



1st October 2012

Think small

“Sir, John Maynard Keynes’ later career as an investor ended well but Gavyn Davies claims too much for his novelty and rarity (“Keynes would compare well against today’s hedge funds”, Markets Insight, August 23).

“Moreover, a professional running other people’s money today who essentially lost it all twice would find it difficult to raise money for a third foray*, as Keynes was able to do. It raises the question as to whether Keynes’ performance should be measured across his career or only for the last happy phase in which he certainly “got it right”..”

- Letter to the Financial Times from Mr Paul J. Isaac, 29 August 2012.

*The author may not be familiar with the “career” of [John Meriwether](#), whose third round investors may have been clinically brain dead.

A few months ago, a [publisher and bookseller](#) kindly sent us “a little gem of a book”: ‘The Making Of The Euro’ by Claudio Hils, a somewhat humourless coffee table hardback redeemed by one or two beautiful photographs of printing presses and hologram foil security patches. Recounting, as it does, the literal making of the euro, the book already feels somewhat ossified, frozen in and by history. That time has marched on can be seen from the rather hubristic foreword by Dr. Jürgen Linden, Lord Mayor of the City of Aachen:

“The euro is being awarded the International Charlemagne Prize of Aachen for 2002. At first sight, this seems wholly inexplicable. A currency is to be awarded a prize intended to honour an individual’s contribution to the unification of a continent ? In actual fact – and this is something we have already noticed after only a few weeks – the unifying effects of the common currency in, for the time being, 12 countries have proved to be highly significant. The degree of acceptance of the euro has been surprisingly good wherever we look.”

To get the full irony from the vantage point of the European economy in 2012, you probably have to read the original German (which is printed alongside the English translation throughout):

“Der Internationale Karlspreis 2002 geht an den Euro. Natürlich stößt diese Meldung zunächst auf Unverständnis. Ein Preis, der als Würdigung einer menschlichen Leistung für die Einigung eines Kontinentes gedacht ist, soll an eine Währung gehen ? Gewiss, schon nach nur wenigen Wochen war zu spüren, wie groß die einigende Wirkung unserer gemeinsamen Währung in den vorerst zwölf Staaten ist. Wo man auch hinblickt, wurde der Euro überraschend positive aufgenommen.”

In fact, to get the very fullest irony from the vantage point of 2012, it would probably be necessary to rustle up that paragraph in French (on the basis that we English-speaking Brits had, in truth, precious little to do with the currency neutron bomb slowly detonating across the economies of the euro zone). Through the easy if not necessarily wholly reliable miracle of Google Translate:

“L'euro a été décerné le Prix international Charlemagne d'Aix-la pour l'année 2002. A première vue, cela semble tout à fait inexplicable. Une monnaie doit être attribué un prix destiné à honorer la contribution d'un individu à l'unification d'un continent? En réalité - et c'est quelque chose que nous avons déjà remarqué après seulement quelques semaines - les effets unificateurs de la monnaie commune, pour le moment, 12 pays se sont révélés être très significatif. Le degré d'acceptation de l'euro a été étonnamment bien partout où nous regardons.”

In the interests of fairness, why stop there ? We should allow our Spanish friends to share in the sense of achievement :

“El euro está siendo galardonado con el Premio Internacional Carlomagno de Aquisgrán en 2002. A primera vista, esto parece completamente inexplicable. Una moneda es un premio destinado a honrar la contribución del individuo a la unificación de un continente? En realidad - y esto es algo que ya hemos dado cuenta después de sólo unas pocas semanas - los efectos unificadores de la moneda común en, por el momento, 12 países han demostrado ser altamente significativo. El grado de aceptación del euro ha sido sorprendentemente bueno dondequiera que miremos.”

And let's not overlook the Greeks:

“Το ευρώ είναι να απονεμηθεί το Διεθνές Βραβείο Καρλομάγνου του Άαχεν για το 2002. Εκ πρώτης όψεως, αυτό φαίνεται εντελώς ανεξήγητο. Ένα νόμισμα είναι να απονεμηθεί ένα βραβείο προορίζεται για να τιμήσει τη συμβολή ενός ατόμου για την ενοποίηση της ηπείρου; Στην πραγματικότητα - και αυτό είναι κάτι που έχουμε ήδη παρατηρήσει μετά από λίγες μόνο εβδομάδες - τα αποτελέσματα της ενοποίησης του κοινού νομίσματος, για την ώρα, 12 χώρες έχουν αποδείξει ότι είναι πολύ σημαντική. Ο βαθμός αποδοχής του ευρώ ήταν εκπληκτικά καλή όπου κι αν κοιτάξουμε.”

Our bookseller friend added,

“There are very few illustrated books in the history of Economics. The first book was a Dutch satirical work consisting of plates and poems on John Law and the South Sea Bubble published in 1720. Many similarities there.”

It has not, in truth, been one of Europe's better weeks. Members of the Spanish electorate demonstrated a policy of active engagement with Spain's parliament, as did their peers in Greece. But it was not all bad news. Here in the UK, blissfully remote from the deflationary constraints of the common currency, it was reported that our economy only contracted by 0.4% in the second quarter, versus an earlier stated contraction of 0.5%. So that's something.

Roughly a year ago we first wrote about Leopold Kohr. As a reminder, Kohr was an Austrian Jew who only narrowly escaped Hitler's Germany just before the outbreak of the Second World War. He had been born in Oberndorf in central Austria, a village of just 2,000 or so. Oberndorf's lack of size came to play a crucial role in Kohr's thinking. Kohr graduated in 1928 and went off to study at the London School of Economics with the likes of fellow Austrian Friedrich von Hayek (see also Stephanie Flanders' recent documentary about Hayek, [here](#)).

In September 1941, Kohr began writing what would become his masterwork, 'The Breakdown of Nations'. In it he argued that Europe, far from expanding, should be "cantonized" back into the sort of small political regions that had existed in the past and which still existed in places like Switzerland, with a commitment to private property rights and local democracy. "We have ridiculed the many little states," wrote Kohr sadly, "now we are terrorised by their few successors."

Kohr showed that there were unavoidable limits to the growth of societies, not least to the complexity that is a natural part of larger systems:

"Social problems have the unfortunate tendency to grow at a geometric ratio with the growth of an organism of which they are a part, while the ability of man to cope with them, if it can be extended at all, grows only at an arithmetic ratio."

But as the European Union and its common currency bloc grow ever larger, it collides horribly with Kohr's thesis. Take José Manuel Barroso's 2012 State of the Union address as President of the European Commission:

"Globalisation demands more European unity. More unity demands more integration. More integration demands more democracy."

European integration continues to go according to plan



But the words he smears together – unity, integration, democracy – have no meaning in this perfunctory Orwellian doublespeak. Democracy demands the primacy of the individual over the unelected Brussels bureaucrat.

There must be something in the water in Austria (where we happened to enjoy a late summer holiday). Not just Leopold Kohr but Carl Menger and Ludwig von Mises and Friedrich Hayek.. Each in their way warning of the dangers of central planning and the unchecked power of the state. And not just Austrians but Czechs – see Václav Klaus' [interview](#) with The Sunday Telegraph where he warns that statehood and sovereignty are impossible in the sort of federation that Europe's bureaucrats aspire to.

The financial crisis is not limited to the euro zone, being in essence a largely intractable global problem of debt. But Europe is as good an example of any to illustrate the dangers of allowing political and banking interests to predominate, especially given that both groups are almost entirely dependent on the perpetuation of unsound money. Speaking of which..

“I bought the last 200 remaining copies for one euro each,” writes our bookseller friend of ‘The Making Of The Euro’ – “not surprisingly it was remaindered. The difference is that books which don’t sell find their way onto the remainder tables very quickly in the UK. In Europe it takes a little longer to own up to mistakes.. especially state-sponsored events.”

Tim Price
Director of Investment
PFP Wealth Management
1st October 2012.

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