a rich tradition in Swiss foreign policy." (FPR, P. 56)

Switzerland has represented the American interests in Iran and in Cuba, as well as the Cuban interests in the USA for decades. In particular, she cares for 7 000 US citizens, who live in Iran. (FPR, p. 69)

Two examples from the most recent time

- Turkey and Armenia: "At the request of both these countries, Switzerland assumed the role of mediator to help them overcome the obstacles in their relations. Switzerland's good offices were greatly appreciated by both states." (FPR, P. 52)
- Russia and Georgia: Due to the mutual contacts of many years, Russia asked Switzerland in October 2008 to represent its interests in Georgia. With the agreement of Georgia, Switzerland took on the protecting power mandate for the two states. That means that in the former embassy buildings of the two states in Tbilisi and/or Moscow the necessary consular and diplomatic contacts are possible under the responsibility of the respective Swiss embassy. (cf. FPR, p. 56)

The promotion of the institution of the good services is a special request of Federal Councilor Micheline Calmy Rey. She thus gives evidence of the fact that the traditional fields of Swiss foreign policy are still urgently needed.

Host nation to international organizations
"Switzerland has a long tradition as a host nation to international organizations. As the most important of the UN's European headquarters, Geneva shares a reputation with New York of being one of the two leading centres for multilateral cooperation worldwide." 161 states maintain at least a constant mis-

sion in Geneva and approximately 200,000 delegates and experts participated in several thousand conferences and meetings in 2007, which were organized by international organizations and NGOs in Geneva. "Politically speaking, Geneva's international character imbues Switzerland with a disproportionately high status in international relations in relation to the size of the country, and it therefore contributes significantly towards the accomplishment of Switzerland's foreign policy objectives." (FPR, p. 167)

Economic and friendly relations with all peoples of the world
EFTA or WTO?
The European Free Trade Association (EFTA) was founded in 1960 by Austria, Denmark, Norway, Portugal, Sweden, Great Britain and Switzerland. Later, other states joined, most of them have become EU members in the meantime. Although the EFTA has only four member states (Norway, Iceland, Liechtenstein and Switzerland) today, it maintains free trade agreements with 21 states and territories. With these free trade partners, the EFTA states produce a volume of trade of 38 billion Francs. Most important partner of the EFTA states is the EU with a volume of trade of 489.1 billion Francs. New free trade agreements with further states are constantly prepared and consolidated. (FPR, pp. 58)

It would be desirable that Switzerland put a greater emphasis on the liberal way the EFTA pursues as a network of agreements of equal and sovereign states, and make it a focus of its economic policy. The bilateral free trade with the EFTA should be promoted among smaller states. Everyone knows about it: The WTO and its "functioning rules" are above all useful for the big global companies, not for the SMBs, not for the farmers, and not at all for the population in the poor countries in the world. As the newest large-scale attack of the USA against the free capital market shows, the rules of the global free trade are valid anyway only for a time and only as far as they suit the imperialistic superpower.

Swiss financial centre
The FPR repudiates that in the course of the worldwide financial crisis Switzerland and Swiss banks are pressurized by different states, because they look for "new financing sources" for their out of control debt management economies. In particular, it protests against the unjustified demand of the OECD to put Switzerland on a "grey list" without consulting the other member states. In fact, Switzerland was the first state that passed a law against money laundering in 1997, which obliges the banks to announce illegitimately acquired net assets. The Federal law on international legal aid in criminal actions of 1981 enables Switzerland to cooperate with other states in seizing and returning illegitimately acquired net assets. No other country reimbursed as much money of potentates as Switzerland:

"In the past 15 years, Switzerland has returned 1.7 billion Swiss francs to the countries of origin, which is more than any other financial centre in the world." (FPR, p. 138)

With good reason, the Federal Council deplores in its report that these exemplary efforts of Switzerland to provide compliance with the law in financing, have not been taken note of by the foreign countries. Napoleon had already availed himself from filled Swiss cashes, because he needed money in order to wage his wars. Contrary to today's great powers, Napoleon did not try however to strangle the direct-democratic system of Switzerland but he respected and appreciated it.

Bilateral agreements with the EU until the bitter end
Listing the numerous bilateral agreements, which already exist between Switzerland and the EU or which are being negotiated, would go beyond the limitations of this article. The planned agreements are to be pre-

“What are the Goals for Switzerland? ...” continued from page 6

sented later. They would have drastic consequences for Switzerland, so for example the agreement on the liberalized electricity market, the *Agrarian Free Trade Agreement* and the adaption of Swiss legislation on chemicals to that of the EU. In addition the Federal Council pushes on a so-called outline agreement between Switzerland and the EU under the disguise of a “consolidation of the relations with the European Union”. This agreement intends to “improve and rationalize” the adoption of EU law by Switzerland which actually means that our country should even more strongly be obliged to follow EU laws. (FPR, p. 41) At the same time, however, the EDA stresses that the adoption of the “Acquis communautaire” by Switzerland may not happen automatically, because this would injure its sovereignty. Otherwise the only remaining option for our country would be the membership with the EU:

“But (...) the question of the limits of the bilateral approach still arises. These probably lie at the point where Switzerland’s op-

portunities to influence the framework conditions that are most important to it are less than in a different scenario. To put it another way, the bilateral approach must not lead to de facto membership without voting rights.(...) If political and/or economic factors were in future to create the need for integration of a higher order, then consideration would have to be given to the best ways of achieving it – one of which would be accession.” (FPR, pp. 42, 43)

Considering the repeated and clear statements of people and cantons in Swiss federal referendums against the EWR and EU membership, a minority of National Councilors has rightfully proposed to reject the FPR 2009³ in order to correct these statements as follows: “The relationship with the EU is to be regulated by bilateral agreements securing the Swiss interests. EU membership is not an option.” (See excerpt from the vote of National Councilor *Ulrich Schläuer* in the box)

Peace policy or cooperation in the big powers’ wars?

A further fundamental aspect of the FPR 2009 is criticized, namely that it attaches too little

attention to neutrality: “Neutrality, whose employment is a task for the Federal Council laid down in the Federal Constitution, must be confirmed as basic pillar of Swiss foreign policy. The noninterference in conflict zones (Africa, Indian Ocean etc.) based on the policy of neutrality is to be concretized.”

Federal Councilor Micheline Calmy-Rey reassured National Councilor Schläuer in the National Council’s debate that she will emphasize the meaning of neutrality in the report of September 2010: “*Monsieur Schläuer, [...] Je suis tout à fait disposée à tenir compte dans le prochain rapport des demandes et des propositions que vous faites, en particulier celles relatives à la question de la neutralité. Vous savez que je suis un défenseur de la neutralité et que je me suis fortement engagée en faveur de la promotion de la neutralité suisse. Il n’y a pas de raison que nous refusions d’intégrer dans le rapport 2010 vos demandes.*”⁴

The head of the EDA, as shown above, really attaches importance to the policy of neutrality in many areas. Why then joining in “with the big ones” at all costs and not confining ourselves to the many areas specified in this article, in which there would be enough to do for the neutral small state Switzerland?

On the one hand, the FPR 2009 adheres to Switzerland’s possible medium-term candidature for the UN Security Council. This is a committee, in which five veto powers have a say, which do not care for a balanced statement, but whose most outstanding characteristic is their bias. (FPR, p. 89) On the other hand Switzerland has already marched together with NATO and the EAPC (Euro-Atlantic Partnership Council), also belonging to NATO.

“For Switzerland, the partnership represents an important platform for participating in the collective security efforts, as well as a useful instrument for the exchange of military know-how and experience.(...) Within the Partnership for Peace, Switzerland is participating in more than 200 activities via the FDFA and the DDPS (Federal Department of Defence, Civil Protection and Sport). These activities include internal training courses for other PfP states, as well as participation in NATO courses and exercises that are open to these states. Participation in such activities enables Switzerland to improve its capabilities in the area of crisis management and thus in its involvement in peace promotion efforts. The Swisscoy mission in Kosovo is a good example of this. In this way, Switzerland can make specific contributions towards security in Europe.(...) NATO is more and more reliant on the involvement of its partners in its peacekeeping operations (which for Switzerland require a man-

date from the UN or the OSCE) in the form of military or civilian operations on location. For this reason, Switzerland’s relations with NATO are becoming increasingly dependent on the type and extent of our country’s contribution towards peace operations carried out by the alliance.” (FPR, pp. 65, 66)

Moreover, the EDA plans an outline agreement with the EU for a “European Security and Defense Policy” (ESVP). Today Switzerland already takes part in several “EU peace promotion missions”, which the majority of the population does not know about. The last project, the planned employment of Swiss soldiers in the Gulf of Aden against the “pirates” under the command of EU officers (project Atalanta), is still wrongly mentioned in the FPR 2009 (FPR, p. 42 and 160), although the National Council rebuffed this unjustified demand in its autumn session 2009.

Conclusion

Federal Councilor Calmy-Rey has done a lot since her accession to office in the Federal Department of Foreign Affairs to strengthen the policy of neutrality of Switzerland and make use of it as an ultramodern instrument for the solution of various global problems. Switzerland has a role as a small independent state that has enough to contribute to the peace in the world, without marching together with the great powers! Moreover, the termination of the commitments in the context of the PfP, EAPC and ESVP would set money free, which Switzerland could use for its commitment in the field of disarmament.

“As a second priority, Switzerland is striving for the total elimination of all weapons of mass destruction as well as the prevention of the proliferation of these weapons and the missiles capable of delivering them.” (FPR, p. 110) Don’t we want to let this employment become the first priority in the military field? ●

¹ Foreign Policy Report 2009 (FRP) http://www.eda.admin.ch/etc/medialib/downloads/edazen/doc/publi/aussen.Par.0008.File.tmp/09.052_Foreign_Policy_Report_2009.pdf

² This concerns a report on the activities of the Federal Council, which the parliament cannot accept or reject. It only has the opportunity to “take note” of the report or reject and turn it back to the Federal Council with the purpose to make additions or changes.

³ Verbatim minutes National Council of 4 March 2010

⁴ “Mr. Schläuer, I am absolutely willing to consider your demands and proposals in the next report, above all those about neutrality. You know that I am a defender of neutrality and engage strongly for the promotion of Swiss neutrality. There is no reason not to integrate your demands into the report 2010.”

Remarkable Statement by the Federal Council in its Foreign Policy Report on the Relations between Switzerland and Germany

“There is no other country in the world with which Switzerland maintains such intensive relations as it does with Germany. These provide a solid basis for cooperation between the two countries.

The close ties and intensive exchanges are in the interests of both countries – Germany also harvests the benefits. Switzerland imports as many goods from Germany as it does from Italy, France, the USA, the Netherlands and the United Kingdom combined (imports from Germany in 2008 amounted to 65.8 billion Swiss francs). This means that the 7 million inhabitants of Switzerland buy around half as much from Germany as more than 300 million Americans. Germany has enjoyed a trade surplus with Switzerland for many years (In 2008 the surplus amounted to 23.1 billion Swiss francs). Thus trade with Switzerland suffices to finance a large part of the German deficit with Asia. With an investment volume of approximately 50 billion Swiss francs, Switzerland is the sixth largest investor in Germany. In the new German provinces, Switzerland has occasionally even been the most important investor. The total of 1,200 Swiss companies in Germany employ 260,000 staff. Swiss companies also have a very broad network of production, distribution and investment companies at their disposal in Germany.

Employer ...

Although it is indisputable that Switzerland and Germany do not carry the same weight and that there is consequently a certain imbalance between them, the fact nonetheless remains that the further one moves into the South of Germany, the more this changes. In Baden-Württemberg, for example, there is a trade symmetry, and in South Baden the position is even reversed: a total of over 44,000 German cross-border workers, predominantly from South Baden, come to work every day in the north of Switzerland. In the district of Waldshut, every sixth employed person works in Switzerland.

... and favored emigration destination

Switzerland has also become the most popular destination for German emigrants. In 2008, more than 31,000 German citizens immigrated to Switzerland. This figure is equivalent to half the population of a Swiss city such as Lucerne. The number of German citizens in the total number of foreign residents is more than 233,000, which puts them in second place after Italians. They make an active contribution to our economy, culture and scientific community, as well as to our health service.

Inacceptable statements

These intensive relations have come under strain recently as a result of disputes relating to cooperation in matters of taxation. This does not result solely from the different interests of both countries. It can also be attributed to the manner – the tone and substance – in which this dispute between close neighbours was conducted. The German Finance Minister made unacceptable remarks, repeatedly, even after the Federal Council decided on 13 March 2009 that Switzerland would adopt the OECD standard for administrative assistance in tax matters. These comments provoked outrage in Switzerland on the part of the government, Parliament and the people.

Switzerland is no tax oasis

With regard to Germany, Switzerland has made its position clear both on a diplomatic level and in public. Switzerland is not a tax oasis. It cooperates in matters of taxation, and for this purpose it has concluded double taxation agreements with 74 countries, one of which is Germany. However, until now Germany has only availed itself of the opportunity for administrative assistance in one case. The willingness of Switzerland to cooperate is also demonstrated in the interest taxation and anti-fraud agreements with the EU. As part of the former, Switzerland transferred 131 million Swiss francs in interest tax to Germany for the 2007 fiscal year. This package of measures was further supplemented by the premature implementation of the antifraud agreement concluded between Switzerland and the EU. The agreement with Germany and the majority of other EU member states came into operation on 8 April 2009, though four EU member states have not yet ratified it. The disputes mentioned above arose despite intensive contacts on all levels – contacts that are still going on.

Cooperation must be a mutual affair

The German restrictions on flights into Zurich Airport continue to place a strain on our bilateral relations. The unequal treatment handed out by the German government results in restrictions on Zurich Airport in comparison with its competitors in Frankfurt and Munich, even though the Zürich flights have a significant connection with Germany. For example, around 70 percent of all air traffic at Zurich Airport is attributable to German airlines or those that are in German ownership (*Swiss, Lufthansa, Air Berlin*, etc.). Around a quarter of all flights go to and come from Germany. Zurich Airport is the most important civil aviation infrastructure in Switzerland, and is of major importance both for the Swiss economy and the cross-border region. At a meeting with German Chancellor Angela Merkel on 29 April 2008 it was agreed that the working group of both transport ministries would undertake a joint analysis of the noise exposure emanating from Zurich Airport in accordance with internationally recognized methods. Based on the results of this analysis Switzerland will then put forward a proposal regarding the operation of Zurich Airport. It is important to attach high priority to maintaining good relations with Germany. Switzerland sets great store by the manner in which the two countries, as close neighbours, address each other. Partners should treat one another with respect, even at times when they have different interests and opinions. Switzerland has repeatedly expressed its readiness to engage in constructive cooperation between neighbours. The border cantons are important players in this regard and should also be included, above all with respect to important contacts with Baden-Württemberg. As before, the implementation of supplementary measures relating to the administration of the free movement of persons features on the regional agenda.”

Source FPR 2009 (English version), pp.45f

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On the ‘Psychologization’ of Education

by Dieter Sprock, Switzerland

“Pedagogy does not provide us with new ideas. At all times, the genius of famous educators has consisted in depicting a choice of ideas, maxims and experiences from the treasure of truths of the past. They could be considered as answers to the urgent problems of a time”, Bernhard Bueb writes in the epilogue to his book “Lob der Disziplin” (In Praise of Discipline), in which he gives answers to the urgent questions of our time. He sees his answers as a search for a “way to the right measure” and to describe it he makes use of the image of a sailor, “who bends to the right, if the boat bends to the left, in order to redress the balance”.

Therefore, pedagogy is not a matter of absolute truth and clinging to principles, but about doing the right thing at the right time. For Bueb, one of the urgent questions of our time is what he calls the “disastrous psychologization of education, which he deals with in his book.

The psychologization of education, in the private as well as in the public sector, as for instance at school, has led to a widespread non-education of children and young people. Education was replaced by observing, interpreting and excusing children’s inappropriate behavior; educational acting was replaced by explaining, discussing and overtexting. Parents and educators adjust their behavior to the children and not vice versa. Instead of educating them and preparing them for the requirements of life, they eagerly tried to meet any desire and to remove all difficulties. Instead of showing them, in cooperation with school, how to develop positive and useful solutions for the different requirements, parents explained to the teachers, how they should handle their special child, in order to avoid tantrum. The schools adjusted themselves to the desires of their “customers”. Both were convinced to be the better parents and the better teachers, all too often trained and encouraged by false or misapprehended psychological theories.

“Psychologization of education was experienced as a humanization of education”

Bernhard Bueb writes:

“In post-war Germany a process began, which I call the disastrous psychologization of education. (...) Parents and teachers tend to send an odd child to psychological treatment instead of examining whether the child did not become disoriented by too much freedom, care, anxiety and indulgence by its parents. Psychological knowledge was gained from the consequences of authoritarian education in the first half of the last century. Today, psychology should care about the psychological consequences of non-education. Of course, children fall ill psychologically and require psychotherapeutic treatment. Parents, teachers or educators must

decide, however, whether consultation is necessary. The maxim should be that therapy is to start only if all other educational measures are exhausted (...).

We must face the problem that we have wanted to absorb the consequences of non-education with the help of psychology during the last decades. The great moment for psychology had come, when educators had shifted the balance between discipline and love to the latter. The psychologization of pedagogy was experienced as the humanization of education. A lack of effort, aggressivity and concentration deficits were explained by psychological models developed in different psychological schools. These deficits did no longer have to be interpreted morally. The fidget was ‘neutralized’ as attention deficit syndrome; refusal to work was made acceptable by calling it high gift (misjudged by teachers), the inclination to annoy others by low self-esteem and lack of love in early childhood.

We should take children and young people more serious as moral subjects and should not explain their behavior by means of psychological theories, too quickly and thus provide them with an excuse. We must offer help, however, so that they can resist the consumption pressure. How often did we explain the consumption of hashish psychologically in Salem [the boarding school which Bueb managed for 30 years, A/N], in the seventies and eighties; we had endless discussions, asked psychologists for help and realized that nothing changed. The introduction of testing urine samples with consistent dismissal following a positive result contradicted the psychologist mentality; it had, however, a liberating effect on the young people. We treated the youngsters as adults; we put the decision into their hands. If they decided to go on with drugs, they were threatened by dismissal. The effect of the measure was striking. 99 per cent of the young people decided against drug consumption, because they were afraid of the drastic consequences. We should not withhold this help from young people. The procedure does not differ from the alcohol or speed traffic checks conducted by the police.

The findings of psychology can facilitate education and they have frequently done so. Psychology provided the teachers with the tools that enabled them to understand the behavior of children and young people, to interpret reasons and misbehavior better and react with differentiated measures instead of mere punishment. Psychology was beneficial as long as it was used in a masterful way by parents, teachers and educators as an additional help in interpreting the children’s behavior. However, it became a problem and produced doubtful consequences, where it was made the norm-setting authority because teachers let their decisions be guided by psychological interpretations and not by their own knowledge, their intuition and their moral concepts as educators. Psychological diagnosis and the ensuing therapy superseded time-proven educational practice.”

(From Bernhard Bueb, *Lob der Disziplin*, pp. 71, Translation *Current Concerns*)

“Me. Everything. At once”

Values and virtues, which constitute the heart of pedagogy, were banished from education. There was no more differentiating between right and wrong, morally valuable and immoral behavior, because that put too much burden on the “tender child’s soul”. Diligence, discipline, obedience and perseverance were scorned. The tiniest demands at school or in the parental household were rated as obligations and excessive demands and the alleged “pressure to achieve” was made responsible for all sorts of things. An “extended understanding of addiction” made our society an “addicted society” and the children wrote on walls, “Let me have my drugs as I let you

have your work.” Those people, who were still living according to their traditional values, were ashamed and kept silent, in order not to be denounced as the diehards who had not yet arrived in modern times.

Seen against this background, it is not amazing that we encounter children and young people, who have internalized neither values nor virtues. They are altogether self-centered and did not develop any conscience. They find it funny to pester others or, as it was the case with the young people in Munich, to very seriously injure others without feeling shame and regret later. “In the last years”, Bernhard Bueb writes, “a type of negligence has spread, which expresses itself in a particularly unbearable, self-centered and demanding attitude. (...) These children constantly expect emotional and material attention, and they have not learned to do without. They live according to the formula ‘Me. Everything. At once’ (...). They grow up in well-ordered circumstances, they are not lacking the love of their parents; but they do not know any limits or demands, they do not experience the positive effects of discipline and clear guidance.” (pp. 64) Bernhard Bueb demands a return to a pedagogy, which strengthens the child morally and does not explain and excuse the child’s weaknesses.

Training instead of diagnostic dossiers

With pragmatists such as parents, teachers and educators, this demand falls on sympathetic ears. Not so with the strategists of educational policy. They constantly molest the teachers with new reforms and try to force non-educational concepts upon them, which evidently constitute an essential part of today’s misery. They are ideological concepts made up of the clichés of antipedagogy, sociology and social psychology, which have become enriched with economic elements of the organizational development during the last few years. Their dogmas read as follows: Abolishment of teacher-centered instruction. Individualization – each pupil is to learn according to his preferences and at his own pace. Learning by self-discovery – the teacher is to organize learning situations merely as a coach and moderator. Those who still teach and instruct an entire class are considered to be “inflexible” and “old-fashioned”. They are under pressure.

Organizational development and quality control are used to implement the ideologies, which are to “promote social change” and “strengthen the autonomous efforts of the individual” but do not serve the child’s development.

Although many committed teachers are trying hard to provide their children with a realistic orientation and stability, more and more pupils, particularly the low-achieving ones, get into trouble in this terrible reform chaos. Many lack the solid structure of fundamental skills usually learned at the kindergarten, because they were kept from them.

Instead of training the children, diagnostic dossiers are drawn up as early as in nurs-

ery school and in the first year of primary school, in which the children’s deficits are written down and interpreted psychologically. Thus in the early nursery school age and in the first school years completely healthy children, who are perhaps somewhat livelier or quieter than others, are made cases for the invalidity insurance, which must then take over expensive therapy fees. Innumerable children are supplied with Ritalin (Methylphenidate). It is well-known, however, that some erroneous attitudes are increased by special attention, for example in children, who are already at the center of attention at home. In addition, the continuing health checks give the child a feeling of being abnormal, an impression many of them suffer from as adults.

I was recently concerned with a pupil, who had already been taught in a psychiatric institution during year 6. Every morning, he was taken to the hospital school 40 km away by a school bus, which picked up various children in the region. His psychiatrist and the teacher reported on his extraordinarily high intelligence quotient with admiration. Now the “highly talented” pupil, a completely normal and healthy child, sat there and was unable to learn, because he would have ruined his image in doing so. Instead of studying, he had resorted to lead his care-takers up the garden path with a sophisticated repertoire of strange behaviors.

“School must become a place for education again”

Certainly, educational therapeutic pedagogy and social work can be appropriate and helpful in certain situations, but we may not go as far as to let it take over the educational guidance of the school. We cannot allow parent-teacher discussions to turn into psychological interpretations of the children’s deficits instead of dealing with the children’s progress at school. Neither may we allow school social workers to invite pupils, who do not get along with the teacher; and as consequence new pupils rise in the middle of a lesson in order to speak with their social worker instead of facing the teacher’s tasks. Rebellious pupils have already learned to explain their bad behavior psychologically without even thinking about changing it, teachers report.

School must again become a place for education, in which the teacher may resume his place as a specialist for learning and educating. School is not a playground for doubtful psychosocial experiments. If children and young people are to be educated to be “independent and reliable citizens, to become people who are able to live within a community, people who are mature in spirit and mind”, as the preamble of the education act in the canton of Aargau demands, we will need teachers, who the children can chafe at and grow.

In Switzerland, the authorities responsible for public schools are the municipalities and the cantons and thus the citizens and taxpayers. The educational mandate is embodied both in the canton constitutions and in the education acts.

BERNHARD BUEB

Lob der

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The Cantonal Parliament of the Canton Aargau,

supported by the §§ 28-35 and 38bis of the cantonal constitution,

with the intention to provide the canton Aargau with schools,

in which youth is educated in reverence to God and in respect for their fellows and the environment,

to independent and reliable citizens, to people who are able to live within a community, to people who are mature in spirit and mind,

in schools where the young people can unfold their creative potentials and where they are made familiar with the world of knowledge and work,

decides (...)

Translation: Current Concerns