

## THE EUROPEAN FOUNDATION

# Europe as 1996 Approaches

**Speech by Rodney Leach  
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If you buy the *Sunday Telegraph* and turn to Christopher Booker's column you will see chronicled week after week the story of Europe's sickness. This is not macroeconomics or the grand sweep of history but a litany of officialdom run amok.

The pettiness of each individual case lulls you at first into a sense of security. If Cornish fishermen cannot earn a living because Edward Heath designated British waters as a common European resource - perhaps fishing is an exception. If an opera singer has to file VAT returns in all 12 European Member States, prove which of six possible tax bands in Italy apply to him and employ a translator to deal with an impenetrable reply from Germany, that must be an isolated instance. If a firm specialising in surveying devices has to test £50 items of equipment at a cost of £1,000 per day under EC Directive 89/336 on electro-magnetic compatibility, that can be put down to some over-zealous official at the DTL.

But the initial impression of unrepresentative acts of madness soon gives way to deeper concern. An engineering company in Buckingham is visited by an environmental health officer, pursuant to the Control of Substances Hazardous to Health Regulation 1988, introduced by the Health & Safety executive to implement EC Directive 80/1107, who threatens the company with the consequences of its failure to register Fairy Liquid under its inventory of potentially harmful substances related to exposure to chemical, physical and biological agents.

The baker cannot give bread to the neighbouring swannery; the furniture maker cannot give wood off-cuts to the village hall for kindling. For under the Environmental Protection Act these are classed as waste and can only be removed by someone holding a Waste Carriers Licence with a Controlled Waste Transfer Note for onward transmission to an authorised waste disposal receptacle. Herbalists, hoteliers, engineers, slaughter houses, electronic firms, butchers, clubs, VDU operators, schools, food retailers, old people's homes - the list of small enterprises being brought to their knees is endless. We have our own City version in the shape of regulatory compliance - recently estimated by a City research group to be costing over £500 million a year, which anecdotal evidence would suggest is an underestimate.

The competitive strength of a country lies in its small and medium sized businesses. Of course it is the giants which are advantaged by corporatism and whose Captains can lobby ministers and issue headline-grabbing statements - supposedly in the name of all business. But they have no right to speak for others. Big business is more able to afford red tape and sheds few tears at the difficulties of little firms. Its opinions are predictable, based as they are on the desire of large organisations to ingratiate

themselves with Government, their staple provider of contracts, honours and export assistance. Official spokesmen for organised business favoured the National Plan, incomes policy, entry to the ERM, exit from the ERM, the Maastricht Treaty - whatever was the conventional wisdom of the day.

Big companies are also becoming less important. While employment in the US is rising, the Fortune 500 are shrinking so fast that many of them no longer recruit at the universities. They call it "downsizing". 85,000 jobs gone in the last 12 months at IBM, 83,000 at AT&T, 59,000 at Sears. It is the same everywhere - at Daimler Benz, at Renault, at Barclays Bank. With the advent of distributed processing, faxes and minicomputers, business is breaking up and being returned to human size. Economy of scale is being replaced by the economies of speed and flexibility.

In Germany 46% of the national income comes from the medium and small sector. People think of Japan as the home of vast industries but, in fact, like Hong Kong and Northern Italy and Taiwan, Japan owes its success more to entrepreneurs who run businesses of individually manageable dimensions.

The small business sector in Britain has played a somewhat lesser part than in other countries. This is not the place to go into the reasons. The important point is that in Britain, too, that is where the growth is. The voice of our entrepreneurs deserves a far better hearing. And that voice is highly critical of the licence given to unaccountable bureaucracy by Brussels, which not only impairs their competitiveness, but produces a sense of alienation from the powers that be.

People no longer believe they can get satisfaction from their MP when things go wrong. The minister will refer them to a civil servant, who will refer them to a directive. No wonder French fishermen and farmers take to the streets. No wonder businesses in other European countries, less Anglo-Saxon in their attitudes, simply avoid the regulations. And no wonder that opinion polls show the population in Britain, France and Germany swinging against Maastricht, which symbolises for them most of what is wrong with Europe.

It has long been suspected that the devotion of Italians to a United Europe owed more to their distaste for their own political corruption than to admiration for Brussels. With its new political formation, Italy has become notably more sceptical about federalism. Italians also see that their economy owes its current strength largely to the withdrawal of the Lira from the ERM. Without that, Fiat itself might have gone under. Spain, too, is changing sides, as its vision of ever greater handouts fades under the presence of budget constraints in its main benefactor countries, Germany and Britain.

One symptom of European decline is its loss of world trade - 25% lower than 10 years ago. Another is technology - high tech's share of industry is one-third greater in Japan and the US than in Europe. The most visible symptom is unemployment - 12% in France; 14% in Belgium; 22% in Spain - the highest in the developed world. The contrast with the US, where employment and welfare costs have been restrained, is striking. Over the last 10 years, while Europe's labour costs were rising by 50%, America's actually declined. America has priced itself back into competitiveness.

How can Europe expect to compete when its hourly labour costs are 20% higher than the US and its productivity 25% lower?

It is, however, the contrast with Asia that really hits home. Government in Hong Kong consumes under 20% of the territory's wealth compared with over 50% in Europe. There is a budget surplus. Taxes are 17%. There is no VAT or capital gains tax. Yet there are new schools, universities, roads and bridges and a new subway system. A new airport is being built in the ocean, partly carved out of an island hill. Millions of immigrants have been absorbed without over-straining housing or the infrastructure. And this is no sweated labour society. Its income per head is now as high as that of Belgium or Italy.

Hong Kong is not alone. I could have said much the same about Taiwan or Singapore, even Japan. All over the East the work ethic and the minimisation of labour on-costs, together with the ease of technology transfer and the willingness of the family to take on many of the burdens assumed in Europe by the State, have enabled their economies to grow so rapidly that they already equal the US or the whole of Europe. On present projections they may exceed the other two combined in 25 years' time. This will be the single most important geo-political fact of our children's lifetime, with profound implications for society and foreign policy as well as for trade.

There is some evidence that at last light is beginning to dawn in Europe. The rhetoric is swinging to the need to be competitive to combat unemployment. But so far as Brussels is concerned it is just that - rhetoric. The solutions are familiar and counter-productive. More government spending. More subsidies, to compensate for the regional maladjustments which will be caused by pushing on with a single currency and harmonised industrial, welfare and environmental standards. Lip service to the end of monopolies. The preservation of the CAP. Expansion of the Social Dimension, which piles welfare costs on business, balances their anti-competitive effect with tariffs or quota protection and then permits more efficient foreigners to be accused of *social dumping*. The Commission seems unable to look at itself objectively, comparing itself with the outside world and drawing the conclusion that what is needed is a fundamental change in attitude - no less than the dismantling of much of the *acquis communautaire*.

I can offer no explanation why Europe's élite keeps trotting out old chestnuts which a moment's contemplation would show to be not just implausible but impossible. They say that a common currency is necessary for prosperity. But if that were so, Japan and Greater China and South East Asia would be a failure, not to mention Canada and Australia. They say you have to be part of a trade bloc to negotiate with Japan and the USA - but if that were true you would have to add Switzerland, Scandinavia and Austria to the list of failures. They say that harmonisation of taxes is essential - but in that case the US itself would be on the failure list. They praise cohesion funds - but if subsidies worked Sicily would be the richest part of Italy. If the European Union is the only one in step, how come the rest of the world is so much more successful?

The voters sense that they are being fed fairy tales and they fear for their jobs. In too many countries - not just Italy and Spain - they also see more corruption than they can stomach. That is why Berlusconi has swept to power in Italy; that is why political

extremism grows in Europe. In Britain there is disenchantment even with our own honest Parties and generally sensible Government.

I say "sensible" because the PM's recent article in *The Economist* could have been written word for word by a Eurosceptic. His intervention at the European Council in October last year showed a keen awareness of the nature and causes of Europe's decline. Do you know that in the USA only 6% of their unemployment is long-term? And that in Europe, not only unemployment nearly twice as high, but the long-term unemployment is 45% of the whole? Our PM knows this, and he said so in words of one syllable to his Euro-colleagues. What's more, far too many of the jobs in Europe are unproductive - public sector jobs which cannot survive the cutbacks needed to reduce budget deficits. And Britain has been making the running in proposing the only rational solution - get competitive; deregulate; prune the welfare state.

Given the rather high degree of common understanding over Europe which is beginning to emerge in Britain, why is it still such a divisive issue? The answer is that we are leading a double life. We know what needs to be done, but we have signed up to a Treaty which legitimises, entrenches and carries forward the exact opposite approach. That is the irony of Maastricht. If Britain had rejected the Treaty, we might have saved Europe by administering to it a shock which, coming on top of Denmark's 'No' vote and the rejection of affiliation to the EC by Switzerland, might have set Europe back on a path worthy of Schuman and Monnet, Erhardt and Adenauer, its famously pragmatic pioneers.

But when we forced Maastricht through, adding new powers to Brussels and increasing the scope of majority voting, we endorsed *irreversible* progress towards a centralising, interventionist European State which is completely at odds with the aspirations of the population and over which we are able to exercise less and less control. M. Delors is just a footfall away from achieving his 1991 boast that by the turn of the century the Commission would take of 80% of Britain's decisions. It is no coincidence that the emergence of an alternative party under Sir James Goldsmith in France, the victory of *Forza Italia* in Italy and the first stumblings in Britain of a previously unthinkable withdrawal from the European Union should all have occurred within months of the completion of the Treaty.

We may be given one final chance. In 1996 the inter-governmental conference will do what America did at the Philadelphia Convention before it formed itself into a nation state, and what Europe should have done two decades ago - it will define the constitution of Europe. What should be the powers of the Sovereign States and what those of the Union? Who will be head of state? Should countries have vetoes and opt-outs and, if so, in what circumstances should they be exercisable? Will there be a European army? Will it be integrated with NATO? Can a unitary state exist without a common language? How can we accommodate the neutrality of Switzerland and Austria? Can fiscal policies be decentralised but monetary policy centralised? What should be the powers of the European Parliament? Is the Commission a government or a servant of governments? Will Scotland, Bavaria, Lombardy and the Basque Country substitute their ties to the UK, Germany, Italy and Spain by direct ties to the Union? What are the respective authorities of the European Court and the Courts of Europe's constituent nations?

You can be sure that M. Delors has given much private thought to such questions. But outside Britain they are hardly asked in public. In Whitehall it is regarded as faintly seditious - or as they would call it "unhelpful" - to ask them. The Foreign Office prefers to duck hard-edged questions of that sort, subsuming them into the vague and unenforceable concept of "subsidiarity". In influential circles in London, where interest in political gossip is mandatory but interest in political ideas is socially unacceptable, such questions will be dismissed as boring until it is too late any longer to influence the answers to them. (Then the Foreign Office will urge us not to rock the boat and the people will ask why nobody told them the truth.)

If you find yourself in despair over the way that Britain is ensnared - sometimes gaining a few yards of ground, as with the temporary escape from the ERM and the partial opt-out from the Social Chapter - sometimes conniving at our own decline, as when we add unnecessary refinements to EC directives - what little consolation you can gain is less likely to come from assurances that *we are winning the argument in Europe* than from the clear-headedness and self-interest of an increasingly assertive Germany.

The Bundesbank's evidence to the constitutional court in Karlsruhe articulated as cogently as any British sceptic the monetary deficiencies of Maastricht and the link between a single currency and political union; and Chancellor Kohl, opening the Hanover Fair last month, stated emphatically that just because a problem has a European dimension, that does not mean the Commission has a right to put its oar in. He gave a detailed description of the steps Germany is taking to restore the competitiveness of its manufacturing. The slimming of the engineering industry, the exploitation of the Central European labour pool, and the first Mercedes-Benz factory to be built abroad, signal the end of an era. Germany remains a country with a high sense of community responsibility, but the heyday of the all-providing social market economy has passed. In practical action, though not yet in political objectives, Germany and Britain are starting to converge.

Nevertheless, alongside the free trading instincts which characterise Germany, Britain and the Netherlands, there is an opposite, and no less strong, instinct to meet competition by protectionism. France sees Europe as a civilised enclave threatened by America and Japan or surrounded by underpaid and over-skilled Asians. To this way of thinking trade does not so much enrich your consumers as imperil your producers - it is a zero-sum game, unless carried on with your equally prosperous neighbours. This is the doctrine known as mercantilism, by which France accepts the Single Market (so long as its own key monopolies are preserved) provided the exterior wall of Fortress Europe can keep out competitive goods from elsewhere.

Of many instances of this doctrine, none is more absurd than the CAP, under which the taxpayer overpays for domestic production, protects his market from cheaper foreign food, then dumps his surplus produce abroad below cost, as a subsidy to compensate foreigners for exclusion from the European market. It is a system whereby you first inflame a problem and then invent the least efficient and most corruption-prone solution to it; a system in which the number of losers extends the number of winners by hundreds of millions.

The concept of Europe as a trading bloc is fundamentally opposed to the spirit of GATT. GATT must take most of the credit for the fact that the last 50 years have been the most prosperous in the history of the world. Industrial tariffs have dropped from 40% after the War to 5% today. Europe has responded grudgingly, with a maze of special trade deals and non-tariff barriers, enforced by a collective bureaucracy which, with its large French contingent, is highly susceptible to the mercantilist view of the world.

Now the rumour mill has it that Europe's arch-federalist, the Belgian PM Jean Luc Dehaene, is being pushed by Kohl and Mitterrand to succeed Delors. We must, therefore, mark it down as probable that the majority verdict in 1996 will favour a unitary European State, complete with protectionism, subsidies, harmonisation and interventionism, with substantial concessions to the requirements of German industry and French agriculture; but with very limited accommodation to Britain's strong suits - telecommunications, air travel and financial services - all of which have a dimension running beyond the confines of Europe. It is ironic that the charge of being little Englanders so often arises because our horizons are larger than those of our critics.

At that point we are going to have to ask ourselves the \$64,000 question - should we continue? If that question is asked in a vacuum, any rational answer will be drowned out by a partisan chorus. Right now, two years in advance, think tanks must start to do their homework. We need an accurate cost-benefit analysis of withdrawal, together with an examination of the prospect of new economic relationships, not just with Europe but with the wider world.

Britain is far too important a market for Europe to be willing to let us go easily; and for its failings Europe is too important to Britain for us to depart in a fit of pique. Might we have an associated relationship without the torment of full federation? Might the Foreign Secretary's beloved "variable geometry" allow France, Germany and Benelux to federate, if they so wish, politically as well as monetarily, while Britain remains linked in free trade and in voluntary co-operation? That, after all, is what Norway and Sweden have today and what General de Gaulle offered us 30 years ago.

The time may also be approaching for a closer relationship between an enlarged Europe and NAFTA, serving as the economic underpinning for the NATO alliance. In such a vast and prosperous grouping French ideas of managed trade and Anglo-Saxon ideas of free trade ought to find a readier compromise, and in a wider liberal economic zone British withdrawal from the European Union could be virtually painless.

We were promised that Europe would bring us higher growth, new jobs and currency stability, without serious loss of sovereignty. But our political independence is draining away and the economic benefits were based on wishful thinking - through lack of self-confidence we fooled ourselves into believing that the success of others would brush off on us without undue effort on our part. Even if the EC had not then turned into the laggard of the developed world, this was always doomed to be an illusion. Nowhere is this better understood than in the City, which prides itself on self-help and its ability to rumble a false prospectus. The City also knows from experience how little it owes its own pre-eminence to Europe, and how much to

global markets, old traditions, and the innovative energy of practitioners flocking from Asia and the Americas to the Square Mile's hitherto benign and lightly regulated climate.

The truth, then, is beginning to rise above clichés about fast trains and Foreign Office nostalgia for Great Power influence. Business leaders, who have seen their sycophantic pro-Government generalisations quoted back as objective testimony to the rightness of the Government's position, have a particular responsibility to start saying in public what so many of them say in private - that Europe has become a net negative factor.

1996 is the last time to take stock. Will we want to stay in the Union, no matter what the cost, no matter what its foreign and defence policy, no matter what its trade policies, no matter if our independence is reduced to triviality? Perhaps so - after all, our influence, though limited, will not be negligible and from time to time we shall have allies over this or that issue. Or will the ghosts of Bismarck and Colbert prevail over the ghost of Adam Smith, to produce an inward-looking Union with predominantly Central European and Mediterranean horizons, a Union so alien from our free-trading ideals and our historic cultural, financial and military links to the English speaking world that our only honest course is to pull out?

Most will hope that enough pressure for reform will have built up in the next two years to tip the scales against withdrawal. But if 750 years of almost unbroken constitutional continuity are to come to an end, let it be done with all the implications candidly before us, not under cover of black smoke put up by politicians who lack the courage to face Oliver Cromwell's unnerving plea: *I beseech you, in the bowels of Christ, think it possible you may be mistaken.*