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FORD, EDISON AND REFORM OF THE DEBT-MONEY SYSTEM

The New York Times.

NEW YORK, SUNDAY, DECEMBER 4, 1921. In Ten Parts, Including Rotogravure Picture Sections, Book and Magazine Section.

In the September-October issue of *The Social Crediter* the lead article *There Is No Money! An Economic Fable* argued that "*There is no good reason why money should be created by private commercial banks rather than by the State*". It went on to suggest that, with reform of the fractional reserve debt-money system, "*the cry 'there is no money' need never be heard again and what is physically possible and genuinely desired by individuals in the community - housing, education facilities, comprehensive health care, a healthy environment etc. - should always be financially possible.*"

This was not a new proposition. It has been understood for centuries. William Hixson, for example, notes that in America "*All told there were about 250 separate issues of colonial notes by the various colonies between 1690 and 1775... (and that)... In October 1720 the new governor of New York spoke of the 'flourishing state' of the province... (and)... 'the success of (New York's) currency' which... was 'much surer than Bankers Bills in London.'*" (1)

It is clear from the interviews with Henry Ford and Thomas Edison, reported in *The New York Times* of 4th and 6th December 1921, and reproduced respectively in abbreviated form below, that support for State issued currency, especially for public works, was still strong in America two hundred years later.

The original headings have been maintained and our **emphases** have been added.

Arriving here today with Thomas A. Edison for a three days' inspection of the Muscles Shoals nitrate and water power projects, Henry Ford told for the first time the reason why he wishes to lease and operate the great plant.

"From the operation of this plant," he said, "many great things are possible, greater power production than this country has yet known... The one big thing which I see in Muscle Shoals is an opportunity to eliminate war from the world."

Mr. Ford was asked how this was possible.

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FORD HOPES TO USE MUSCLE SHOALS AS STEP TO END WARS

Wants the Government to Issue Non-Interest Notes to Cover Cost of Completion.

POWER WOULD BE SECURITY

Plans to Show the World Natural Resources and Not Gold Should Be Behind Currency.

BLAMES BANKERS' CONTROL

Peace Will Come, He Says, With Breaking of Gold Monopoly—He and Edison Inspect Dam.

Special to The New York Times.
FLORENCE, Ala., Dec. 3.—Arriving here today with Thomas A. Edison for a three days' inspection of the Muscle Shoals nitrate and waterpower projects, Henry Ford told for the first time the

The New York Times of December 4, 1921

"Just this way," he replied. "It is very simple when you analyze it. The cause of all wars is gold. We shall demon-strate to the world through Muscle Shoals, first the practicability, second the desirability of displacing gold as the basis of currency and **substituting in its place the world's imperishable natural wealth...**

Determined to End Wars

"Ten years ago I said that I intended to put every ounce of brain and energy in me to stopping war... that is why I want Muscle Shoals. I see a way which... will do more to end war than a thousand years of agitation.

"The essential evil of gold, in its relation to war, is the fact that it can be controlled. Break the control and you stop war. The only way to break the control of these international bankers, the way to end their exploitation of humanity forever, is to smash gold as a basis for the currency of the world..."

"But what have you to substitute?" he was asked.

"That's just where Muscle Shoals comes in," said Mr.Ford: "see what a spectacle we have. Army engineers say it will take $ 40,000,000 to complete the big dam. But Congress is economical just now and not in a mood to raise the money by taxation. The customary alternative is thirty year bonds at 4 per cent. The United States, the greatest Government in the world, wishing $40,000,000 to complete a great public benefit is forced to go to the money sellers to buy its own money. At the end of thirty years the Government not only has to pay back the $40,000,000 but it has to pay 120 per cent interest, literally has to pay $88,000,000 for the use of $40,000,000 for thirty years... Think of it. Could anything be more childish, more unbusinesslike!

"The United States, the greatest Government in the world, wishing $40,000,000 to complete a great public benefit is forced to go to the money sellers to buy its own money. At the end of thirty years the Government not only has to pay back the $40,000,000 but it has to pay 12 per cent interest, literally has to pay $88,000,000 for the use of $40,000,000 for thirty years... Think of it. Could anything be more childish, more unbusinesslike!"

Would Simply Issue Currency

"Now, I see a way by which our Government can get this great work completed without paying a nickel to the money sellers. It is as sound as granite, and there is but one thing hard about it. It is so simple and easy that, maybe, home folks can't see it.

"The Government needs $40,000,000. That is 2,000,000 twenty-dollar bills. Let the Government issue those bills and with them pay every expense connected with the completion of the dam. The dam completed we can set the whole works running, and in a shorter time than you would suppose, the entire $40,000,000 issued can be retired out of the earnings of the plant."

"But suppose the contractor would be unwilling to accept that kind of currency in payment?" he was asked.

"There is not that kind of suppose in the situation at all," said Mr. Ford, smiling. "He would take Government bonds in payment wouldn't he? Certainly! Here," said the manufacturer, pulling a twenty-dollar bill from his pocket, "he wouldn't hesitate about taking that kind of money would he? Of course not. Well, what is there behind a bond or this bill that makes it acceptable. Simply this, the good faith and credit of the American people, and twenty-dollar bills issued by the Government to complete this great public improvement would have just as much of the good faith and credit of the American people behind them as any bond or other American currency ever issued. You see it is just a question of faith in the American people."

"But your plan would upset the money system of the world and might work incalculable harm," he was told.

"Not necessarily... We need not abolish anything... **whenever the Government needs money for a great public improvement, instead of thinking of bonds with heavy interest charges think of redeemable non-interest-bearing currency**... Do you appreciate that 80 cents of every dollar raised by taxation is spent in the payment of interest? The national debt is nothing more nor less than the nation's interest liability pile. **Every public improvement this country makes means an increase to the national debt. Here is a way to get the improvements without increasing the debt. The interest load is breaking down our whole financial system. We've got to stop somewhere...**

Would Use Power as Money Unit

"... Under the new currency system a certain amount of energy exerted for one hour would be equal to one dollar. It is simply a case of thinking and calculating in terms different than those laid down to us by the international banking group to which we have grown so accustomed that we think there is no other desirable standard. We should change our minds on that question. The only difference between the currency plan and the bond plan is that there is no interest to be paid and the Wall Street money merchants, who do nothing to build the dam and deserve nothing, will get nothing."

"But how is all this going to stop war?"

"Simply because if tried here at Muscle Shoals this plan will prove so... successful that the American people will never again consent to issuance of an interest-bearing bond for a national improvement. When the Government needs money it will raise it by issuing currency against its imperishable natural wealth. Other countries seeing our success will undoubtedly do likewise. The function of the money seller will have disappeared..."

"Do you expect that Congress will act favorably on your suggestion?"

"Well I don't know as to that. Maybe they won't, but I'll bet that the average American citizen will see the righteousness, the soundness and the common sense of this thing. But, no matter what becomes of this suggestion,... if I have to take up the whole bond issue myself, I will see that the interest goes towards lowering the cost of the product...

"My ambition is not to own Muscle Shoals, but to complete it, develop it, get it working, and then fix it so that it can never be exploited for private ends, but shall always remain in the service of all the people, their own property, operated for their own benefit."

Ford and Edison Inspect Dam
Florence, Ala., Dec.3 (Associated Press).

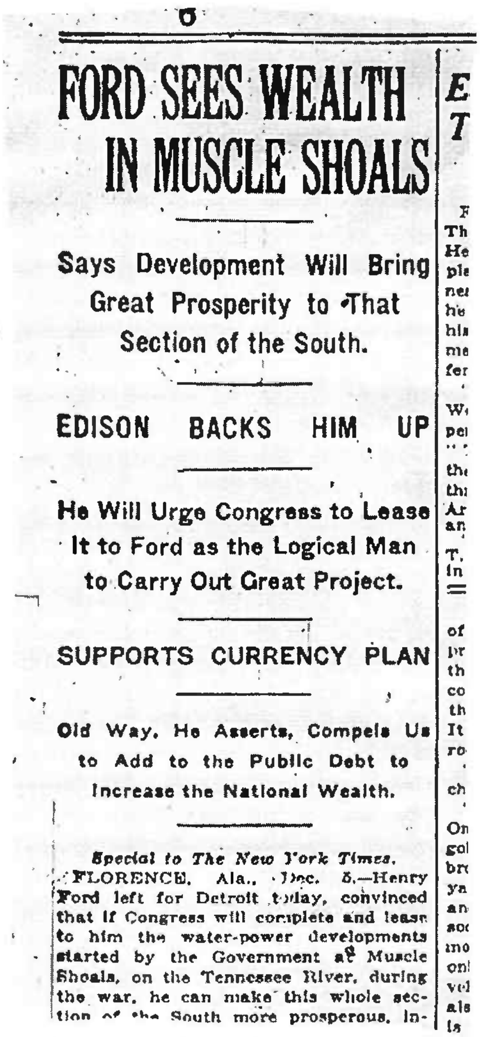
Henry Ford and Thomas A. Edison inspected late today the skeleton of the great Wilson dam... driving through the streets, where they were accorded an ovation.

En route to Florence Mr. Ford talked

freely to newspaper men, and emphasised that... his visit was principally to allow Mr. Edison to visualize the project in its entirety and to verify the original figures submitted by Ford's engineers.

The main point of difference between him and the Government, Mr. Ford said, lay in the cost of completion of the Wilson dam. The estimates of army engineers... range from $42,000,000 to $55,000,000, whereas he contends that his original figure of $20,000,000 is ample...

"I am down here, at the request of Secretary Weeks," Mr. Ford added. "I am figuring for the Government and I know that if this dam is completed it will confer a great benefit on the whole South..." he said.



FORD SEES WEALTH IN MUSCLE SHOALS

Says Development Will Bring Great Prosperity to That Section of the South.

EDISON BACKS HIM UP

He Will Urge Congress to Lease It to Ford as the Logical Man to Carry Out Great Project.

SUPPORTS CURRENCY PLAN

Old Way, He Asserts, Compels Us to Add to the Public Debt to Increase the National Wealth.

Special to The New York Times.

FLORENCE, Ala., Dec. 5.—Henry Ford left for Detroit today, convinced that if Congress will complete and lease to him the water-power developments started by the Government at Muscle Shoals, on the Tennessee River, during the war, he can make this whole section of the South more prosperous, in-

The New York Times of December 6, 1921

Henry Ford left for Detroit today, convinced that if Congress will complete and lease to him the water power developments started by the Government at Muscle Shoals, on the Tennessee River, during the war, he can make this whole section of the South more prosperous, industrially and agriculturally, than it has ever been before.

As he shook hands with scores of citizens of Florence and Sheffield... he told them so.

"I have been deeply impressed by the possibilities... The water power that can be developed here will equal or surpass,... any other development in this country to date. There are coal, iron, useful kinds of rocks, minerals and metals right close at hand on every side. The wonder to me is that they have gone so long undeveloped.

"Whether or not we take hold of Muscle Shoals is now up to Congress. We have made our offer... **We would like to build here a great and perpetual benefit to the people, always to be owned by them and operated in their service...**"

His remarks were loudly applauded.

Thomas A. Edison endorsed Mr. Ford's views. Not only does he believe that the great power plant should be completed... but he is very earnest in his support of Ford's **suggestion by which the Government can complete the property and make its operation possible without cost, by issuing currency against the property instead of interest-bearing bonds**.

Edison Wants Ford to Get Lease

"I will recommend to Congress that it complete the dam and give the lease to Mr. Ford... "

Within the next week Mr. Ford will make his final report to Secretary of War, Weeks... Mr. Ford says that if Congress gives him a lease of the property, about two years will be required to complete the dam and power house and that, then, the great industries now idle will be set in operation.

Support of Ford's Currency Plan

On the point of Mr.Ford's suggestion to the Government for financing the completion of the dam, Mr. Edison reiterated his belief... that it was a good plan and that **if once the currency method is tried in raising money for public improvements, the country will never go back to the bond method.**

"Make it perfectly clear that I'm not advocating any changes in banks and banking," said Mr. Edison. "Banks are a mighty good thing. They are essential to the commerce of the country. It is the money broker, the money profiteer, the private banker, that I oppose. They gain their power through a fictitious and false value given to gold.

"Gold is a relic of Julius Caesar and interest is an invention of Satan." Mr. Edison continued, "... It is the control of money that is the root of all evil."

"How can this system be improved or changed?" Mr. Edison was asked.

"It can come about in several ways...

Would Forget About Gold

"... the method my friend Ford proposed ... (is) to go along and forget about gold. He says that the Government can finance Muscle Shoals without applying to money brokers for permission, and I think he is absolutely right about it...

"There is a complete set of misleading slogans kept on hand for just such outbreaks of common sense among the people... The people have an instinct which tells them that something is wrong, and that the wrong somehow centres in money. They have an instinct, also, which tells them when a proposal is made in their interest or against them..."

"Gold and money are separate things, you see. Gold is the trick mechanism by which you can control money.

"Gold is not money until the people of the United States and other nations put their stamp on it."

"But would not Mr. Ford's suggestion that Muscle Shoals be financed by a currency issue raise some objection?" Mr. Edison was asked.

"Certainly. There is a complete set of misleading slogans kept on hand for just such outbreaks of common sense among the people...

"... The people have an instinct which tells them that something is wrong, and that the wrong somehow centres in money. They have an instinct, also, which tells them when a proposal is made in their interest or against them...

Based on Soil and Energy

"... What are bills and checks? Mere promises and orders. What are they based on? Principally on two sources – human energy and the productive earth. Humanity and the soil – they are the only real basis of money...

"Now, here is Ford proposing to finance Muscle Shoals by an issue of currency. Very well, let us suppose for a moment that Congress follows his proposal. Personally, I don't think Congress has imagination enough to do it, but let us suppose that it does. The required sum is authorized - say, $30,000,000...

"When these bills have answered the purpose of building and completing Muscle Shoals, they will be retired by the earnings of the power dam. That is, the people of the United States will have all that they have put into Muscle Shoals and all that they can take out for centuries - the endless wealth-making water power of that great Tennessee River - **with no tax and no increase of the national debt.**"

"But suppose Congress does not see this, what then?" Mr. Edison was asked.

"Well, Congress must fall back on the old way of doing business. It must authorize an issue of bonds. That is, it must go out to the money brokers and borrow enough of our own national currency to complete great national resources, and we then must pay interest to the money brokers for the use of our own money.

Old Way Adds to Public Debt

"That is to say, under the old way any time we wish to add to the national wealth we are compelled to add to the national debt.

"Now, that is what Henry Ford wants to prevent. **He thinks it is stupid, and so do I, that for the loan of $30,000,000 of their own money the people of the United States should be compelled to pay $66,000,000 - that is what it amounts to, with interest.** People who will not turn a shovelful of dirt nor contribute a pound of material will collect more money from the United States than will the people who supply the material and do the work. That is the terrible thing about interest. In all our great bond issues the interest is always greater than the principal. All of the great public works cost more than twice the actual cost, on that account. Under the present system of doing business we simply add 120 to 150 per cent, to the stated cost.

"But here is the point: If our nation can issue a dollar bond, it can issue a dollar bill. The element that makes the bond good makes the bill good. The difference between the bond and the bill is that the bond lets the money brokers collect twice the amount of the bond and an additional 20 per cent, whereas the currency pays nobody but those who directly contribute to Muscle Shoals in some useful way.

"If the Government issues bonds, it simply induces the money brokers to draw $30,000,000 out of the other channels of trade and turn it into Muscles Shoals; if the Government issues currency, it provides itself with enough money to increase the national wealth at Muscles Shoals without disturbing the business of the rest of the country. And in doing this it increases its income without adding a penny to its debt.

"It is absurd to say that our country can issue $30,000,000 in bonds and not $30,000,000 in currency. Both are promises to pay; but one promise fattens the usurer, and the other helps the people. If the currency issued by the Government were no good, then the bonds issued would be no good either. It is a terrible situation when the Government, to increase the national wealth, must go into debt and submit to ruinous interest charges at the hands of men who control the fictitious values of gold.

"Look at it another way. If the Government issues bonds, the brokers will sell them. The bonds will be negotiable; they will be considered as gilt edged paper. Why? Because the government is behind them, but who is behind the Government? The people. **Therefore it is the people who constitute the basis of Government credit. Why then cannot the people have the benefit of their own gilt-edged credit by receiving non-interest bearing currency on Muscle Shoals, instead of the bankers receiving the benefit of the people's credit in interest-bearing bonds?"**

"But here is the point: If our nation can issue a dollar bond, it can issue a dollar bill. The element that makes the bond good makes the bill good. The difference between the bond and the bill is that the bond lets the money brokers collect twice the amount of the bond and an additional 20 per cent, whereas the currency pays nobody but those who directly contribute to Muscle Shoals in some useful way."

Says People Must Pay Anyway

"The people must pay any way; why should they be compelled to pay twice, as the bond system compels them to pay? The people of the United States always accept their Government's currency. If the United States Government will adopt this policy of increasing its national wealth without contributing to the interest collector – for the whole national debt is made up of interest charges – then you will see an era of progress and prosperity in this country such as could never have come otherwise."

"Are you going to have anything to do with outlining this proposed policy?" Mr. Edison was asked.

"I am just expressing my opinion as a citizen," he replied. "Ford's idea is flawless. They won't like it. They will fight it, but the people of this country ought to take it up and think about it. I believe it points the way to many reforms and achievements which cannot come under the old system."

Editorial Note – The Gold Standard has gone. But gold has simply been replaced by government-created legal tender notes as the money base. The fact remains that some 95% of the total money supply is created by commercial banks and is lent into the economy only in the form of interest-bearing debt as it was in 1921.

The result is that great power, influence and wealth accrue to private bankers. The process leads inexorably to the underlying drive for continuing "economic" growth. Growth is possible only when the money supply grows. But the current system ensures that the money supply can grow only when debt grows. Related interest payments further compound the growth of this debt. Periodically total debt becomes so great that debt-repudiation crises threaten. The money supply is made to shrink. Recession or Depression follows until the bankers think it safe to resume the process again. The underlying trend in growth of debt, and interest on debt, ensure that in the longer run, the debt-money system is unsustainable. **Meanwhile no lasting solution to the world's socio-economic, debt or environmental problems is possible without radical reform of that system.** (TSC)

Notes

(1) *Triumph of the Bankers*, W.F.Hixson, Preager, West Port Connecticut and London, 1993 - pp54/55.

book *review*

Triumph of the Bankers: Money and Banking in the Eighteenth and Nineteenth Centuries by W.Hixson Preager, West Port Connecticut & London. 194 pages H/B $Cnd 65.00 plus p & p from COMER Publications, 3284 Yonge Street, Suite 500, Toronto, Ontario, Canada, M4N 3M7.

Reviewed by Alan Armstrong

"*Civil society is little more than the result of a conspiracy of the rich to guarantee their plunder.*"
Rousseau

In his introduction to this book, Hixson suggests that it is "*In a broad, general way...a history of a perennial and unrelenting "class struggle" between creditors and debtors...*" and that taken together with his other splendid book *A Matter of Interest: Reexamining Money, Debt, and Real Economic Growth*, it "*provides a three-century history of money, banking, and money-creation in the United States ...(showing)..in detail why our financial system is indeed 'preposterous' and suggests a number of things that might be done to improve it*".

Hixson is a fan of Adam Smith, but he does note that Smith and the early-day economists generally, "*failed to take into account the difficulty - the impossibility - of increasing the world's supply of money in the form of specie (gold and silver) at the same rate that it proved possible to increase the aggregate output of goods and services of progressive domestic economies.*"

Yet he makes clear that there are "*obvious historical reasons why there emerged the idea of a money supply at first based on gold and silver coins, later on paper money 100 percent backed by precious metal, and **still later on paper money with a fixed "fractional reserve" of specie.***" (emphasis added)

As we noted in Henry Ford's remark to the Press however, (see lead article) the adoption of gold and silver was a major cause of war. Because of their scarcity, countries competed fiercely to increase their holdings of gold and silver and Britain, through its control of the sea and by imposition of its doctrine of "free trade", was so highly successful in this process that for some decades it "*went on to conquer most of the world worth looting of gold and silver.*"

Yet gold and silver simply could not continue to be increased, as the quantity of money must increase, at the same rate as it became possible to further increase the output of goods and services.

Debasement of coinage was tried for a time - halving the silver content of a shilling and thereby allowing a doubling of the number of shillings in circulation, for example.

This did help to raise output but it also increased prices. Increasing prices in turn "*allowed increased profits to entrepreneurs, reduced the burdensomeness of their debts, enabled them to hire more employees and thus produce more.*"

Debasement of coinage therefore did stimulate the econony and allowed faster real growth. Indeed David Hume saw merit in the debasement of coinage, regarding it as "one of the prices of progress". It is not however "customary to so regard it" because as Hixson notes it was seen as "*a disaster from the point of view of creditors, who could buy less with the shillings with which they were repaid than with the shillings they had originally loaned, **and perhaps also because of the influence of creditors on the thinking of economists, lawyers and historians.***" (emphasis added)

Yet in a sense this debasement has been greatly to the advantage of the greatest of creditors - commercial bankers. For now money has been totally debased in the sense that "*it now bears no legal relationship whatsoever to the precious metals.*" Instead there has been progressively a resort to issues of paper money by bankers, large parts of which are "*neither 100 percent backed by stocks of precious metals nor 100 percent redeemable in gold or silver coin.*"

Essentially, Hixson points out that there are only two possible categories of issuers of paper money - government agency or private agency. **The history of the last three centuries has seen a struggle between them for control over this critical function.**

Within the space of a few years at the end of the 1690s, the Massachusetts Bay Colony made its first issue of its "colonial notes" and across the Atlantic the Bank of England (a private company) issued its first "commercial banknotes". These represented therefore the almost simultaneous issue of paper money by government fiat on the one hand and by a private commercial enterprise on the other.

The Massachusetts notes circulated very successfully for some twenty years to supplement scarce gold and silver specie. Their success stimulated the introduction of government-issued paper money by other colonies including South Carolina, New Jersey and New York.

In most of these colonies, "*when notes were issued except for... military expeditions... the notes resulted from loans on land and brought annual interest to the government*" and led to lower taxes than would otherwise have been necessary.

In this way, just as in the Guernsey experiment 100 years later, roads, buildings and other infrastructure projects were constructed without need for borrowing or general taxation.

It is interesting to note in passing, that in 1733 Maryland also put £48,000 of its notes into circulation, by "*giving away a certain sum to each inhabitant over 15 years of age*". (Hixson quoting Richard Lestor 1939). It was an exercise which anticipated the National Dividend proposals of C.H.Douglas, and the continuing interest in this by a number of commentators such as James Robertson, the Basic Income Research Group in the UK, and BIEN (Basic Income European Network) in Europe.

However, in due course the British Government, in 1751 and 1763, acting it is suggested on the prompting of money-lenders rather than entrepreneurs or the wider community, moved to forbid issues of legal tender paper money by the colonists.

This action exacerbated the grievance held by the colonists. Benjamin Franklin continued to defend the government-issue of legal tender paper money by the colonists, but his arguments were rejected by the British Parliament. The result was (apart from leading eventually to war) that by 1773 the total number of new issues of legal tender had been reduced by half compared to 1764. Westminster did relent however and agreed that the colonies' notes issues could be accepted as legal tender for public payments such as colonial taxes, fines etc. - but were not acceptable for the payment of private debts. This was the position until the outbreak of the War for Independence.

Until 1775, and despite a severe shortage of gold and silver, the colonists had managed to increase **their total money supply (specie plus paper) roughly in proportion to output. Any danger of inflation was therefore avoided**. But with the advent of war with Britain it became more difficult to increase their supply of specie just as the need for money to pay for the war "skyrocketed".

The individual states then, using their previous successful experience of money creation, again issued their own paper money through the Continental Congress. This time it was "*not in proportion to the relatively slow-growing needs of trade but in response to the fast-growing needs of war. The results were first, the war was largely paid for by the colonists simply by issuing the necessary amounts of paper money. Secondly, because it was issued in excess of the output of goods and services, it caused 'runaway price inflation'.*"

Hixson comments that "***It is the second of these results that historians ideologically opposed to the issue of paper money by governments have chosen to emphasise and plant indelibly in the minds of their readers***".(emphasis added)

He insists instead that "*it is the first of the two results... that deserves emphasis. The war of national liberation waged by the United States against Britain could not have been won without the issue of paper money. We owe our independence to government-issued paper money*".

Yet following the successful conclusion to the war, the Constitution of the newly-independent United States neither authorised nor specifically denied the right of the federal government to issue paper money. **The result has been continuous and often heated debate about the merits of government-issued paper money against those of specie (gold and silver coin) supplemented by private bank-created money.**

Even after Abraham Lincoln had persuaded Congress to meet over 30 percent of the costs of waging the first three years of the Civil War there was a concerted effort to ensure that it could not do so again. By the end of the war the total of Government-created money had reduced sharply.

Hixson brings his analysis, via the passage of the National Banking Act of 1863, up to the creation of the Federal Reserve System in 1913 when it "*in a sense, became the money-creator of last resort...(while) ...Banks, of course, remained the money creators of first resort*" and on to 1914 when he confirms that... "***the banking lobby prevailed over common sense and over public interest; banks created money apace, and government created none. A more insane and shameful abnegation of responsibility of government power is hardly imaginable***". (emphasis added)

This is a fine, deeply researched and authoritative book.

It is makes an unanswerable case for radical reform of the current fractional reserve debt-money system and is a powerful contribution to the continuing struggle for change that is once again an increasingly live issue around the world and not least in the United States and Canada.

William F. Hixson is a retired businessman and engineer who for many years operated a successful small-business partnership. He has published articles in *Eastern Economic Journal, The History of Economics Society Bulletin, and Economies et Societes (France)*, as well as book reviews in the *Review of Radical Political Economics*.

Also recommended reading is William Hixson's *A Matter of Interest, Re-Examining Money, Debt and Real Economic Growth*, also published by Preager.

AMSTERDAM: THE FEDERAL PROJECT IS COMPLETE

By Daniel Hannan

Final Loss of Sovereignty

When historians yet unborn and unbegot try to pinpoint the moment at which British sovereignty finally passed from Westminster, they are likely to choose 11.25pm on 17th December 1997. That was when the Labour Government violated the convention that guillotines should never be used on constitutional measures in order to force through the Bill that incorporated the Amsterdam Treaty into British law.

The Amsterdam Treaty? Are there not more obvious watersheds? What about Maastricht, or the Single European Act, or even the original European Communities Act of 1972?

All these were important. But Amsterdam has a better legal claim than any of them. Opposition to it has focused on the way it erodes the national veto and imposes the Social Chapter on Britain; but its most dangerous aspects are to be found in rather more technical-sounding clauses.

Human Rights

Take, first, Article F(1). This is the clause that allows a state to have its voting rights, and any other rights derived from EU membership, taken away by its fellow governments. In theory, this happens when the other governments judge that that it is breaching certain vaguely defined human rights. In practice, it can be invoked whenever a single country is blocking a measure that all the others want. Human rights violations can always be trumped up if the political will is there. A country could be found guilty of violating the human right of its nationals to a minumum wage, or denying the human right of its homosexual citizens to serve in the Armed Forces.

The significance of this Article is that, for the first time, it allows the EU to suspend the treaty rights of a signatory while holding it to its obligations. There is no precedent for such a measure either in diplomacy or in law. Once the European treaties lose their contractual character, they cease to be a set of agreements among states and become instead a federal constitution.

A European Police Force

Or take the new powers granted to Europol. Europol was set up to help national police forces co-ordinate their fight against international crime, rather like a regional branch of Interpol. Federalists, however, saw it as something much more. As Chancellor Kohl said in 1992, "A European police force and army lie at the end of the road to political union". Europol was envisaged as a superior, federal force dealing with serious crimes: a kind of European FBI.

Amsterdam comes down decisively in favour of this second view by allowing Europol personnel to take part in national policing operations. At a stroke, they are transformed from bureaucrats into policemen. This is especially significant given that Europol employees are immune to prosecution in national courts. As long as they were essentially diplomats, this did not much matter. Once they begin to participate in police actions, it matters a great deal.

Federal Institutions

Or consider the changes made to the EU's institutional stucture. These follow a consciously federalist plan which envisages the Commission as Europe's cabinet, the Court of Justice as its supreme court, the Parliament as its principle legislature and the Council of Ministers as a kind of upper house or *bundesrat* representing the Member States.

Accordingly, the President of the Commission is given the power to choose his own Commissioners, subject to approval by the European Parliament - exactly as national governments are drawn up, subject to being able to command a parliamentary majority. Member states consequently lose the exclusive right to nominate their own Commissioners.

Majority voting is extended in the Council of Ministers, a reform which makes it more like a federal senate than a forum of government representatives. The European Court is given more powers, especially over policing and immigration. And the European Parliament is put on the same legislative footing as the Council through the massive extension of what is called "Co-decision": it, too, now looks less like an international assembly than a federal legislature. Taken together, these changes tip the balance within the EU from inter-governmentalism to federation.

Worst of All

But the key change, the one to which future historians will point, is tucked innocuously into the Protocol on Subsidiarity. There, in paragraph 2, is a reference to the sanctity of "the principles developed by the Court of Justice regarding the relationship between national and Community law." The very phraseology ought to have set alarm bells ringing: the Court is not there to "develop principles"; its job is to interpret the treaties.

What this clause refers to is the doctrine developed by the European Court of Justice that its own rulings have precedence, not just over national laws, but even over the constitutional or basic laws of the member states. This doctrine has been explicitly rejected by national supreme courts. The French Court of Appeal ruled in 1975 that France's international commitments could not affect the primacy of the constitution. The Conseil d'Etat confirmed this ruling in 1989, pointing out that it could not be otherwise, since it was from Article 55 of the constitution that international obligations derived their judicial authority in France. In 1993, Germany's Federal Constitutional Court (*Bundesverfassungsgericht*) ruled that European integration must be compatible with German Basic Law. One of its judges later claimed, extra-judicially, that the German Parliament acted as a bridge over which European rulings passed into German law. If those rulings went beyond the intentions of Parliament when it built the bridge (that is, when it incorporated the European Treaties), they would have no validity in Germany.

The European Court has never accepted the stance of the national supreme courts. It believes that its jurisdiction comes directly from the European treaties which, it holds, have created a new legal order superior to national constitutions. If this were true, there could be no doubting the EU's federal character. The defining characteristic of a federation is that sovereignty is not dispersed among its states, but enshrined in its constitution as interpreted by its supreme court. According to the European Court's view, it is now Europe's supreme court, since its authority does not derive from the member states, but from the treaties. Once Amsterdam comes into force, this extraordinary interpretation will have legal validity.

Although Denmark and Ireland are holding referendums on Amsterdam, the Labour Government has ruled out a British plebiscite, arguing that it already has a mandate. Perhaps ministers have forgotten that the Amsterdam Summit did not take place until six weeks after the general election.

The House of Lords is now the last obstacle to ratifying the Treaty. If peers were to reject it, or demand a British referendum first, our unborn historians may yet conclude that the United Kingdom saw out the millenium as a sovereign state.

ONLY THE DANES STAND IN THE WAY

Nothing short of a miracle can now prevent Parliament from incorporating Amsterdam. Yet there is still a way to stop the treaty, for it will not come into force until it has been ratified by all 15 member states.

Denmark will hold a referendum on Amsterdam on 28th May. If the Danes vote "No", Amsterdam will automatically become invalid across Europe. Yet the odds are stacked against the Danish anti-federalists. Because state funding is allocated according to the positions adopted by the political parties, the "Yes" campaign has an overwhelming advantage. When contributions from various trade unions and European organisations are included, the "Yes" campaign is estimated to have 40 million kroner (around £ 3.6 million) at its disposal. The "No" campaign, by comparison, has less than 3 million kroner (£270,000).

Despite this handicap, "No" campaigners have narrowed the gap and are now only nine points behind.

NB. The Danish Referendum Campaign has been established to raise funds in Britain for Denmark's anti-federalists. Every democrat in Europe has an interest in stopping the Treaty.

You are urged to send cheques payable to "DANISH REFERENDUM CAMPAIGN" P.O. Box 17912, London SW1P 4ZW

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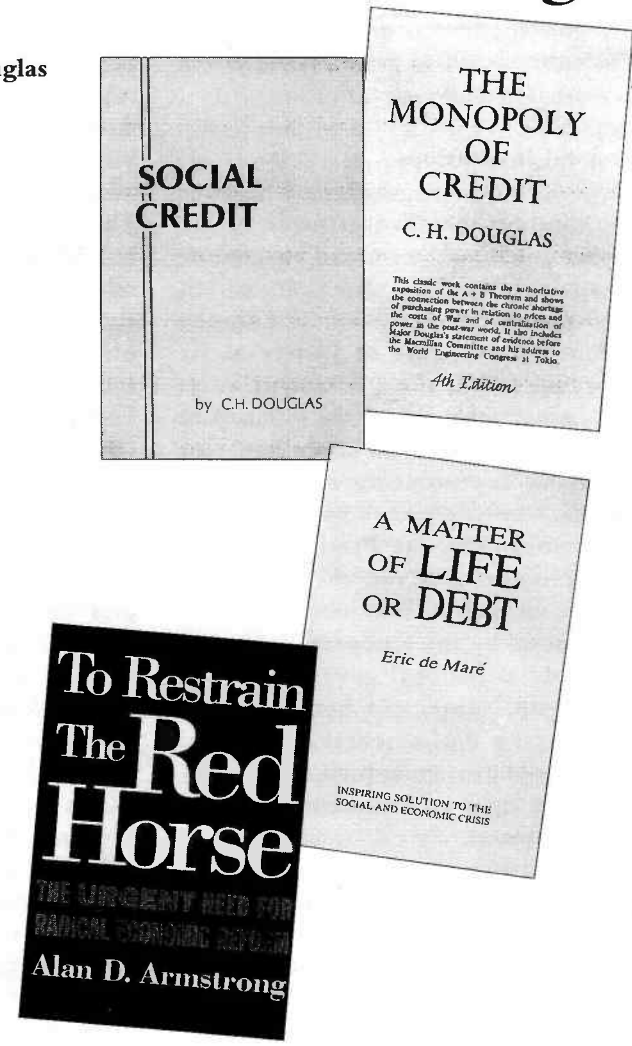

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