



May Newsletter 2010

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Past events

9th June, 2010

The Mises Circle, European Parliament, Brussels, Presentation of the book "Economic Calculation in the Socialist Commonwealth", by Ludwig von Mises.

26th May, 2010

The Mises Youth Club on "What do Europeans have in common?" Lecture by Christopher Gillibrand, Research Fellow at Progressive Vision

21 - 24th May 2010

Weekend Retreat to Germany with Prof. Roland Vaubel from Mannheim University.

12th May 2010

Mises Circle, European Parliament, Brussels, Presentation of the book "Our Enemy, the State" by Albert Jay Nock

Upcoming events

Presentation of the book "Economic Calculation in the Socialist Commonwealth", by Ludwig von Mises, organized by The Mises Circle

Speaker:

- ❖ Maria Neag, Assistant to the Romanian delegation with the EPP group in the EU Parliament.

Time and Venue: 9th June, 2010, 18:00 – 19:00 at the European Parliament, Room A4F.384

"Is an Enlargement of the Euro zone still desirable and possible?"

Lunch debate organized by the Ludwig von Mises Institute-Europe

Opening word:

- ❖ **Annette Godart-van der Kroon**, President of Ludwig von Mises Institute-Europe

Speakers:

- ❖ **Professor Markus Kerber**, Technische Universität Berlin, Germany and co-author of the book "Der Kampf um den Lissabon-Vertrag: Das Ringen der deutschen Bürgergesellschaft um die europäische Integration", (2010)
- ❖ **Michael Jäger**, Secretary-General of the Taxpayers Association, Germany
- ❖ **Ivo Strejcek**, MEP and member of the Committee on Economic and Monetary Affairs at the European Parliament
- ❖ **Slawomir Witold Nitras**, MEP, Member of ECON (tbc)
- ❖ **Ivari Padar**, MEP (tbc)

Time and Venue: June 22, 2010, 12:30 – 14:30 at the European Parliament, Room ASP A1H1, in Brussels

Regulation versus non-regulation

Since the latest developments in the financial world, a lot has happened. The Glass-Steagall Act has been abolished in 1999, but because of the latest events, like the financial crisis and the crisis of the Euro Zone, new legislation has been prepared. As I may indicate, I wrote in my presidential address of January 2009, that we will need a replacement of this Glass-Steagall Act. Since then the following proposals have been made in the USA, but I am convinced that Europe will follow.

- The regulation of trade in derivatives. Derivatives or derived products that are contracts based on the market quotations of a share. The Senate wants to shift this trade to regulated stock markets in order to supervise this trade.
- Consumer protection. For this the Federal Reserve gets a specified department.
- A Supervisory Board: the Financial Stability Oversight Council has to supervise the banks. The board can oblige the banks to reinforce the structure of their capital.
- The Volcker Rule. This is interesting, because again a Democrat -in this case the Presidential Advisor Paul Volcker- has proposed a rule, in this way giving his name to a new, regulatory rule. This rule contains a prohibition of trade on their account by banks, the so-called proprietary trading.
- Banks are not allowed any more to invest in hedge funds;
- The three biggest banks in the USA are not allowed to expand, via taking-over of other banks. This is a right decision: As the (wrong) assumption that those banks are “too big to fail” has been widely accepted, those banks feel themselves “untouchable”.
- This bill also tackles the rating agencies. These proposals are going to cost a lot of money. Goldman Sachs has calculated that it could reduce profit by 13 %. These proposals are not definite yet, but there is a start.¹

The Conservatives in the USA will surely protest, saying that their “freedoms” will be attacked, but is that correct? Unlimited freedom is not possible. Individual freedom stops, where the freedom of another individual starts.

No one else than Karl Popper has condemned unlimited capitalism in his famous book “The open society and its enemies”. “I believe that the injustice and inhumanity of the unrestrained “capitalist system” described by Marx cannot be questioned; but it can be interpreted in terms of what we called, the paradox of freedom. Freedom, we have seen, defeats itself, if it is unlimited. That is why we demand that the state should limit freedom to a certain extent, so that everyone’s freedom is protected by law. Nobody should be at the mercy of others, but all should have a right to be protected by the state”²

This role of the state should not be interpreted as a situation where the state is taking over completely because that effects freedom even more, only that we need the Rule of Law³ to regulate freedom. This implies also that -however right this role is- we should be vigilant to limit the power of the state at the right moment. But the financial market - just like unlimited freedom - has to be supervised and, yes: regulated⁴.

¹ De Standaard May 22, 2010, p. 32

² Karl Popper “*The open society and its enemies*”, part II, p. 124

³ F.A Hayek “*The Constitution of Liberty*”, Routledge 1960, p. 222 ev.

⁴ See also Marc De Vos, “*After the Meltdown*”, Shoehorn Media Ltd, 2010

“Eurotax: how to keep the fiscal sovereignty of the Member States?”

Article by Auke Leen, Assistant Professor of Economics at the University of Leyden and Research Fellow of Leyden Law School.

This autumn, after a period of consultation with citizens, scientists and politicians, the European Commission will present a report on how to reform the budget of the European Union (EU). Part of the reform will be a new approach to the own resources of the Union. At this moment, almost 85 percent of the income of the EU directly relates to the Gross National Income (GNI) of the Member States. The Member States pay the EU about one percent of their GNI.

For the Commission there are two major drawbacks of the present system of financing the EU. First, it leads to the infamous *juste retour* thinking of the Member States. States look at what they give as a country and what they get back as a country. They do not look, as it actually should be, at the added value of the expenditures of the EU to Europe as a whole. Hence the EU wants a greater autonomy *vis à vis* the Member States with new own resources. Second, the EU evolved from a union of states to a union of states and citizens. Therefore a direct bond between citizens and the Union is the logical next step: a Eurotax is part of that idea.

At this moment, the EU is thinking of direct taxes on consumption, transport or communication. More specifically, the ideas vary from paying a part of the VAT directly to the EU: an EU tax to appear on all receipts, as the chairperson of the European Commission, Jose Barroso proposes. Alain Lamassoure, MEP and chairperson of the budget commission of the European Parliament, proposes a tax of 1.5 cent on every text message and 0.00001 cent on every e-mail.

There is a problem, however. The Member States certainly do not want to lose more of their fiscal sovereignty than they already did. In 1957 in the Treaty of Rome, the Member States agreed that the EU should have its own resources. Though the concept is nowhere defined, own resources are composed of levies on agricultural products and imports from abroad. At this moment, these traditional own resources supply less than 15 percent of the income of the EU. The reasons they belong to the EU, however, are convincing: they are the direct result of the existence of the EU itself and of its policies. The new resources proposed by the EU however are not, without artificial stretching of the argument, the direct result of EU policies. The EU is aware that the Member States would interpret these new resources as a loss of fiscal sovereignty. Hence, the EU emphasizes that “fiscal sovereignty will be maintained but only temporary the receipts of certain taxes will go directly to the EU”. This is all rather vague; probably it will not convince the Member States.

In this situation there are two possibilities of new resources that neither intrude into the fiscal sovereignty of the Member States nor are an extension of it compared to what Member States have already lost in the past.

The **first possibility** is a **declaratory tax**. With a declaratory tax a Member State still pays a certain amount of money directly to the EU. The amount, however, is shown directly to its citizens as a part of the VAT or part of the income tax - or whatever form of taxation Member States consider as best. That is, every Member State can choose its own ‘EU’ tax. This is a real gain: preferences on how to tax citizens do differ in the Union. The big drawback of the idea is that in the eyes of the citizens the EU would have a greater autonomy than it does in fact have. Member States still pay to the EU - not their citizens. It is only *pro forma* that the amount of money is linked to a certain tax.

The bond between citizens and the EU, however, is emphasized without losing fiscal sovereignty.

The **second possibility** is that the EU gets the **seigniorage of the European Central Bank**. The monetary gain of the creation of the Euro, now paid out every year to the National Central Banks, is about 0.4 percent of BNI. So it would pay for about a third of the EU budget. Taxing the seigniorage would be a logical extension of the present traditional own resources since it is the direct result of the existence of the Euro as it is created by the EU. The big drawback is that this idea has nothing to do with creating a direct bond between citizens and the Union.

Both possibilities probably would not make the EU happy. However, you cannot win them all. Just like always in politics, you cannot choose between the good and the bad, but you have to choose between two bads. Moreover, supposed we do get a Eurotax, what to do with the difference in the quality of national tax collection? In some countries no doubt the part of the VAT belonging to the EU would be collected, but in other countries this would certainly not be the case. Some EU citizens would pay and others would not.

In short, the situation of the forerunner of the EU, the European Coal and Steel Community (ECSC) is indeed still very far away from the EU. The ECSC had and could collect its own taxes: a levy with a maximum of one percent on the production of coal and steel collected by its own tax administrators. Still, though seigniorage would not be the ideal solution the EU might desire, in some sense the autonomy of the EU would grow. Therefore, of the two possible alternatives of taxation presented here, this would probably be the better one. Taxing seigniorage together with the already existing traditional own resources would supply more than half of the EU budget. The direct contribution of the Member States would be substantially lower. Maybe the *juste retour* thinking would be less prominent too. Who knows?

Analyses and reports

"Our Enemy, the State" by Albert Jay Nock

Report on the meeting organized by the Mises Circle

- ❖ Time and Venue: May 12, 2010 at the European Parliament, Brussels
- ❖ Speaker: Vincent De Roeck, President of the Mises Youth Club

Before describing the book "Our Enemy, the State" by Albert Jay Nock, published in 1935, a short biography of the author would be appropriate. Albert Jay Nock was born in 1873 in Pennsylvania, but his family soon moved to New York where he was raised. We do not know much about his personal life: he was a deeply private man. In 1897 he was ordained as an Episcopal priest, but left the clergy in 1909 and became a journalist for "The Nation" magazine, supportive to libertarian capitalism at that time. From 1920 on he worked as co-editor for the "The Freeman" for four years before starting to work as a freelance journalist. He died in 1945, before seeing the end of the II World War, a war he deeply opposed.

Nock was an anarchist, but not in the left meaning of the word. He was a conservative, even if it seems like a contradiction in terms. Nock saw himself as a "psychological anarchist", not as a politician or an economist. He was critical about both totalitarianism and democracy, that is to say that he opposed Bolshevism, Fascism, Hitlerism, Marxism and Communism, but in his opinion

democracy is not the solution either, even if it seems the second best choice. He was also very critical of the politics of his time: he opposed Wilson's entry into WWI, Roosevelt's New Deal and his collectivism and universalism in international relations.

Although being courted by both conservatives and libertarians, Nock refused to join any association or political party, not because he did not share their ideas but just because he thought it would be completely useless and unproductive. Nevertheless Nock could be considered as the father of the Paleo conservative movement, which basically favors non-intervention and isolationism, as opposed to Neo conservatism, most notably represented by George W. Bush and Dick Cheney in recent times, which favors interventionism.

The author gained more popularity after death than he enjoyed in life: "Our enemy, the State" attracted a lot of attention due to its philosophical content. "Our enemy, the State" is not only notable for its content, but also for the style in which it is written: its prose is beautiful and majestic. One of the principal concepts of the book is that Liberty is not a right but a "Beatitude of the soul", as Nock himself called it. To him, freedom is something that is inside us, a condition of the human being, not a acquired or bestowed right.

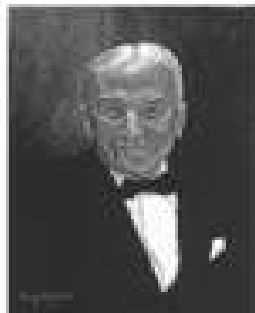
Nock was deeply influenced by the German sociologist Franz Oppenheimer, especially by Oppenheimer's famous work "Der Staat", which he read after it was translated into English in 1915. He stated, following the thoughts of the German sociologist, that men can pursue happiness and the satisfaction of their needs in two ways: either through work, which can be defined as economic means, or through robbery - the appropriation of other people's work - which can be defined as parasitic means. The state, according to Nock, "claims and exercises the monopoly of crime" and is consequently the perfect example for using parasitic means.

The State is an instrument of oppression, the symbol of the corruption of democracy. However, what he identified as evil is not the government itself, which could be good and right if the governors are good. But if they use the state as a means to appropriate more and more privileges, nothing but corruption and unhappiness awaits the people.

"The State is a myth but also a terrible tragedy", writes Nock. He did not look at the state like a politician; we must not forget that he was first of all a philosopher. His whole book is permeated with pessimism, i.e. a complete disillusion in the possibility of reforming the current political order. He rejected democracy, but he did not suggest another political system to replace it either. For him, the ideal solution is anarchy. But how to get there? To his mind, rebellion of the people against the state is the only way. However, believing that it would be impossible to convince a large share of the general population of the right course of action and opposing any kind of violent revolution, Nock instead argued that libertarians should focus on nurturing what he called "the Remnant". Only a Remnant, an illuminate group of people could save mankind from the state which is only corrupting the people. The Remnant consists of a small group who understands the nature of the state and of society, and who will become influential only after the dangerous road taken now [at the time of Nock] has become thoroughly and obviously untenable - a situation which probably will not arise until far into the future.

Following Nock, all we can do is to wait for the Remnant. We do not know when the time will have come, but we can be sure that it will come!

“THE LUDWIG VON MISES INSTITUTE-EUROPE IN SHORT”



Ludwig von Mises (1881-1973)

The Ludwig von Mises Institute-Europe VZW was officially established in October 12 2002.

Mission Statement

The Ludwig von Mises Institute-Europe primarily aims at:

- ❖ **Exchanging and reintroducing** the basic values and principles of Liberalism, especially the ideas of the Austrian School;
- ❖ **Bridging** the gap between “Brussels” and the European citizens and between Eurocrats and Euro-skeptics;
- ❖ **Acting** as an interface between the academic, the political and the business world.
- ❖ **Connecting** liberal-minded individuals and organizations at national and international levels.

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The Ludwig von Mises Institute-Europe is a non-partisan think-tank fostering an open and free society and dedicated to bridging the gap between believers in the free market across artificial boundaries that often divide academic, business, and political circles. It connects liberal-minded individuals and organizations at national and international levels and wants to bridge the gap between “Brussels” and the European citizens and between Eurocrats and Euro-skeptics.

The Ludwig von Mises Institute-Europe wants to act as an interface between the academic world, the political world and the business world. Since its foundation in 2002, the Institute has successfully organized a variety of conferences, targeted dinner debates and lunch debates. Members include former Prime Ministers, MEPs, former commissioners, key politicians, senior academics, business leaders and prominent journalists.

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