



Paris, Schengen, Merkel, Schäuble and the Euro

Bernard Connolly, November 14, 2015

- The Islamist terrorists *want* to incite attacks on Muslims in France and other Western countries and they *want* to escalate what they see as a war against the non-Muslim world.
- Unfortunately it cannot be ignored that there are widespread fears, even if paranoid, of the "Islamicisation" of Europe, of the imposition of Sharia law and of forced conversion to Islam; instead of assimilation there is at least the perception, in many people's minds, of the possibility of a reverse takeover.
- The situation in Europe is now truly dramatic, with more terrorist attacks inevitable rather than merely likely.
- It is quite staggering that Merkel should have wanted to follow the example of the Swedish politicians who created such a mess for their country, and it now looks as if Schäuble has given up on her.
- All political scenarios for Germany now involve greater uncertainty about the future of monetary union.
- It is hard to see how events which will undoubtedly weaken the German government, strengthen Le Pen in France and threaten to bring down one key pillar of the "European construction", Schengen, and thereby weaken the foundations of another, monetary union, can in the near term do anything other than weaken the euro.
- A weaker euro pushed down by a combination of political risk and, quite possibly, generalised gloom in Europe, particularly France, which depresses spending propensities may, in an atmosphere of renewed stock-market jitters, be just enough to stay the Fed's hand in December.
- There is a risk for Britain in that Cameron may be able to gain concessions on immigrants' benefits that could favour the "Remain" camp in the referendum.

In considering the horrific, murderous, terrorist attacks in Paris yesterday one first has to have some sense of perspective. In 2013, the most recent year for which statistics are available, 58 people were killed by subway trains in New York City. No doubt some of them had killed themselves – at least they had the excuse that they lived in New York – and probably a few were deliberately pushed under trains. But the majority simply fell from the ridiculously dangerous platforms of New York subway stations. And in the past six weeks twelve pedestrians have been killed in New York City, mown down in zebra crossings. Far more dreadful and scandalous, there are hundreds of thousands of abortions in the US each year, something viewed as a triumph by the "Progressive" cult but testimony to its hard-faced cruelty, its fanaticism, its sheer inhumanity. And when I first lived in London in 1973 murderous IRA terrorists were conducting a campaign of pub bombings and car bombings in Britain. That seemed not to affect daily life in London, even though it was bit of a bore for everyone to have their bags searched on entering a pub in the evening. Similarly, the abortion carnage in the US appears to have very little impact on the daily lives of anyone



other than the victims – who include women brainwashed into pretending to themselves, often with only partial and temporary success, that having a “life-style” abortion is not something selfish and awful but rather is somehow noble.

But just comparing numbers is not an appropriate response. There is something more horrific about the Paris attacks. They were committed by people who, like the lunatics who bomb abortion clinics, *wanted* to harm others *for the sake of it*; in contrast even the horrible IRA had motives, political or pecuniary, other than, or at least in addition to, pure evil intent for their crimes. And it seems unlikely that the IRA wanted to provoke "revenge" attacks against Irish people living in Britain; the Islamist terrorists *want* to incite attacks on Muslims in France and other Western countries and they *want* to escalate what they see as a war against the non-Muslim world. No-one can have any doubt that if they gain the ability to use weapons of mass destruction in Western countries they will use them eagerly.

The reaction of Western populations, or at least European populations, is also likely to be different. In Britain in the 1970s there were miscarriages of justice, but no "revenge" attacks against Irish people and hardly any animosity towards them (except perhaps in Glasgow). There was a large Irish population in the big cities in England but it was completely assimilated. And the question of Northern Ireland was far from being an important one for most people. There was of course a rather general view (even if one not shared by the likes of Corbyn) that the majority population in Northern Ireland should not be forced by terrorism into being subjected to the rule of a foreign country, the Republic of Ireland. But no-one's life in England would be affected one jot in any practical way by whether Northern Ireland remained part of the United Kingdom or instead became part of the Republic of Ireland. For sure, no-one feared, not even paranoically – except perhaps a few remaining hard-core anti-Catholics in Glasgow – that the Irish in Britain were going to take control of it and transform it by force into something with a totally alien civilisation. Contrast that with attitudes towards Islam in Europe today. Sadly, it cannot be ignored that there *are* widespread fears, even if merely paranoid, undoubtedly mistaken and unfair in respect of most Muslims in Europe, of the "Islamicisation" of Europe, of the imposition of Sharia Law and of forced conversion to Islam. But such fears are not the product of propaganda by "populist demagogues"; instead the popularity of the National Front in France and of anti-immigration (*not*, or at least not in all cases, anti-immigrant) parties in many other European countries is a result of people's daily experience of the creeping – indeed often galloping – transformation of large areas of their cities into something definitely foreign and culturally alien. Instead of assimilation there is at least the perception in many people's minds of the possibility of a reverse takeover.¹

¹ This may be incomprehensible to most Americans, since in the US there has indeed been considerable assimilation of Muslims. That, we hazard a guess, is because the US is geographically very far from Muslim countries. Muslim immigrants to the US are willing and able to get there largely because they are educated and, while economically aspirational, are not driven



The politicians and "opinion-formers" who are to blame for these fears are not the likes of Le Pen and Wilders: they are those who preached "multiculturalism" and strove to *prevent* assimilation (shamefully, those preachers of "multiculturalism" presided over a hypocritical policy, in France at least, of imposing a de facto economic and social segregation almost as vicious as that in the Old South). At best they were stupid and misguided. But some of them, not least elements in New Labour in Britain, wanted to do two things: to "import" an electorate (to the extent that the imported voters would not be successfully threatened by certain of their "leaders" that they would go to Hell if they participated in an election) and to destroy any notion of national identity in order to advance the aims of the Frankfurt School and the NSU. Scenarios such as that of Houellebecq's novel *Soumission*,² in which the French pro-NSU nomenklatura, in order to prevent a Le Pen victory in the 2022 presidential election, back an Islamist candidate who wins and then proceeds to the "Islamicisation" of France, are not entirely far-fetched – at least the part about the priorities of the nomenklatura is far from far-fetched: what has been happening in Portugal is a pointer to that. The part of the scenario about "Islamicisation" is over the top – but many scores of millions of people in Europe think it is not. The situation in Europe is now truly dramatic.

As is widely known, the French anti-terrorism forces are extremely able, efficient and vigorous and possess powers of very intrusive surveillance. They have no doubt prevented many attacks. But they were not able to prevent the attacks on Friday. We wrote in January that more terrorist outrages were inevitable – and they still are. It is simply impossible for the security forces to keep round-the-clock tabs on the very large numbers of potential attackers already on their radar screen, not to mention the numbers, probably even larger, who are not.

What can be done about it? We have written in the past that we have no answer, and that remains the case. And that scares us – just as the absence of any answer to the dangers created by intertemporal disequilibrium scares us.³ All we can try to do is to analyse the nature of the terrorism problem and some of

by dire necessity: they are mostly "assimilable" and want to be assimilated while remaining Muslim. Muslim immigrants to Europe and Britain often present very different characteristics. That said, it appears to be the case, perhaps more so in Britain than in Europe, that "home-grown" jihadis and potential jihadis are second-generation, reasonably well-educated (to the extent that anyone outside the better English public schools is well-educated any more) *and* apparently "assimilated". The experience of the non-assimilation of their parents as a result of "multiculturalism" combined with economic and social segregation may be the key element in the alienation of some second-generation Muslim immigrants from Western society, unattractive as many aspects of that society undoubtedly are.

² See our note "Europe: Riding the Tiger" of 7 January 2015.

³ In principle, a large enough extension of the average working life could be a way out. But cyclically-adjusted participation rates continue to fall in most countries. It may be that before there is a substantial shift in people's attitudes to the working life there will first have to be a combination of an increasing "Super-Say's-Law-in-Reverse" effect and a bursting of bubbles. The worry is that the immediate impact of a liquidation crisis might send economies into a downward spiral long before any favourable effect of intentions to work longer could possibly take effect – indeed, as in Eggertsson's model, such an intention



its likely implications for economies and markets. Something that may be important is that it is being reported that one of the dead terrorists was a Syrian smuggled in through Greece. That, if confirmed, will certainly turn up the heat on the rows within the NSU about refugee/immigration policy. Already, Schengen appears to be collapsing. When Orban first protested about the influx he was castigated by "right-thinking", left-leaning politicians and media: the NSU nomenclatura even muttered about imposing sanctions on Hungary. But when Sweden reintroduces border controls there is some sad shaking of heads but there are no recriminations and no threats of sanctions. The difference, perhaps, is that Orban used the C-word: he spoke of Christian civilisation. No-one could characterise Swedish politicians as a class as having wanted to promote or even defend Judaeo-Christian civilisation. Yet it has been a generation and more of Swedish "right-thinking", left-leaning politicians that has given an object lesson in how to turn an open, generous (if always somewhat weird) society into one with perhaps the most serious problems of any in the developed world.

It is quite staggering that Merkel should have wanted to follow the example of the Swedish politicians who created such a mess for their country. On Friday we wrote that Schäuble put up with Merkel, despite what is widely thought to be his contempt for her intellectual abilities, because he saw her government as his last chance to establish his own vision of "Europe" even though that vision is evidently rather different from the Chancellor's. It now looks as if he, as well as Germany's Interior Minister, has finally given up on her, speaking of an "avalanche" of immigration caused by "a careless skier" – and if the intended referent isn't Merkel I'll do an Ashdown on election night and eat my hat, even though I will need to buy one first. What he has now decided he had to say was quite something for someone who had previously said – and meant – as Finance Minister that Germany could not and would not say no to desperate refugees just because of budget targets. The numbers of incomers are just impossible for Germany to absorb – and appear to be depressing consumer and business confidence in the country. And by attempting to impose her view and her will on this question on other NSU countries Merkel has created a new locus of hostility towards Germany – importantly and damagingly, from Schäuble's point of view, most obviously in the Visegrad countries, counties which he will doubtless have viewed as potentially worthy members of a hard-core European economic and political union.

We do not know just how the growing political crisis in Germany will be resolved. It is becoming conceivable that Merkel will be forced out. Since she has been so skilful in demolishing potential successors, heaven knows who would succeed her if in fact she did go; whether or not the present Grand Coalition would continue is also imponderable. All questions about monetary union and its organisation

could make things worse in what would by then be Keynesian conditions. See my CGMA note of 15 September 2010, "Kohn, the Fed, Real Rates, the Zero Bound, Fiscal Policy Options and the Threat to Capitalism".



would be up in the air. It is rather more likely that Schäuble would end up being forced out by Merkel. That might encourage France to strike while the iron was hot and push hard on a weakened Merkel, with Schäuble no longer around to stiffen her backbone, to accept France's version of a federal union (France might even revert to favouring intergovernmental union if it thought it was now faced by a weakened German government). In reaction, the opposition within Germany to monetary union would gain greater strength the more the German government weakened. But perhaps most likely of all, the row within the CDU will simmer down and Merkel and Schäuble will calculate that it suits them both to appear to be working together. But even in this last scenario the uncertainty about the future of monetary union would be much increased.

Is the Keynes bubble in Bunds created by Draghi now in danger as political risk in Germany increases? Or will the market simply allow itself to be doped even more heavily by Draghi? We do not know. But it is hard to see how events which will undoubtedly weaken the German government, strengthen Le Pen in France and threaten to bring down one key pillar of the "European construction", Schengen⁴, and thereby weaken the foundations of another, monetary union, can in the near term do anything other than weaken the euro. And a weaker euro pushed down by a combination of political risk and, quite possibly, generalised gloom in Europe, particularly France, that depresses spending propensities (and certainly will mean that Draghi has to try even harder to depress the euro in an attempt to stave off Le Pen) may, in an atmosphere of renewed stock-market jitters, be just enough to stay the Fed's hand in December.

Returning to political implications, there is a danger for Britain in what may be the imminent breakdown of Schengen. It is possible that in the new circumstances the NSU might be more willing to throw a bone to the appalling Cameron and the unspeakable Osborne in respect of benefits entitlements for foreigners. Cameron is an accomplished PR spiv, as he was described many years ago by a prescient political commentator. The outcome might give him more chance of conning the British people to vote to remain in the wicked NSU.

⁴ The symbolic importance of Schengen to the Eurofanatics is huge and often under-estimated. In the Introduction to *The Rotten Heart of Europe* in 1995 I quoted Gabriel Rolin, a retired French ambassador formerly close to the inner circle of "committed" French Euroenthusiasts, who wrote that, "The two ideologies, of Communism and of Europe, have much more in common than they [Euroenthusiasts] like to admit....One had its apparatchiks, the other its Eurocrats...Their respective credos come together [in many respects including their belief in] the withering-away of the nation-state. Initiates in the secrets of History, the two schools are equally convinced that they know where History is leading – towards the Promised Land. For the first, its name is the classless society, for the second, it is Europe without borders," Gabriel Rolin, *Un monde sans maître: ordre ou désordre entre les nations* (Éditions O. Jacob, Paris, 1995).



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