

THE EU: THE EUROPEAN MIRACLE IN REVERSE

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FOR LIFE, LIBERTY AND PROPERTY

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There is a close link between freedom and prosperity. Indeed, growth and prosperity have always followed from institutional arrangements that foster economic freedom – namely those which protect private property, freedom of contract and free, private markets; which are open to the world; and which accept the equality of all (including political rulers) before the law.

This observation holds true between countries and over time, and it can be *explained* – otherwise we could not claim that the two variables are intertwined. This relationship enables us also to make predictions ‘in principle’ – of the sort that the political economist and Nobel laureate F. A. Hayek called a “*pattern prediction*”. Such predictions are scientific so long as no precise details are stated.¹ I will apply these general considerations to the European Union: this essay’s title reveals my main thesis.

THE EUROPEAN MIRACLE

History offers many examples of different institutional arrangements bringing about the success of some societies and the failure of others. The insight into the link between freedom and prosperity is well known to good economists.² Politicians all too often neglect it: even those that are not ignorant of economics and history will often shut their eyes whenever that insight conflicts with their personal short-term interest, which is generally winning the next election. The classical and oft-cited example of an institutional set-up leading to growth and prosperity, and hence to power, is called the “*European Miracle*” from the title of Eric Jones’s famous book of 1981.³ Given that a miracle is, by definition, something that cannot be explained, a better name for the phenomenon would be the ‘Eric Jones effect’.

Until the year 1500, China, a closed, over-regulated and centralised society, was the world’s most accomplished civilisation in science, technology and organisational knowledge. At the time, Europe lagged far behind the Chinese. The technologies relevant to the Europeans’ great voyages of discovery were imported.⁴ Yet, four hundred years later Europe ruled the world.

How could this have happened? To try to explain this monumental change, in keeping with methodological individualism and rational choice theory, I will analyse the incentive structure faced by individual actors to understand their motivations and how these brought about a transformation in Europe’s fortunes. The right question to be asked is: “*What was (or would have been) in the interest of individual decision makers?*” Investigating the initial conditions we find that Europe’s luck was its diversity – geographical diversity, linguistic diversity, and a diversity of capabilities and incentives. This diversity meant differences in relative productivity and hence an intensification of the division of labour.

Furthermore, there existed several powers of approximately equal military potential. This ensured continuous rivalry, not only in the form of economic but also of military competition.⁵ Following Ronald Findlay’s⁶ ‘systemic’ view, I take ‘Europe’ or ‘the West’ as a unit of analysis (other units would be East Asia, the Arab world ...). By contrast, the ‘national’ view takes nation states as units of analysis, and thus looks at the consequences of events for individual nations and at the motivation of national rulers. Systemic analysis highlights the fact that the West had multiple competing centres and was therefore characterised by locational competition, something which is particularly important for innovators. Since the various political units were in almost ceaseless conflict with each other, in order to survive each of the Western states had quickly to adopt the innovations of its rivals. The systemic view acknowledges and emphasises that the key comparative advantage of the West was its “*comparative advantage in violence*”, in the words of the Nobel laureate in economics Douglass North. Thus it focuses on the long history of naval rivalry in the North Sea and the Atlantic. By contrast, conventional historians tend to ignore the economic significance of the use of force. A successful combination of commerce with warfare in an independent polity (such as that witnessed in the mercantile republics of Venice and Genoa, with the Dutch in the Atlantic ...) was very rare outside Europe. Provided that there is a rough balance of commercial capabilities between rival countries, the military edge of one party may be decisive. The military revolution of early modern Europe is a product of the rivalry that existed between the ascendant nation-states. It caused them to make significant innovations in strategy and tactics as well as in armaments and logistics. The situation of economic and military competition forced rulers to guarantee economic freedom to traders and investors. They did so out of sheer self-interest as economic growth was a source of military power.

The riches of the New World as well as domestic resources had to be discovered, developed, and exploited. This led to the emergence of an intercontinental network of production and trade which stimulated technological progress and investment in Europe and the New World (globalisation is indeed hardly a new phenomenon). On the supply side the overseas territories provided the Continent with raw materials. On the demand side they provided markets for the new manufacturing industries of Europe, opportunities for profitable investments and later became the destination for a massive emigration from Europe of entrepreneurial, hard-working people. The Dutch displaced the Iberian powers, which, like France, were centralised and bureaucratised. The episodes of plunder and violence, especially by Spain, of the Indies and the Americas proved to be a horrendous and wasteful mistake. The outward looking maritime states set the pace of econ-

omic development, rather than inward looking land-based states such as the Habsburg Empire, Prussia, and even France to a certain extent. Agrarian states including Russia, Poland and Hungary lagged far behind. Only the outward-oriented, noncentralised Low Countries and later Great Britain – first with its intellectual revolution in the form of the Scottish Enlightenment, led by scholars such as David Hume, Adam Smith, Adam Ferguson; and then with its Industrial Revolution – were able to initiate the modern industrial world.⁷

DIVIDED WE STAND

Without competition and relatively secure property rights there would have been no ‘miracle’, and Europe would have stagnated at about the level it had reached in 1500, just as the Chinese empire failed to progress. Findlay concludes that the motto for the European states system should be: “*Divided we stand, united we fall.*”⁸

Several episodes in modern history have also been called ‘Miracles’, such as the German Miracle’, which occurred following that country’s post-Second World War economic reforms. Similar developments have occurred in Japan, in East Asia and even in the Peoples’ Republic of China.⁹ In each and every case, institutional reforms protecting private property and civil liberties, freedom of contract, free private markets and increased openness to the outside world have been rewarded by growth and prosperity. But it is the European Miracle that exemplifies this relationship best of all.

Economic integration is clearly beneficial to all the nations concerned. But who profits from *political* integration? Why should leading national politicians want to induce nation-states to form a political union – be it a confederation of sovereign states, a big multi-national superstate or a ‘judicial’ entity like the present EU, which belongs neither to the first nor to the second category? Absolute size does confer certain advantages in military conflicts. But national politicians will only have an interest in the promotion of political integration if they hope that they themselves may become members of the new EU political class which eventually will ‘rule’ Europe. They are likely to support centralisation in Brussels and subjection to decrees from the EU bureaucracy, as this means less citizen control through elected national parliaments of the rulers and of the influential, big rentseekers.

THE BATTLE OF ARMINIUS

So far, all attempts to rule ‘Europe’, defined as the western rim of mainland Eurasia, have failed. The Romans made the first attempt. Their *Pax Romana* ended with the Arminius battle held in the Teutoburger Wald in the year 9 of our calendar. Arminius’ victory destroyed the myth that Rome was invincible.¹⁰ The importance of that event can hardly be overstated.¹¹ It may well be the most important event of Europe’s whole history. Without it Europe would have become a European Empire: there would have been a precursor to the EU almost two millennia ago. In the event, the regions east of the Rhine missed out on Roman civilisation. But this turned out to be a price worth paying, because otherwise unification would

have caused Europe to stagnate indefinitely, just as was the case with China. In the end the Roman Empire destroyed itself by over-taxing its citizens and by introducing a burgeoning redistributive state (the infamous *panem et circenses* or bread and circuses) – the parallels with the EU are quite obvious.

What about other attempts? Charlemagne did not really wish to build a European empire, since he divided his legacy among his three sons. The Holy Roman Empire (which later became the German Nation or Germano-Roman Empire) was fatally weakened in the Thirty Years War. The emperor of the Casa d’Austria was interested only in his dynasty, not in the ‘Reich’. Bismarck did not harbour any aspirations to European supremacy; he did not even annex Austria. Adolf Hitler’s ‘fortress Europe’ was but a short episode, and Stalin made it only to a line from the Baltic to Berlin to Trieste or Sofia.

FRANCO-GERMAN ALLIANCE

France aimed at European supremacy ever since becoming a nation-state. This ambition led to a series of wars starting with Louis XIV’s in the latter part of the 17th century and ending with Napoleon’s defeat at Waterloo in 1815. In both the First and the Second World War, France had to be rescued by American intervention, which turned out to be a humiliating experience. Eventually France abandoned all hope of achieving European supremacy *directly* by military means. It changed its strategy to an *indirect* approach: shrewdly and clandestinely imposing its ‘model’ (*étatisme, centralisme, dirigisme*) on the evolving and willing EEC. The French displayed brilliant negotiating skills. Their politicians and bureaucrats repeatedly demonstrated considerable ability to bully their European counterparts. Overall, they have been successful – take the CAP, the composition of the personnel of the EU Commission and the EU Court in Brussels.

The French strategy was willingly accepted by the Germans, thus creating a Franco-German axis. Big business and the banks in Germany wanted a big market with Brussels in control – less parliament and less Bundesbank. Germany’s ordinary citizens also had much less commitment to freedom and more of a tradition of subservience to the ruling elite than, e.g., the British or the French.¹² This process was not just a German capitulation to a power-hungry France. Rather it was the emergence of an ‘axis Berlin-Paris’, with the two core powers planning to rule their neighbours, regardless of any resentment in Rome, Madrid, Stockholm or London.

French politicians, working with German industry and the banks, aimed to get rid of the German Bundesbank. They worked together with a series of submissive German governments, from Adenauer to Kohl.¹³ This is well documented. The French politicians were more outspoken than their German colleagues. For instance, Alain Juppé, former Foreign Minister in the Balladur cabinet, claimed that Maastricht would give Germany the right relationship *vis-à-vis* France: German proficiency would be more than compensated by French genius.¹⁴ Balladur’s attitude towards the market order can be seen from his dictum:

“What is the market? It is the law of the jungle ... the struggle against nature.”¹⁵

DESTROYING THE BUNDESBANK

Germany’s submissiveness is equally well documented. For instance, Germany’s former President Richard von Weizsäcker once boasted that: “In Maastricht we have rightly ratified the overall political [gesamtpolitischen] wish of the French no longer to be dependent on the Bundesbank with its dominating D-Mark.”¹⁶ Roman Herzog reached the zenith of submissiveness when during his time as German President he made the euro a taboo subject which was not to be questioned or discussed during general election campaigns. In any other democratic country this would have caused an outcry – but not in Germany. However, it was not only submissiveness which caused Germany’s behaviour. Several interest groups with close connections to Helmut Kohl, including major banks and large industrial firms, wanted to get rid of the German Bundesbank. These groups, as well as the German government itself, had all been suffering from huge amounts of debt and felt that they needed ‘inflation relief’ to reduce the real value of their Deutsche Mark-denominated liabilities – at the expense of citizens and small savers. Hence, they supported Chancellor Helmut Kohl’s bid to destroy the Bundesbank. Furthermore, large banks are the main creditors of states, many of which are *de facto* bankrupt: Belgium, Greece, and Italy are three prominent examples. If government debts are ‘socialised’ (*vergemeinschaftet*) within the whole of euroland, the bank’s chances of getting some of these debts repaid increase. Moreover, the major European banks, and in particular the German banks, have large holdings of weakly performing Eastern European investments. The banks were playing paymaster to Eastern Europe not only during the Brezhnev and Gorbachev eras but they have continued that practice even after the fall of communism. *Mutatis mutandis*, this applies also to big industrial firms. Hence, they would all stand to benefit from a dose of ‘inflation relief’.

That the British kept a certain distance between themselves and the European project is understandable. They have arguably always been more open and less *dirigiste* than continental Europeans. There appears to be a basic difference in mentality between the Anglo-Saxon world and the Continental, which is demonstrated via their respective basic principles of morality. In the Anglo-Saxon world the basic rule has been that “*everything is allowed that is not explicitly forbidden*”. On the continent the basic rule is that “*everything is forbidden that is not explicitly allowed*”. To this the Germans have implicitly added “*and what is allowed is compulsory [Pflicht, a duty]*”.

In summary, it is most fortunate for Europe that Charles V, Philip II, Napoleon Bonaparte, Adolf Hitler, and Joseph Stalin proved unable to impose a unified bureaucratic order on the whole of Europe. Undeserved luck, certainly, but Fortuna is capricious.

HAYEK VERSUS DELORS

Half a millenium after the discovery of America, Western Europe found itself at a crossroads: the choice was between a ‘Hayekian Europe’ and a ‘Delorsian Europe’.¹⁷ The first possibility was a multiplicity of states engaging in political competition at all levels, including currency, tax and inter-jurisdictional competition. Such a regime would be characterised by openness to the world and co-operation whenever it was deemed useful. This set-up would have a high potential for evolutionary discovery, a process similar to natural selection – versus a centralised superstate under an interventionist corporatist regime, implementing a constructivist design: *dirigisme, planification pure à la Française* (“*l’EU cest moi*”).

The choice was made. The current shape of the EU appears largely the unintended consequence of actions by members of the *classe politique* acting as rational maximisers of what they regard as their personal interest – power and income. The wider public, meanwhile, was indifferent, cynical or brainwashed. A maximum gain for the *classe politique* can be reached in a regime approximating a totalitarian state. The tendency is clearly visible. In their words they will continue to invoke ‘democratic values’; in their deeds they will be interventionist, intensifying redistribution, tightening controls and the monitoring of the citizens. It is a safe prediction that a power-hungry political elite will consistently attempt to reduce personal freedom. They will conduct a ‘war against privacy’. Ideally their subjects should be ‘transparent’, with as little privacy as possible. Of course, there should be no financial privacy (*Bankgeheimnis*). Thus, the EU is bullying Switzerland and Liechtenstein. The Federal Republic of Germany stands as a warning: it is in the process of becoming surveillance state, with characteristics which include the ‘thought police’ (*Gesinnungsstaat*). When crossing the German border, the maximum amount of cash (or jewels) that people may carry must not exceed 15,000 euros or its equivalent; on discovery the ‘incident’ is reported to the local tax authorities.¹⁸ The EU is on the road to a ‘New Totalitarianism’. The tax cartel of states is a mechanism which enables the European political class quietly to exploit its citizens without recourse to violence. The result is a ‘Fortress Europe’ characterised by political rent creation which fosters a dependency culture.¹⁹

Brussels will push through one ‘social charter’ after another, invent more and more social rights’, and abolish more and more freedom in the name of ‘social justice. The EU will be marked by protectionism, regulation of labour markets, excessive size of the EU federal government and bureaucracy, confiscatory taxes, interventionism, and politicised courts. The European Court of justice is an example; it is accountable to no one.²⁰ The EU has become an entity that as such will be progressively inimical to liberty. Freedom will be curtailed by salami tactics, which is the normal way, as F. A. Hayek told us in *The Road to Serfdom*.

How could Helmut Kohl and co. manage to get rid of the Bundesbank and establish the euro? Today that feat would be impossible. Euroland is not the first multi-government monetary union. None were successful. For in-

stance, Singapore and Malaysia had a single currency from 1962 to 1971/72. It collapsed because of divergent macroeconomic policies and differing productivity trends – ultimately because the two independent governments were not prepared to give up sovereignty and because the social institutions of both countries failed to converge. Who can guarantee that euroland will not repeat that experience?

As pointed out above, it is imperative to focus on the personal interests of the key individuals involved when explaining the development of political entities ('functional' explanations are spurious). Contrary to what is generally believed, the driving force behind the decision to abolish the Deutsche Mark was the then German Foreign Minister Hans-Dietrich Genscher rather than Chancellor Helmut Kohl.²¹

GENSCHER'S PLAN

Since the Bundesbank was an independent institution, Kohl and Genscher could not control it. In fact, monetary policy and economics did not interest them, and they were ignorant of both fields. They were, however, keenly interested in joining in the game of foreign and defence policy, which they perceived to be an area where one can dabble without possessing any special knowledge. Genscher was particularly interested in his personal influence in Europe. He *"was prepared to offer France the bait of diminution of German national sovereignty in monetary policy, an area that did not interest him a great deal, in order to increase Germany's diplomatic weight."*²² Genscher and Kohl thus decided to hand over a national policy instrument they did not control in exchange for being admitted as major players in the game of European construction. They could not care less about what the German people were thinking, what was in the interest of citizens, or about the warnings of the economist elite. Kohl actually despised *"economics and all that nonsense"* (as he once said). In addition, remember that in Germany 'democracy' means nothing more than allowing the people at regular intervals to change the relative numbers of back benchers. In fact, it is fair to say that Germany's leading politicians despise the people: plebiscites were and are unthinkable for them. So Kohl and Genscher offered France the Bundesbank as bait.

This master plan did not work out exactly as intended, because they used up this bargaining chip during the negotiations over German unification. France's then President, François Mitterrand, did what he could to hinder German unification, but he was *de facto* powerless. He could, however, have frustrated Genscher's desire to participate in the European game of foreign policy. Mitterrand's and Kohl's closest foreign policy aides testified that *"French reticence vis-à-vis unconditional reunification led to the single currency."*²³ Roland Vaubel points out that Margaret Thatcher was disappointed by Mitterrand's changed attitude, and he asks whether she did not understand *"that Mitterrand had made his separate peace with Kohl in exchange for the mark?"*²⁴

After the French effort to achieve 'more equitable burden-sharing' had failed, a Franco-German Economic and Fin-

ance Council was set up. However, the President of the Bundesbank rejected any *non-voting* membership, and the Bundesbank successfully asserted its exclusive statutory responsibility for monetary policy in 1988.²⁵ In this situation, discussions took place between the French and the German foreign ministers (Roland Dumas and Hans-Dietrich Genscher). The two postulated that the single market needed a European monetary area with a central bank to complement it.²⁶ Genscher seized the initiative with his *Memorandum on the Creation of a European Monetary Area and a European Central Bank* of 26 February 1988. Although it was originally intended for internal discussion in his Party, the FDP (Liberal Party), it was forwarded to the Bundesbank the same day. Genscher proposed to the European Council in Hanover on 27-28 June 1988 that they should establish a body to work out the principles. The proposal made allowance for the misgivings of France and other member states about the dominance of a Bundesbank motivated solely by the goal of price stability, in line with its statutory responsibility. In Hanover the Council appointed a study group under the President of the EC Commission, Jacques Delors. The Delors Committee presented its *Report on Economic and Monetary Union in the European Community* in April 1989; the Report was accepted by the Council for further negotiations on 26-27 June of that year. In the end the French had won, and the Bundesbank with its long commitment to price stability was doomed.

SLEIGHT OF HAND

The Maastricht Treaty was a jurists' trick. It explicitly rules out the 'socialising' of state debts within euroland. But this prescription for currency management was undermined by the guidelines of the European Central Bank (ECB), which explicitly permit the Bank to accept non-marketable demands such as state debts as security for the issuance of new money. This means that a commercial bank may present to the ECB its loans to, say, the Greek state and thereby acquire fresh euros, as Josef Schuessl-burner has pointed out.

The German government tried to make the euro more palatable to an unwilling population by claiming that the European Central Bank would be even more independent than the Bundesbank. However, the ECB suffers from crucial structural and institutional weakness: it is not a centralised decision maker, something which is a *sine qua non* for success in currency dealings. Instead, the ECB is a club of national central banks with different economic and political interests. During its early decades, management of the US dollar was conducted according to similar rules – until it came to a crisis. Powers were then centralised in the hands of the New York Federal Reserve Bank. As Wolfgang Kasper has argued, such an agency is indispensable in the quickly changing world of money. The alternative is indecision, foul compromise and inflation, as Bernard Connolly has pointed out.²⁷

Also the claim that the ECB will be composed of responsible, seasoned bankers is open to doubt. The Bundesbank itself has been eroded; Karl Otto Pöhl was the last of its Presidents who embodied the 'spirit of the Bundesbank'. It is instructive to read Roland Vaubel's²⁸ devastat-

ing criticism of the position of Otmar Issing, who is a member of the Executive Board of the ECB and was previously a Board Member of the Bundesbank.²⁹

Why should the political class in Europe wish to replace national autonomy with a centralised, all-pervasive political authority, the European super-state? Because its members are recipients of the rents generated by European political activism. No wonder that they behave like the priest of a new political religion,³⁰ the custodians of the Holy Grail of 'European values': 'democracy' and political correctness. Conformism to this secular religious ideology becomes a moral imperative; heretics are persecuted.³¹ The word 'democracy has to be taken with a pinch of salt. For instance the currency issue was not put to a popular vote in Germany, where an overwhelming majority wanted to retain the D-Mark. Anybody requesting a plebiscite on as fundamental a question as that of the monetary constitution and the choice of a currency was labelled an "enemy of Europe". In Germany the ruling cartel of political parties successfully prevents political competition; whereas in commercial markets cartels do not last, the longevity of the cartel is assured under political markets. For some time to come non-centralised Switzerland with its referenda may remain as an oasis, once again surrounded by totalitarians.

Competition is not only the best but also the only way to curb power. The EU will systematically attempt to restrict or even eliminate competition at as many levels as possible. Centralisation will continue — the ratchet will move up a few notches — and power will drain slowly away from the states and be transferred to a super-state in Brussels. With the transfer of powers to make collective decisions from national to supranational institutions, the similarities between the EU and the former USSR will become even more conspicuous.³² The politburo has moved from Moscow to Brussels with its twenty unelected Commissars.

The only force which can exert real discipline on a federation or on an emerging multinational superstate is the fear of the secession of several member states. There is no formal right to secede from the EU; the European political class has every reason to rule it out a *limine*. A state that were to want to secede would most likely be called a 'terrorist state'. Within the EU even the exit option – voting with ones feet – becomes pointless if the state to which one flees has the same laws and regulations as all the others.

AN END TO COMPETITION

Currency competition has been eliminated. Fiscal harmonisation is on the agenda. Tax competition is deemed 'harmful by the finance ministers of the high-tax states. But the low-tax states will be reluctant to join the tax cartel. The social democratic Constitution of the emerging EU multinational superstate will solve this 'problem' by drawing fiscal powers away from the member states and also imposing an EU tax system.

Jurisdictional competition will also be abolished. This is because in a system characterised by individual liberty, capital mobility, free trade and the international division

of labour will soon discipline a government that has high taxes, restrictive labour laws and a host of counterproductive regulations, burdensome state and welfare arrangements. Countries with institutions that promise better returns to mobile investors will attract capital (including human capital), and hence will prosper. As such capital movements would discipline the ruling class, the EU wants to reduce jurisdictional competition. The eurofanatics try to discredit the less interventionist and socialist political regimes by calling jurisdictional competition 'social dumping'. After the end of the Cold War, in the 1990s, 'overt socialism' collapsed and 'creeping socialism' had to be marketed under a new guise in its stead. One of the EU's stated aims is "to close the prosperity gap". The EU believes that this can be achieved by imposing high and uniform welfare provisions and ecological standards across the whole of Europe.³³

A perfect example of the EU's arrogance is its attempt to limit economic freedom in other countries. A case in point is the Kyoto Protocol's bid to make Australian metal processors and metal industries less competitive.³⁴ The EU even tries to impose its environmental standards, which are designed for a densely populated continent, on New Zealand's metal industry.

DECLINE AND FALL

In the current intellectual climate, the mass marketing of politics by the state-owned media will bring about a situation in which the public passively accepts the degree of freedom the EU government is prepared to grant it?³⁵ Again the Federal Republic of Germany serves as a warning: not only governmental but also non-governmental censorship has been conspicuous, particularly in the writings of modern history and its treatment in the media.³⁶ The public will wait for permission granted 'from above' – slavery can best be marketed by calling it 'liberty'. Brainwashed by both the electronic and print media, the public forgets that freedom is not given but has to be 'taken' by those with a modicum of courage and self-confidence.³⁷ To the more tangible, visible costs of the EU should be added the enormous opportunity costs; costs in the form of what 'Europe' could have achieved if it had institutions favourable to economic freedom and openness.

In this context it will be interesting to observe how the EU will fare in indices rating economic freedom and prosperity such as the Fraser Institute's *Index of Economic Freedom of the World*. In recent years, key European countries have lost ground in economic freedom ratings. In 1970, Germany was the 7th freest economy, by 1999 it had dropped to 15th. In the World Competitiveness Report (World Economic Forum in Geneva) it rated 3rd worldwide in 1990 and 1st in Europe; by 2000 it had dropped to 15th. During the same time, France went from 16th to 34th; Belgium from 2nd to 20th; the Netherlands from 5th to 9th. Many other EU countries have stagnated in the international league tables: Italy was 23rd in 1970 and 24th in 1999; Spain went from 25th to 29th; Greece from 31st to 38th. Over the same period, there were also a few marked improvements: the UK rose from 27th to 4th and Ireland progressed from 23rd to 6th. The econ-

omic consequences of such improvements in economic freedom are well known and should surprise no one.³⁸

But which policy design will win the upper hand under EU ‘harmonisation’: the ‘Anglo-Saxon model’ or a combination of the ‘Rhenish model’ of increasing control with Mediterranean *dirigisme*? It will be interesting to see how the EU fares in the 2002 Index.

The Maastricht Treaty is succeeding in creating an artificially ‘harmonised’, bureaucratised European welfare state, a taxing cartel of states, a protectionist ‘fortress Europe’ (similar to that of which Hitler dreamt). This artefact will not be able to meet the challenge of the economically dynamic USA and Pacific Rim states. A new era may begin, an era of a united European welfare state failing to keep up with competition in America and the Far East. This conclusion is a scientific ‘pattern prediction’: if it is not restrained, the EU will eventually lead to the unravelling of the ‘European Miracle’.

NOTES

1. Thus, in 1920 the Austrian economist Ludwig von Mises predicted the fall of the Soviet Union, because he recognised that that system was untenable in the long run. Had he specified a date for the collapse of the USSR, he would have turned his *prediction* into a prophecy, since the date when a particular event will happen depends essentially on the initial conditions (singularities). These are influenced by human action, which cannot be predicted – after all, ‘action’ means that an individual could have behaved otherwise. Moreover, actions often have unintended and unforeseeable consequences.
2. I take this to be an analytical sentence: an economist who denies this link I would not call a ‘good economist’.
3. E. L. Jones (1981), *The European Miracle: Environments, Economics, and Geopolitics in the History of Europe and Asia* (2nd Edition 1987), Cambridge, MA: Cambridge University Press.
4. The compass, stern-post rudder, gunpowder (Chinese cuisine) and cannon came from China; the lateen sail and knowledge of the winds and currents of the Indian Ocean came from the Arabs.
5. W. Kasper and M. E. Streit (1998), *Institutional Economics – Social Order and Public Policy*, Cheltenham: Edward Elgar. See Chapter 12.
6. R. Findlay (1992), “The roots of divergence: Western economic history in comparative perspective”, *American Economic Review* 82(2): 158-161 (May).
7. R. Bernholz, M. Streit, and R. Vaubel, R. (eds.), (1998), *Political Competition, Innovation and Growth*, Berlin: Springer. See the articles by de Vries and Pollard on pages 209-222 and 223-238 respectively.
8. Finlay, *op. cit.*, p. 161.
9. W. Kasper (2001-2002), “Economic freedom watch”, *Policy (Australia)* 17(4): 37-43.
10. J. Baechler (1995), *Le capitalisme I: Les Origines*, Paris: Gallimard. See p. 308.
11. Baechler writes: The date of 9 April should be considered by Europeans as the most important date of their whole history. “*La date de 9 apr. J-C., ... ou d’Arminius anéantit les trois légions ... devrait être choisie par les Européens comme la plus importante de toute leur histoire.*” See Baechler, *Le capitalisme*, *op. cit.*, p. 328.
12. Subservience to the state and its elevation, e.g., in Hegel to ‘*God’s idea on earth*’ (“*Der Staat ist die göttliche Idee wie sie auf Erden existiert*”) led to eponyms like ‘state slaves’ or ‘*maladie allemande*’ (Raymond Klibansky).
13. Helmut Kohl was certainly the best Chancellor the French had ever had and will ever have.
14. *Libération*, 6 September 1992.
15. Quoted from an interview in the *Financial Times*, 31 December 1993.
16. *Die Woche*, 19 September 1997, translation by Gerard Radnitzky.
17. G. Radnitzky (1991), “Towards a Europe of free societies: Evolutionary competition or constructivistic design,” *Ordo, Jahrbuch für die Ordnung der Wirtschaft und Gesellschaft* 42: 139-169.
18. The ‘war against privacy’ has a long tradition in Germany: one of the slogans of the National Socialist German Workers Party was: “We no longer have private people” [Privatleute haben wir nicht mehr]. Capital flight was punishable by death.
19. As Bismarck shrewdly commented: dependent people are easier to rule. The Swedish Social Democratic Party designed the ‘Swedish model’ – the advanced welfare state – to foster such a culture, because it offers the best guarantee to be re-elected.
20. A. Evans-Pritchard “Now it’s blasphemy to mock Europe”, *The Spectator*, 10 November 2000.
21. R. Vaubel (2001), “The Road to Maastricht: Negotiating Economic and Monetary Union” (review article), *Economic Affairs*, September 2001, London: Institute of Economic Affairs. See p. 61.
22. B. Connolly (1995), *The Rotten Heart of Europe: The Dirty War for Europe’s Money*, London: Faber and Faber. See p. 74.
23. See Jacques Attali (1998), *The History of the Euro* as well as Horst Teltschik’s diary of 1991: 329 *Tage*, p. 61 and his book *Verbatim* of 1995, vol. 3, pp. 353 f.
24. Vaubel, *op. cit.*, p. 62.
25. See R. Bernholz (1999), “The Bundesbank and the process of monetary integration in Europe”, in Deutsche Bundesbank (ed.): *Fifty years of the Deutsche Mark, Central Bank and the currency in Germany since 1948*, Oxford: Oxford University Press, Chapter 15, pp. 731-789; see also *Historisches Archiv der Deutschen Bundesbank*.
26. Bernholz (1999), *op. cit.* See the interview by Peter Bernholz of Hans Tietmeyer on 9 July 1995.
27. Connolly, *op. cit.*
28. R. Vaubel (2000), “Commentary on Issing” in: *Hayek, Currency and competition and European Union*, Occasional Paper 111, London: Institute of Economic Affairs. See p. 62.
29. When secession rights were discussed at the 2001 regional meeting of the Mont Pèlerin Society, Peter Schmidhuber, a former banker at the Bundesbank caused a murmur by claiming axiomatically: “*The EU is forever.*”
30. This term and concept were introduced by Erich Voegelin in 1938 and by Raymond Aron in 1939 [*religions séculaires*]; see also H. Bouillon ed. (2001), *Do Ideas Matter?*, Brussels: Center for the New Europe, pp. 43 ff.
31. See Evans-Pritchard, *op. cit.*
32. See B. Vandulet (2001), “Macht und Ideologie in Europa: Wie die EU regiert wird”; *Deutschland-Brief* (August/September), pp. 6-13.
33. See A. de Jasay, “Europe’s Social-Democratic Government”, *Wall Street Journal Europe*, 5 December 2000. In the apt wording of A. de Jasay, “*all but a few are moving towards this socialist superstate with their eyes wide shut.*”
34. W. Kasper (2001-2002), “Economic freedom watch”, *Policy (Australia)* 17(4): 37-43. See p. 42.
35. Admittedly, there is increasing resentment among young people in Italy, Sweden, Spain and even in Germany as books and periodicals testify.
36. See the work of the human rights analyst Alfred de Zayas.
37. A de Jasay (1997), *Against Politics*, London: Routledge. See especially the section on liberties versus rights.
38. J. Gwartney and R. Lawson (2001), *Economic Freedom of the World, Annual Report 2001*, Vancouver, Canada: Fraser Institute. See Chapter 5.