A Ponzi Scheme for Europe's Pensioners by **William Franklin** [1]

Research published in 1996 by *Merrill Lynch* estimated that for the period to 2070 the average pension liability per person in the UK, in 1996 money, was a little over £1000. The equivalent figure for all other countries in the *European Union* combined is £26 000. Some day Brussels will instruct the *British Government*...in the name of harmonisation...to be good little Europeans and spread all these debts across the *European Union*...at a cost to every household in the UK of £ 75 000. [2]

If honest accounting policies were adopted, such as those which companies are required to follow, then *Government Debt* on the Continent would be vastly higher than officially stated. These governments have simply not taken into account the debts they have to pensioners, despite the fact that these are the most solemn obligation of the state and ought to be one of the first to be honoured in any decent society. But this hidden debt is never mentioned.

Speaking to the *European Parliament* in 1995, Jacques Delors, *President of the European Commission*, said: '...economic and monetary union means…that the *European Union* recognises the debts of all countries in *European Monetary Union*.'

Even without a single currency, mechanisms exist which would allow the debts to be shared between *European Union* countries, with the UK picking up some of the bill for continental profligacy.

The *European Union* budget could be modified in the name of a 'level playing field' to assist areas with 'imbalances' or the UK could be accused of unfair competition in the labour market because paying state pensions keeps down labour costs. There are always ways and means where the *European Union* is concerned.

This 1997 statement of the *Europension Problem* represents a worst-case scenario but the political issue is real enough. In Europe we currently have four working models. The Northern Europeans (the English, Swedes and Norwegians) carry their pension funds on the books and hold real assets on public and private balance sheets. [3] However they manage their pension funds differently.

The English entrust their pension fund assets to pension fund managers in the *City of London*; the Swedes (since their 1992 pension reform) allow individuals to manage their own pension funds...subject to restrictions; while the Norwegians entrust the pensions of their citizens to civil servants who manage the enormous oil revenue-based funds in the public interest.

The *European Catholic States* run a sort of *Ponzi Scheme* for their pensioners…paying pensions as they fall due from the current account. Ponzi schemes have a bad name but as long as everyone keeps calm and carries on the funds keep flowing merrily along…new taxes paying for the old entitlements.

There is an assumption in these figures that the *Catholics* ought to behave like the *Anglo-Saxons*...something the French have always been loath to do where financial matters are concerned. They have never liked getting embroiled in 'time exchanges' where twenty Euros today is swapped for a Euro a year in perpetuity. R.H. Tawney is very good at explaining all the 16th century paraphernalia of annuities, life insurance, actuarial tables etc. [4]

There are also real alternatives [5] to the convoluted legally-piggily idiocies of a four centuries old financial system with its foundations mired in *Venetian Double Entry* book-keeping…though implementing them is not for the faint hearted. [6] The archaic arrangement benefits only a tiny privileged elite; and only for as long as they can keep the mob at bay...which is unlikely to be for much longer. [7]

In 1976 the business guru Peter Drucker published an important analysis of the political implication of pensions entitled *The Unseen Revolution: How Pension Fund Socialism Came to America*. He argued that pensions constitute

a new class of property...see *The New Meaning of Property* (pages 148-153 in Chapter 3: *Social Institutions and Social Issues Under Pension Fund Socialism*).

The ever increasing potential power...for it has yet to be harnessed [8]...of this new class of property cuts right across the central bank & corporation conspiracy theories peddled by *The Left* and the *Fabian Communist Conspiracy* being pushed by *The American Right* based on an analysis that goes back to Senator Pat McCarran, the hero of Rose L. Martin's 1965 *Fabian Freeway* and her 1973 book *The Selling of America*.

Drucker's analysis is never mentioned by either faction despite the central role it should logically play in both political-economic hypotheses on how the world really works. To pursue this further I have three questions for researchers and whistleblowers.

- How large is the sovereign debt of each *EU* state (including those seeking membership such as Turkey) when off-balance sheet debt…such as the UK's *PFI liabilities* [9]…are taken into account?
- How large are the pension funds that would be harmonised in any new *EU*-wide economic treaty?
- Is there any hard evidence of a *Ponzi Scheme for Europe's Pensioners* being plotted in Frankfurt, Paris, Venice, Warsaw or Madrid as revenge on England for the seizure of bullion from Spanish galleons by Elizabeth I's favourite buccaneer Sir Francis Drake five centuries ago? Catholics dream in millennia.

End Notes

[1] First published in April 1997 in *Fortnightly Update Issue Number Six*, the campaign newsletter of Peter Etherden, *Westminster Parliamentary Candidate for the UK Referendum Party in Oldham West & Royton* and based on data presented in a speech at the *Brighton Conference of the Referendum Party* on 19 October 1996 by Terry Smith, author of a best-selling book on creative accounting entitled *Accounting for Growth* who stood as a Westminster parliamentary candidate for the *UK Referendum Party* in 1997.

[2] Terry Smith estimated that the total unfunded debt of *EU's* member states was £ 7.88 trillion. The UK accounts for 16% of the total populations of these countries. So if the British are forced to take a share of the unfunded debt of these countries on the basis of population the English would be liable for 16% of the £ 7.88 trillion, a huge sum of £ 1.28 trillion pounds. Deducting the UK's own liabilities of £60 billion gives an additional burden for the UK under a single currency of £ 1.22 trillion pounds.

[3] In the beginning pension funds were required to hold their assets in the form of *Government Bonds*, the assumption being that *Sovereign Debt* bundled together as bonds were a safe form of pension fund asset. After a decade or so, bogus but authoritative studies argued that shares gave much better returns than government bonds so this restriction on pension fund assets was removed 'to improve returns'. In fact there is little difference between the returns on shares and bonds. They both just about keep pace with the inflation generated by the issuing of money by central bankers as debt at interest.

The howler in the methodology (and this applied to just about all the studies...one from *Harvard Business School* being particularly notorious as there is little doubt that they knew better) was to ignore shares that had failed. Instead of taking a portfolio of shares and tracking them through the next ten or twenty years of their corporate lives to see how they fared, researchers took a present day portfolio and tracked them back over ten or twenty years thereby ensuring that only the returns on the fittest surviving shares were included in the calculation of returns…a good example of lies, damned lies and statistics!

[4] See the *cesc Tawney web pages* at http://cesc.net/serifweb/scholars/tawney/ . On the known gold holdings of sovereign states, see http://williamfranklin.blog.co.uk/2009/12/28/golden-delicious-7652327/ .

[5] Sabine Kurjo McNeill is doing sterling work with *Westminster Parliamentarians* to raise awareness about *Lincoln Greenbacks* and *Kennedy Silverbacks*. But the floodgates to placing public credit on the political agenda in the UK will not open until the first County Council or a City Council adopts the *North Dakota Banking* model at the same time as demonstrators pour onto the streets to protest against the swingeing budgetary cuts and the forced

reduction in public sector employment at the very time it should be increasing. This might be sooner than anyone expects. It was very quiet in the early months of 1939.

One of John Maynard Keynes' two crucial insights in his 1936 *General Theory of Employment, Interest and Money* was the failure of 'effective demand'…the other was to identify the metaphysical underpinnings of economics in the nature of uncertainty.

Quantitative easing is supposed to address this fatal defect in the monetary system but if the new money gets no further than bank balance sheets...with just a trickle lost in bonuses to offshore tax havens...then nothing of the sort happens, particular when the rate that money is destroyed increases exponentially at the same time with the cancellation of debts and repayment of loans.

War is one way to increase effective demand but the most efficient way to increase it peacefully during a depression is to bypass the private banks and issue money directly to those parts of the economically active population that will put the money back into circulation...the poor, the lower middle classes and those on fixed incomes.

The way to do this...not least because all the necessary mechanisms are already in place in most European countries (though not yet in the US)…is so obvious it dare not speak its name for fear of a Lincoln and Kennedy reaction: to mint money and give it fairly to ordinary people as a guaranteed income for everybody.

Benefits should also be increased dramatically...perhaps several times...to quickly put money into the pockets of ordinary people. Housing benefits should be increased, instead of entitlements slashed so as to cover the full housing costs.

Tenants are being fleeced by private energy and water companies as much as by landlords. And on the grounds of fairness, the housing benefits system should be indifferent to whether housing costs are incurred as rent or mortgage interest. Their effect is the same...something which is blindingly obvious when you look at your monthly bank statement.

As for cutting back child benefit entitlements, income support, job seeker allowance, working tax credits, disability allowances…and transfers to local councils and charities…this is about as economically illiterate as you can get.

[6] *American Greenbacks* were first authorized by the *Legal Tender Act of 1862* to pay for the *American Civil War*. They were issued directly by the *US. Treasury* but were subject to limitations established by *Congress* which approved three further issues on July 10, 1862 , March 3, 1863, and May 3, 1878. *Greenbacks* were not backed by gold, or bank deposits, or government reserves and bore no interest.

At the end of the Civil War, the *Radical Republicans*, led by Abraham Lincoln and his economic advisor Carey sought to make the *Greenback System* permanent. In March 1865 Carey published a series of letters to the *Speaker of the House of Representatives* entitled *The Way to Outdo England Without Fighting Her* in which he called for the two-pronged financial strategy for post-war reconstruction of raising the Bank Adequacy Ratio to 50% and issuing Public Credit in the form of *Greenbacks*.

Lincoln was assassinated the following month and the *Lincoln/Carey Plan* abandoned. The American economist S. G. Fisher once commented that 'the Greenbacks were the best currency that ever a Nation had.'

On June 4, 1963, President Kennedy declared that the privately owned *Federal Reserve Bank* would soon be out of business when he signed a virtually unknown Presidential decree, *Executive Order 11110*, with the authority to basically strip the *Federal Reserve Bank* of its power to loan money to the *United States Federal Government* at interest. This *Executive Order* has never been repealed, amended, or superceded by any subsequent *Executive Order*.

This order returned to the federal government, specifically the *Treasury Department*, the Constitutional power to create and issue currency - money - without going through the privately owned *Federal Reserve Bank*. President Kennedy's *Executive Order 11110* gave the Treasury Department the explicit authority: 'to issue silver certificates against any silver bullion, silver, or standard silver dollars in the Treasury.' This means that for every ounce of silver in the US Treasury's vault, the government could introduce new money into circulation based on the silver bullion physically held there.

As a result, more than $4 billion in *United States Notes* were brought into circulation in $2 and $5 denominations. $10 and $20 *United States Notes* were never circulated but were being printed by the *Treasury Department* when Kennedy was assassinated. President Kennedy knew that the *Federal Reserve Notes* being used as the purported legal currency were contrary to the *Constitution of the United States of America*.

[7] In a recent opinion piece on the London Riots in *Nation of Change* Naomi Klein quoted an opinion poll finding that 94% of millionaires were afraid of "violence in the streets".

[8] The battles between *Left* and *Right* for control of the UK pension chest began in earnest with the *2004 Finance Act*. Here is what has happened to pension legislation under the *Labour Administration* of the *Scottish Socialist* Gordon Brown.

Finance Act 2004: Legislation introduced for simplified pension tax rules to take effect in 2006;
December 2005: Residential property and investments such as fine wines are prohibited as pension assets;
April 2006: New 'simplified' tax regime. Annual allowance of £215,000 and lifetime allowance of £1.5m announced with planned rises to £255,000 and £1.8m respectively by 2010-11;
April 2006: New draw-down rules permitting 120 percent of the 'basis amount' (roughly the amount of annuity a fund could buy). After age 75, alternatively secured pensions (ASPs) can be used to pass pension funds to the next generation;
December 2006: Tax relief on standalone pension term life assurance withdrawn;
April 2007: Seventy percent (plus inheritance tax) charge imposed on pension funds passed to the next generation, effectively killing off ASPs;
April 2009: Anti-forestalling rules reduce maximum pension contribution to £20,000 for those with income above £150,000;
December 2009: Anti-forestalling income limit reduced to £130,000;
April 2010: Minimum retirement age rises to 55 (from 50).

No sooner were the *Conservative Party* led by Old Etonian Cameron and his *Westminster School* crony Clegg in the saddle in May 2010 than their Randian *St. Paul's School Chancellor* Osborne announced his intention of taking a broom to sweep clean the pension system. The closing words of his *2011 Budget Speech* to the *House of Commons* were: 'We want the words: 'Made in Britain, invented in Britain' to drive our nation forward; a Britain carried aloft by the march of the makers.' In *The World of Ayn Rand* there are four classes: *Producers*; *Second Raters* (like Dagny Taggatt's obedient No. 2, Eddie Withers, in *Atlas Shrugged*); *Looters* who use force to remove wealth from producers; and *Moochers* who steal wealth by guilt; and just one class of real money: gold.

Osborne in his *2011 Budget Speech* spoke of 'sound money'...code for gold. 'This is an opportunity,' he announced, 'for me to report that we have already decided to rebuild the UK's foreign currency reserves, which are at a historically low level. We will purchase a range of high-quality assets - though unfortunately, with the price of gold now at record highs, we will not be able to replenish the *Gold Reserves* sold at record lows.'

[9] The *Private Finance Initiative (PFI)* is a fiendishly clever little piece of accounting legally-piggily that enables governments to build schools and hospitals without paying for them or having the cost show up on the books. The public purse eventually picks up the tab by paying several times over the odds but it is future tax-payers who must pay...while the financial whiz-kids fly off to their tax havens with their exorbitant (and untaxed) profits.

A recent (August 2011) report on *PFI* from the *Treasury Select Committee* estimated that the cost of paying off a debt under *PFI* of £1 billion was equivalent to paying off a direct government debt of £1.7 billion. The public was told that the original idea of the *PFI* was to offload the risk of cost over-runs to the private sector. 'Humbug!' says the select committee.

A case study of the billion pound upgrade of *Barts* and the *Royal London hospitals* suggests that it is much worse than this. The excessive interest rate of twice the government's cost of finance runs for forty two years...and this is far from being the answer to *Life, the Universe and Everything*. Direct minting of public money would have ensured that *Barts* (and hence the taxpayer-funded *NHS*) would have saved a further 4.5% per annum of interest as there is actually no need for a sovereign state to issue debt at all.

It can mint its own money to clear all projects with an acceptable economic cost-benefit ratio. *Lincoln's Greenbacks* and *Kennedy's Silverbacks* show what is possible. Iceland might be compelled to rediscover the art of *Public Credit* in response to their present (externally inflicted) financial crisis.

For several decades *PFI* has been condemned by opposition parties and pledged for abolition...until they win an election and find themselves in charge of *Her Majesty's Treasury*...at which time *PFI* is 'reappraised', the new Chancellor experiences an epiphany and declares *PFI* to be a good thing after all. Why? Well, never underestimate the clever boys and girls in Frankfurt, Brussels...Whitehall and Threadneedle Street. Might it be that these future liabilities are just what the doctor ordered? Net off the *PFI Liabilities* against the *Pension Assets* and...poof...let the harmonising of Europensions begin. Perhaps the French will even give us some of our gold back? The *Bank of England's* vaults are awfully empty.