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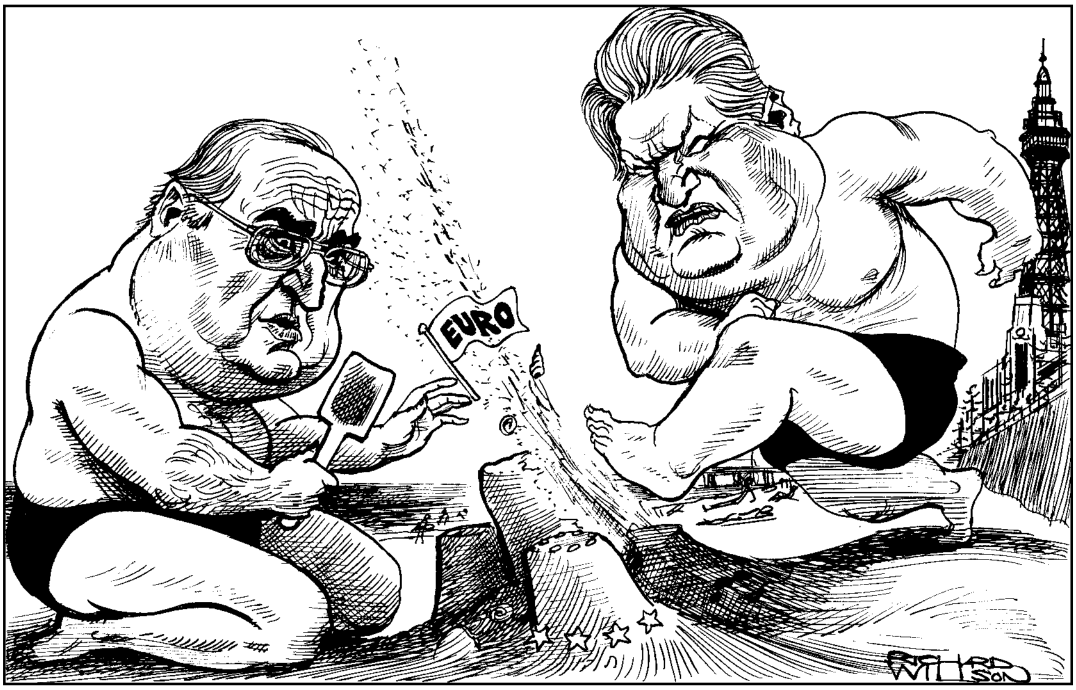

Professor Patrick Minford
EMU's Cloudy Prospects

and Lord Howell, Ruth Lea, & John Cryer, MP

Exclusive All-Party Poll on Europe

The European Foundation 61 Pall Mall, London SW1Y 5HZ
Chairman: William Cash, MP

THE EUROPEAN JOURNAL
THE JOURNAL OF THE EUROPEAN FOUNDATION

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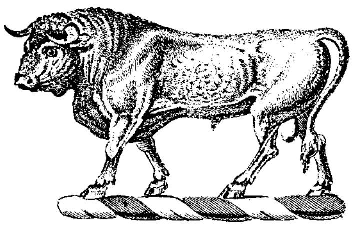


Come, Hear and Question at the European Foundation meeting at the Conservative Party Conference on The National Referendum on EMU

In this edition of the *European Journal* (which comes out at the Conservative Party Conference at Bournemouth where we are having our fringe meeting on how to win the National Referendum), it is important to stress again that the defining issue in the national interest is the necessity for a 'No' vote in the National Referendum on EMU. It may be that the Referendum is some time away but, as I argued in our last edition, we must not be diverted from this course.

We applaud the decision of William Hague and the Shadow Cabinet to hold the internal ballot within the Conservative Party on the single currency.

There will be many fringe meetings at that Conference on the European issue where we will hear familiar and significant speeches rehearsing well worn themes against EMU, federalism and the Labour Government's enthusiasm for the single currency in principle, which will be expertly deployed as they have been in the *European Journal* and at Conference meetings held by the European Foundation since Maastricht.

On October 1st, or soon after, the verdict on the Referendum within the Conservative Party will be announced. We hope that it is a robust vote for the question posed by William Hague and the Shadow Cabinet, even if for many, including myself, as will be seen below, it does not go far enough on the issue of principle. There is much merit in the decision to ask the Conservative membership to vote. Some will have refused to vote, some will have explicitly opposed the Leader and the Shadow Cabinet. It is argued by Kenneth Clarke that the vote will not change very much. We shall see. The idea is, however, important, not least because the response will almost certainly tilt the balance in the Conservative Party in the direction of sanity and democracy in line with the historic tradition of Disraeli and others who concur in believing that "The Tory Party is a national Party or it is nothing". It is ironic to say the least that those who support the single currency within the Conservative Party are often those who translate their own misguided concept of "One Nation" from the United Kingdom into a European political union – one country – Europe, as Karl Lamers, one of Chancellor Kohl's CDU advisers advocates. The decision by the European Bank to refuse to accept the Queen's head is a perfect example of the unaccountable power of European bankers under the Maastricht Treaty.

The National Referendum on the single currency will transcend British and European politics and even general elections themselves. If there is a 'Yes' vote in the United Kingdom, the very basis of our democracy will be undermined and, with it, Disraeli's and Edmund Burke's concept of Conservatism and therefore the principles upon which the Conservative Party itself is built. Those who think we should "keep our options open" must automatically be assumed to think that in principle we could accept a single currency. We could not. What will go with the single currency is harmonised taxation. Are those businessmen who are in favour of the single currency also in favour of much higher taxes as well? In the Nottingham Trent survey, 36% of Labour MPs were in favour of harmonized European personal taxes or were indicated.

Indeed, it is worth reminding our readers of our campaign against EMU since the mid 1980s and before. I recently reminded myself of an article, *The Way Ahead for the Tories,* in the *Sunday Telegraph* on 28 July 1991 by Maurice Cowling. In it he warned John Major before the Maastricht Conference that December, "of the difficulties which surround the Government's European policy. Europe is a difficulty because the Prime Minister and the Foreign Secretary seem disposed, if they honourably can, and perhaps even if they honourably cannot, to bring back from Maastricht in December proposals of principle for a common currency and a European Bank which they will ask Parliament to accept in principle, on condition that economic convergence or a subsequent Parliament will decide when, or perhaps even whether, they are to be implemented". "In fact, about the principle of a common currency and a European Bank, it [the Government] seems not be open minded." This proved to be true because they allowed the principle to be adopted within the legal framework of the Maastricht Treaty irrevocably.

He went on to say that "there are good reasons why the Labour leadership, which used to mistrust it as a capitalist plot, now approves of it as a socialist plot. Most important of all, there is a political objection – that British agreement to the insertion into the [then] Treaty of Rome of provision for a common currency and a European Bank, even if only an agreement of principle so far as Britain is concerned, will easily be converted by administrative practice and the momentum of events into an irreversible commitment in relation to which economic convergence and the consent of a future Parliament will be formalities." He advises John Major, therefore, against signing Maastricht "while remaining firmly committed to membership of the Community", but he advises that one option will "depend on the strength of feeling among Conservative MPs and Ministers and on their willingness to declare themselves against the principle which the Government seems to be intending to adopt". Plus ça change …

Readers may recall the poll by Nottingham Trent and Sheffield Universities of Conservative MPs in the last Parliament published in *Political Quarterly* in Volume 64 No. 4 (Oct. 93) and covered in the *European Journal* on the Maastricht Treaty, which showed that 58% privately agreed that "EMU was not desirable". A similar team from Nottingham Trent University have just completed another poll of Conservative and other MPs, the results of which are on page 19 of this edition of the *Journal,* which significantly shows that 61% state that "sovereignty cannot be pooled". 26% state that "Britain should withdraw from the EU". 66% state that "Britain should never permit its monetary policy to be determined by a European Central Bank". 64% state that Britain should never rejoin the ERM. 66% state that "joining the single currency will signal the end of the UK as a sovereign nation". 97% believe that "it is essential that there should be a national referendum before the UK enters a single currency".

Only a few weeks ago NOP showed that 49.4% of the electorate were "against the single currency as an idea", i.e. in principle. Again, a recent telephone poll on BBC Radio 2's Jimmy Young Programme featured 31,146 respondents, of which 91% said they did not want Britain to join a single currency.

For all these and many other reasons familiar to the readers of the *Journal,* the Maastricht Treaty must be renegotiated, but we must also win the National Referendum as the deciding factor. This is why the European Foundation is uniquely holding its own Conference meeting (details of which are on page 28) to get down to the nuts and bolts of how to win the National Referendum. The preparations need to be thorough and put in place long before the vote itself. Our future as a country is at stake. Come to the meeting, encourage others to do so, hear the arguments and let us have your own views.

Bill Cash, September 1998

Europe's Future is to the East

The Unloved East – how the dream of enlarging the European Union is coming apart. Part I

by David Howell

1. Still Waiting

The building of an enlarged Europe, embracing all its nations, large and small, and bringing together all the qualities and cultures which make up the European phenomenon, is, above all, a question of confidence, of not being cowed by smaller and meaner visions of European unity which have dominated so much of the European debate. As William Hague has argued (in his INSEAD speech) the position of the "little Europeans" has now to be challenged.

The defeatist generation in Britain who so mismanaged the British economy in the post-war years and seemed cowed in the fact of German-French economic success have now gone. The UK should put forward a distinctive view of Europe with vigour and courage. The British possess (although they may have forgotten) an historic and instinctive sympathy with the nations of East and Central Europe and this is reciprocated.

In this century alone they were decisive in the restoration of Estonian independence in 1920 (although tragically short lived); they championed Hungarian freedoms – to the point where Hungary sought a British leader; they went to war for Poland. Munich stained the record, but when brilliant Czech and Polish airmen, and soldiers, fought alongside the British in circumstances nearer to outright brotherhood than mere alliance, there was never any doubt that it was to Britain that the states of East and Central Europe looked as their friend, mentor and protector.

2. "An unholy mess"

"Real progress", British Ministers announced during the recent UK Presidency, "is being made towards enlarging the European Union and extending it eastwards".

But is this really so, and where is the evidence for it? A very real and solid obstacle stands in the path of this "progress" which cannot be massaged away by words or hopes. Quite simply, the present Union cannot be enlarged to embrace new members until its central institutions, its key lawmaking procedures and many of its policies have been radically altered – and of this there is very little sign.

The present structures were designed to service an economic community. They have already been strained to breaking point as the pressure has built up for a politically integrated union of states (reflected in the change of name) while numbers have substantially increased from the original six. The addition of five more members, let alone ten or eleven, can only burn the remaining bonds which hold this outdated machinery in place.

This would be the case even if the prospective new members were societies and economies organised on convergent lines with the existing member states. But they are not. They are sharply poorer by orthodox measures (although catching up faster than is generally realised), their recent history ensures that their attitudes to European integration are both different from those of, say, France or Germany, and varied between themselves. Their economic systems, far from still being more socialised than those of Western Europe, are heading for greater liberalisation than the regulated world with which Brussels feels comfortable.

It is no exaggeration to say that enlargement challenges fundamentally the direction in which the EU has been moving in recent years, and the methods by which it has done so. A programme of commitment to deeper political integration, and to streamlined decision-making by a powerful central body just cannot be squared with the task of embracing a string of new and smaller member states who are in different stages of developments and which in some cases, as we shall see, are actually moving in contrasting directions to the major economies of Western Europe.

It might have been expected that the most recent constitutional reforms in the EU, as codified in the Treaty of Amsterdam, would have addressed these central needs for change. This would have been consistent with the declared EU aim of enlargement to the east.

But no such changes, or even debate about such changes, materialised. The Treaty called for a review of certain institutional issues – the size of the Commission, the weighting of votes and the extension of majority voting – but that was all. Even before this latest treaty is ratified, it is now dawning on some EU leaders that the way to enlargement is blocked unless a whole vast new round of reforms, involving numerous further changes both in the Treaties and in policies, can be kick-started.

But the will for this is entirely absent. Not only is the political class in Europe exhausted by the effort to give birth to the Amsterdam document, so that there is no enthusiasm at all for starting over again, but outside the official world there is not the slightest popular pressure for enlargement.

3. The economics of enlargement

The present situation is that five countries have been invited to begin negotiations for membership on the so-called fast track. They are Hungary, the Czech Republic, Poland, Estonia and Slovenia. Cyprus has also been invited – with intensely dangerous repercussions as we shall see.

If these countries are lucky, and no new obstacles are raised – which is unlikely – they will be members of the EU by 2005, although further long transition periods will then continue. So fifteen years after the birth of the new democracies in East and Central Europe these heartland European nations will be admitted to the Union.

Five more – Latvia, Lithuania, Rumania, Slovakia and Bulgaria – have been left in the 'preparatory' category, their prospects for starting negotiations pushed into the unspecified future – and for actual joining lost in a distant never-never-land.

So far, much of the debate about enlargement has been couched in terms of the 'price' which the new entrants will have to pay, both economic and political, to get in.

But of course behind their 'price', or the formidable array of reforms and costs the new democracies will be required to shoulder, lies another 'price', the one which the lobbies and interests already inside the Union fear they may be called on to pay if the newcomers join.

Official EU policy on these delicate matters is set out in the document Agenda 2000, published in July 1997 and full of impressive contentions about the need for reform of the Common Agricultural Policy. Agenda 2000 also set out the Commission's views on which countries were suitable and ready, according to various criteria, including 'human rights' records, for admission.

But a better flavour of the way things were going to go came from the so-called pre-accession strategy which had been shaping up over the previous three years. The message from this was clear. The new entrants had not only to 'marketise' their economies – a superfluous injunction since many of them have jumped straight from central planning to a degree of liberalisation actually in advance of their Western neighbours – but to accept the whole *'acquis communautaire'*, i.e. the full apparatus of Brussels powers and controls.

Specifically, this is the doctrine, codified in about three hundred thousand pages of notes, which makes all powers ceded by member states to the EU irreversible. It covers a huge range of legislative and regulatory requirements and sets elaborate and expensive minimum standards in many areas of employment, health and safety, vocational training, environmental conditions and procedures, and social provision.

This presents the new boys with a contradiction. In effect, much of the *'acquis'* apparatus involves not more liberalisation but less. On the social front the *acquis* means, of course, the social chapter of cost raising measures designed to 'even out' unit costs between east and west in Europe and prevent 'unfair' competition. This plainly strikes at the heart of the labour market flexibility and low cost competition which the East and Central Europeans now feature, and is intended to do so.

In other words, the real message to the applicant states is not "free your markets and open them to the world", but "rig your markets so that Western Europe is not undermined by your lower costs and rising competitiveness".

It is easy to see why this should be the urgent agenda of the existing membership. Asian competition is bad enough for the EU's cost burdened producers. But when, as one Berliner put it, this 'Asian' competition is only sixty kilometres away, i.e. in Poland where hourly wages are one tenth of those in Germany, this just cannot be tolerated.

Nor are the EU planners happy to stand idly by and see foreign investment drained away to a low cost and increasingly dynamic east – investment not just from outside Europe but from their own major manufacturers like VW and Daimler Benz.

For example, Estonia now has no external tariffs at all, making it a highly attractive place to invest and trade. Will it be allowed to stay that way inside the EU zone which may have lower tariffs than it did but still maintains an external barrier as part of its self-identification as a trade bloc?

The logic inevitably built into the accession strategy is therefore plain and understandable. It is to take the cutting edge off competition from the newcomers by insisting they shoulder the social burdens of the rest of continental Europe. That is the 'price' to be paid. Either low Eastern costs should be raised or high Western costs should be subsidised – one or the other.

These dilemmas are posed in their most acute form on the agricultural front. Here the immovable meets the irresistible. Agriculture forms a far larger part of the new entrants' economies, and employment patterns, than in the West. The task of integration in a single Europe-wide system looks awesome to the point of impossible, as heavily emphasised in a seminal House of Lords Committee report in June 1996.

To subsidise the newcomers at the same rate as French and German farmers would make the whole cost of the CAP unbearable. The European Commission, acknowledging this, has already stated that it will not be possible to extend the CAP to the newcomers.

So the choice is either to cut the subsidies to farmers in the existing EU, which looks politically impossible and of which there is no sign, or to keep the new entrants on a second class, lower support rate. That would present East European farmers with a profoundly unfair situation in which they were having to compete with western farmers who were not only already much better off but more heavily subsidised. The richer end of European farming would continue with a generous system (of which root-and-branch reform is always around the corner but somehow only occurs at the fringes), which subsidises not only production but exports, while the poorer end was left to struggle.

Shades of this are already apparent and reflected in the shaming fact that even now the EU sells more agricultural produce to East and Central Europe than it imports. It is hard to see any development more calculated to divide rather than unite Europe and weaken rather than strengthen the new democracies.

Lord Howell, former Chairman of the House of Commons Foreign Affairs Committee, is advisory director of Warburg Dillon Read. He was Conservative MP for Guildford 1966–97. [The second and final instalment of Europe's Future is to the East will appear in the November Journal.*]*

… news in brief

Giving European industry a helping hand

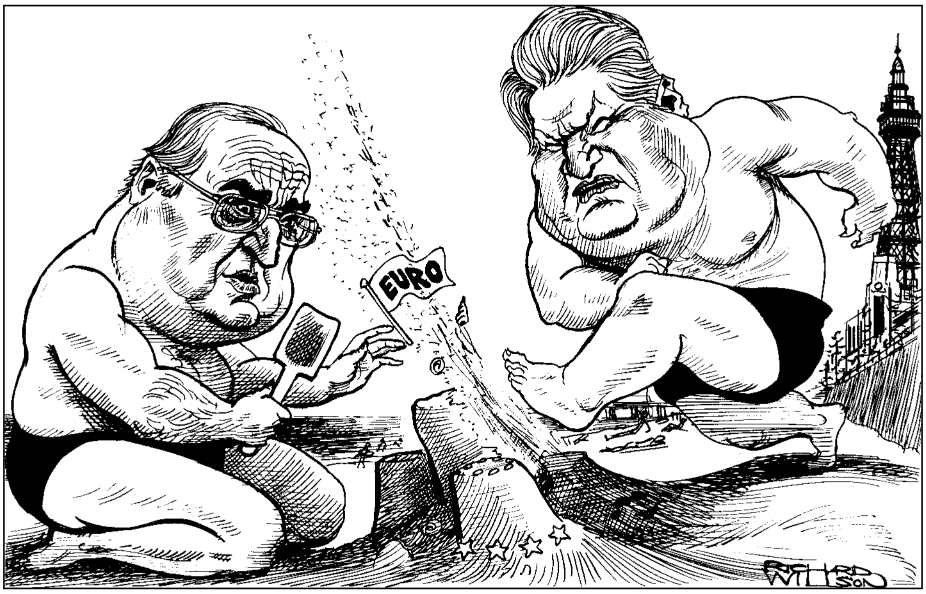
When British Airways announced that it was placing a huge new order of Airbus aircraft, the company's Chief Executive insisted that it was a purely commercial decision. Perhaps it was from his point of view, but why then did Tony Blair attend the ceremony to sign the contract? The fact is that the deal fits neatly into the plan, which the British government supports, of creating a consolidated European aerospace industry to compete with the Americans. The Communist French transport minister made this clear when he spoke next to Tony Blair in Toulouse. Having floated the balloon and there having been little or no anti-European reaction against, the government evidently felt at ease in admitting the ultimate goal when the Farnborough air show opened on 7th September. The *Today* programme happily explained that this was the policy, and that the new euro-fighter aircraft would be proudly on display. [*Le Monde*, 27th August 1998; *Today*, BBC Radio 4, 7th September 1998]

Illegitimacy in the EU

According to a report conducted by Eurostat, 25% of all children born in the European Union are born out of wedlock. The figure was 10% in 1980. This is a pan-European trend and not just confined to EU member states: in Iceland, for instance, two thirds of children are born illegitimate. Even in Italy, the percentage had doubled since 1983 and now stands at 8.3%. [*Süddeutsche Zeitung*, 5th August 1998]

EMU's Cloudy Prospects may be a Blessing

by Patrick Minford



Now that we have had quite a convincing crash – er, correction – we can have some hope that our western central bankers will get a more balanced view of the world they are in. They can turn their minds more to interest rate cuts and less to "building counter-inflation credibility", of which there is plenty around, not to say a positive excess by and large. Credibility comes from known policy reflexes, put in place by popular attitudes to inflation. Now people, or more exactly the "well informed opinion" that guides them in these arcane areas, realise there are at best temporary gains from inflationary policies at the cost of long term inflationary pain. So central bankers all over the West have been charged with containing inflation, almost to the exclusion of worrying about the state of output; they have credibility coming out of their ears. Fortunately in practice most of them sensibly do worry about output as well; and the most important of them all, Alan Greenspan at the US Federal Reserve, worries a lot. His concern that the Asian crisis would pose a serious threat to western prosperity has been dramatically proved correct; the Fed's hawks are in flight.

That is the significance of the crash, and whatever more of it is in store. There will be some wealth effects from share prices – and from the associated confidence in future prospects that these mirror – on to consumer spending and investment; but provided central bankers are ready and willing to cut interest rates to offset them, they pose no real problem. The difficulties that could arise come from unwilling central bankers, from protectionism as imports cut into industrial jobs in the west and from failure to replenish the world's central bank, the IMF.

The biggest strength in the present situation is the Fed; other elements in the US scene are less reliable, notably Congress which is unwilling to give the President "fast-track authority" for trade agreements or to replenish the IMF. So far this has not mattered; but now the IMF is running our of money. We have also yet to see whether Richard Gephardt comes up with some amendment trying to cap the US trade deficit, now running at $200 billion. This already 4% of US national output; and it could easily rise half as much again, with the extra knocking over some sensitive industries such as textiles, farming and electronics.

But it is when one turns to Europe that one's doubts escalate. In January we will have the European Central Bank (ECB) presiding over the euro – not the pound, thank goodness. The ECB will be a neophyte bunch with the impossible task of deciding where to set euro-wide interest rates. Being neophyte, it will be obsessed with its credibility. By then, Germany with its high labour costs and its eastern backyard in rout will possibly be in dire shape; already its consumers are zipping up their wallets while its exporters face falling orders, not merely now from Asia but also from Russia and its erstwhile satellites. Next after Germany, we should worry about Italy, a big manufacturing nation facing tough competition across the board from an Asia desperate to sell at rock-bottom prices. In both Germany and Italy unemployment is well over 10% and barely falling. Meanwhile France is recovering nicely with something of a consumer boom, so far at least feeling less impact from Asia and with little to do with eastern Europe. Spain, Portugal and Ireland have been booming away for some time now, on the basis of their lower cost "peripheral" status in the EU.

Forget any talk of some countries not qualifying at this late stage; all have now done so, the decision has been taken. So the ECB will have to decide whether to raise interest rates to cool off the hotter majority or to lower them to deal with the bigger two coping with the global crisis to their east. There is no option to do nothing as interest rates range from 6% in Ireland to 3.5% in Germany. And this is no mere technicality. If Germany needs interest rates of 2% and the ECB plumps for an average of 4%, say, then this will be the first time since the war that Germany has had a totally inappropriate monetary policy, one that could plunge it deep into prolonged recession – one wished upon them by foreigners to boot. The worst fears of the

German people and the Bundesbank about the political drive into the euro will have been justified. This will not be amusing at all. It could lead to Germany's precipitate departure from EMU, well before the 2001 deadline for euro notes and coins being issued to replace existing deutschmarks, francs, etc.

This would be a sort of rerun – admittedly a bit more expensive – of our regular departures from the ERM, real or shadow (1972, 1988 and 1992). Those who talk of EMU "irreversibility" should remember that what politicians put together politics can always rend asunder. In Germany the politicians after this month's election will almost certainly be a different lot from those who took the Germans into the euro against their will.

These could therefore be agonising times on the Continent, just when all were set for a trouble-free euro launch amidst general recovery. Mr. Hague asked for ten years to provide the euro with a fair test of viability. It may well be that, thanks to the global crisis, that test will come a lot earlier. It is an ill wind …

The same agonies could test a lot of other euro nonsense too; such as the levelling up of tax rates, the general imposition of social burdens and the gold-plating of industrial regulations in the name of harmonisation, the single market and the social dimension. European politicians have gone around like Alice in Economic Wonderland repealing the laws of supply and demand. Good words such as competition and free markets are stood on their head in Euro directives by these Brussels Humpty-Dumptys. As the Harvard Austrian Joseph Schumpeter observed, bad recessions are the engine of creative destruction in industries – in economic policies too.

It may be the worst of times. But it could also be the best of times, promising the European project a fresh start.

Patrick Minford is Professor of Economics at Cardiff Business School and Visiting Professor at Liverpool University.

The CAP Doesn't Fit

by Keith Marsden

The European Commission tries to put a good face on the Common Agricultural Policy (CAP), despite widespread public misgivings. And it is prepared to distort the facts to boost its image. In a recent statement published by the *Wall Street Journal Europe,* the EC Spokesman on Agriculture, Mr Gerard Kiely, claimed that the EU's Common Agricultural Policy provides support to farmers in a "transparent way". Yet his statements are often misleading and should not be accepted by European taxpayers and consumers without further scrutiny.

EC Claim: *In the case of agricultural support, competence has been totally devolved by the member states to the EU and … the CAP in fact costs only 0.5% of GDP.*

Facts: This figure, representing an expenditure of 39.1 billion Ecus in 1996, covers spending out of the EC budget only. But the EU allows member states to provide additional aid to their farmers in a variety of other ways – reduction of input costs and provision of research and extension services, for example. The OECD estimates that total transfers to agriculture from EU taxpayers amounted to 56.2 billion Ecus ($71.4 billion) in 1996. Furthermore, EU market price support policies raise the cost to consumers of food and other agricultural commodities far above international, border price levels. EU consumers had to fork out an extra $70 billion annually over the 1993–96 period as a result. Thus the OECD estimates that total transfers from taxpayers and consumers associated with EU agricultural policies have averaged 1.5% of GDP in recent years. This is almost four times the levels in Australia and New Zealand, two important competitors in world markets for agricultural commodities. The US figure is 0.9%.

The level of EU support and protection given to agriculture is particularly high considering that the sector contributed only 1.7% of total EU GDP in 1996. Total transfers to agricultural producers were equivalent to an average subsidy of around 45% (measured in relation to the value of agricultural output at domestic producer prices) in 1993–96, according to OECD estimates. Market price support measures also act as implicit taxes on consumers. They averaged 30% on the value of consumption, again measured at producer prices. As a percentage of border prices, they reached a whopping 61% from 1993 to 1995. These transfers are not only a direct burden on EU citizens, they also create economic inefficiencies and distortions in production and consumption which retard improvements in living standards in the long term. Equivalent rates are higher still in some countries, such as Japan and Switzerland, but are significantly lower in the US (15% and 8%) and New Zealand (3% and 6%).

EC claim: *The EU is the largest food importer in the world.*

Facts: Food imports per capita are higher in Japan, Canada and Korea, for example, than in the EU (excluding intra-EU trade), and they account for a larger percentage of GNP in many countries. The CAP has contributed to a sharp decline in the relative magnitude of agricultural imports. They took only 12.3% of Western Europe's total merchandise imports in 1996, down from 32.8% in 1963. And there has been a shift in the sources of supply. The value of EU food imports from the rest of the world was less than half the value of intra-EU food imports in 1996, and represented just 0.8% of EU GNP (WTO data). This is a low level of import penetration considering that spending on food, beverages and tobacco accounts for 20% of total household consumption in the EU.

EC claim: *US support for its agricultural sector amounts to $23,000 per farm on average, which is four times the level provided by the EU.*

Facts: This claim is highly misleading. The average size of farm holdings in the US (207 hectares) is more than twelve times that in the EU (16 hectares). Total transfers per hectare amounted to $825 in the EU, more than five times the US figure ($161) in 1996. In Australia and New Zealand, transfers were as low as $4 and $14 per hectare respectively. Yet both countries have thriving agricultural sectors.

EC claim: *There are major ideological differences between the EU and its main* *competitors when it comes to rural areas. Europeans are proud of their rural heritage…" The cost of the CAP "is hardly too high a price to pay to support 8 million farm families, protect the rural environment, check the trend of urbanisation and, not least, to guarantee the supply of a rich diversity of quality food products at reasonable prices.*

Facts: Most countries are proud of their rural heritage and it is arrogant to suggest otherwise. The CAP has not checked the process of urbanisation. The percentage of the population living in urban areas in Belgium and Germany, for example, has risen to 97% and 87% respectively in 1995, from 66% and 77% in 1960 (World Bank data). What is special about these particular 8 million farm families, when employment in EU agriculture has halved over the past twenty years? Is it wise (or fair) to support ten times as many farm holdings in Italy than in the UK, when Italy's agricultural value added is only 2.8 times larger? How can implicit sales taxes averaging 61% be said to result in "reasonable prices"? Diversity is best assured by widening the sources of supply; quality raised by encouraging competition and allowing consumers to set standards, not producers. Poor households in particular would be better off if they could buy their food at world prices.

If the rationale behind the CAP were applied to other occupations, including rural blacksmiths, tailors and carpenters, they could be said to be equally deserving of protection. In fact, their exposure to competition and technological changes has sharply reduced the number of persons engaged in those crafts – without the dire consequences predicted by the EC. Jobs have been created in other fields (such as tourism and leisure activities), and those remaining in traditional rural occupations have enjoyed rising incomes. Moreover, Mr. Kiely's special pleading on behalf of Europe's remaining 8 million farmers ignores the interests of over 500 million farm families in the developing countries. They are not demanding subsidies. They want freer access to European markets so that their comparative advantages (actual and potential) can be more fully realised.

New Zealand provides some important policy lessons that should be studied by other countries. It reduced the level of subsidies to producers from around 30% in the early 1980s to less than 5% today without negative long term effects on the rural population, but with substantial efficiency gains. The owner operated family farm remains the dominant form of farm business organisation. Employment in the agro-food sector is now close to its pre-reform levels. The quality of output is considered better and the variety of products is much greater. Farmers have improved their farm equity and profitability. Today, agricultural products account for 55–60% of New Zealand's total export receipts. Prices to domestic consumers are highly competitive as the implicit tax rate arising from residual support measures is only 6% and trade has been liberalised. New Zealand provided a market for food imports worth 2% of its GDP in 1995. And any visitor can see that an attractive rural environment has been maintained.

New Zealand's experience demonstrates that efficient farmers can prosper without going cap in hand to the government, while consumers and taxpayers undoubtedly benefit. EU policy makers should examine alternative approaches with an open mind and humility. And European citizens should be given the full facts so they can set a more sensible course for EU agricultural policies in the future.

Keith Marsden is an economics consultant based in Geneva.

… news in brief

Europe's latest GASP

EU foreign ministers met in Salzburg to discuss the Russian crisis, but without Robin Cook, the British Foreign Secretary, who refused to cancel his holiday to attend the meeting. As usual, it was decided to increase the powers of the EU. Also as usual, regret was expressed at the EU's incapacity to react whenever there is an international crisis. So the proposal has been revived to appoint a representative for EU foreign policy. In German, this office is referred to as 'Mister Gasp' because Common Foreign and Security Policy is GASP in German. The press also parroted the line that 'Europe has not yet decided how countries in the monetary union should be represented in international financial organisations or in the G7/G8. But Europe is already represented in them: the president of the European Commission attends the G7 meetings *ex officio*. The question is, therefore, how the present 'representation' can be usurped by the 11 EMU countries, to the exclusion of the others. Meanwhile, the EU is doing what it usually does in a crisis – preparing to send a *troika*.

The ministers also insisted that Russia had to keep to the path of 'reform'. But they made it clear that they were opposed to Russia embracing 'Anglo-Saxon capitalism.' The objective, instead, was 'our European model, with its social safety net,' said the Austrian Foreign Minister and President of the European Council, Wolfgang Schüssel. The French Foreign Minister agreed: 'Russia today is a bit like Europe in the 1950s,' he said. 'You cannot map all the mechanisms of the market onto it. There can be a combination of different mechanisms.' [*Le Monde*, 8th September 1998] These remarks only show how severely out of touch these politicians are with the situation in Russia: the idea that there has been a market economy there in recent years is surreal.

Hungarians getting testy

Following an interview given by the new Hungarian prime minister, Viktor Orban, in which he was deemed 'arrogant' by the German press for saying that his country did not want 'to join Europe' because it was already part of it, but only European institutions, a prominent Hungarian economist has attacked the European Union, whose rigidities, he says, are the principal obstacle to enlargement, not the alleged need for reform in the candiate states. Andras Inotai said that France and Germany posed the greatest threat to the enlargement process, and that other countries like the Netherlands and Spain had undertaken massive efforts to restructure, which one could not say of France and Germany. [*Handelsblatt*, 27th August 1998] Meanwhile, the new foreign minister, Janos Martonyi, has also called for the enlargement process to be given a new boost. Speaking in Paris, he said that it was wrong for the EU member states to expect the candidate countries to accept the *acquis communautaire* without allowing them to enjoy as soon as possible the benefits of EU membership such as the right to trade in agriculture, the right to free circulation of persons and the structural funds. [*Le Monde*, 9th September 1998]

Eleven Countries Sleepwalk into EMU

by Ruth Lea

World markets in chaos…

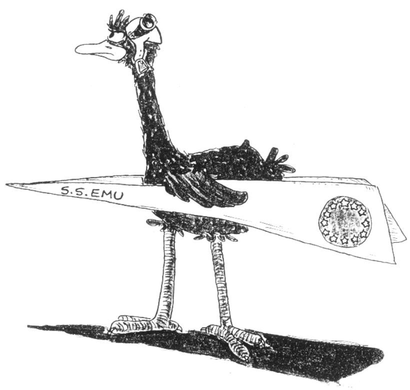
As I write this piece (in early September) the markets are falling all around the globe. How they will appear by the party conference season is frankly in the hand of the gods. The initial trigger for the present global crisis was, of course, the floating of the Thai baht in July 1997. Since then we have seen many of the Asian economies slump, Japan slide back into recession, the Russian economy skid into chaos, tremors in most of the other "emerging markets" and commodity based economies see their currencies weaken.

Most recently, too, we have seen what appears to be the start of a rather nasty bear market in the US, the UK and continental Europe. The main trigger for this was Russia's descent into chaos – but many observers have felt for some time that the bull run in the equity markets had long outstayed its welcome. After all, in late 1996 Fed Chairman Alan Greenspan said the US equity market was showing "irrational exuberance". And the exuberance went on despite the increasing clouds from Asia and warnings that the Goldilocks economy would experience a widening trade deficit and weakening corporate earnings growth. Even if the world economy escapes a full blown recession (and I am still hopeful that it will), it is abundantly clear that the risks of world recession cannot be discounted. Moreover, many countries *are* already in recession, security problems over Russia cannot be ignored and the equity markets are facing a very rocky future.

… provide a difficult backdrop to the birth of the euro.

It is against this horrendous backdrop of economic gloom and geo-political uncertainty that eleven countries of the European Union are embarking on one of the most risky economic experiments of all time. Economic and Monetary Union. I am all too aware that EMU has only been debated in economic terms in this country (the other EU countries recognising EMU for what it is – as a huge move towards political unification). But I fear now that this astonishing reluctance to consider the economic implications of EMU by its would-be participants can only lead to recriminations as the project gets under way and economic problems develop – as surely they will. Just how many of the good citizens of euroland understand what is being foisted upon them in the name of EU integration? And how will they react when economic problems emerge?

As we turn over the entrails of the crises in the Far East (crony capitalism, over lending, ill thought through investment projects etc), Japan (more crony capitalism, policy paralysis, banking crisis originating in the collapse of the bubble economy of the early 1990s etc.) and Russia (inadequate restructuring of the economy, an over-reliance on the Mafia and failure to collect



taxes etc), we can be oh-so-wise with hindsight. Well, with EMU let us attempt to wise with foresight.

Anyone who has read any introductory textbook on currency unions knows that certain economic conditions have to be met for a union to have a fair chance of working. The handing over of exchange rate and interest rate policy to central institutions requires economies which, at the minimum:

- require similar interest rates;
- react in similar ways to changes in interest rates;
- and are sufficiently homogeneous that they react in similar ways to external shocks.

The UK is adrift on all counts. That's why, of course, we in the IoD have such huge reservations about Britain's membership for the "foreseeable future". But ignoring Britain, what about EMU's first wave? Well, I believe there are sufficient problems which could well endanger euroland's future stability.

On the first criterion Ireland is clearly out of line. As I write Irish short-term interest rate is 6¾%. It is now widely anticipated that the 3 month euro rate in January 1999 will be much in line with Germany's current repo rate – in other words about 3.3%. (French short-rates are very similar to German.) Earlier this year, the markets took the view that this 3 month euro rate would be over 4%. But downgradings to, for example, German growth and inflation prospects have pulled the forecast down. In addition, the ECB's president Wim Duisenburg has made it very clear that the ECB will be running monetary policy for the "German and French" economies. So any belief that the peripheral countries will be given fair weight is, I feel, unfounded. The Irish authorities will be in a quandary. Should they let the economy overheat – or tighten fiscally? The Irish citizen's introduction to membership of the euro club could be higher taxes. On the second criterion, too, I fear Ireland with its high levels of owner occupation will find itself out of line.

Turning, crucially, to the third criterion about the degree of homogeneity and whether euroland's economies will react to external shocks in sufficiently similar ways for the monetary union to be considered a success, I believe that recent events have provided a very grave warning that they are not. (Most economists have persistently warned that the eleven's economies are not sufficiently homogenous.) The shock of Russian default and economic collapse has a significantly larger impact on Germany than on other EU countries (barring Finland possibly). Germany has a relatively high proportion of her trade with Russia and her banks have greater exposure. And if the Russian jitters spread out to other central and eastern European countries (Poland could well be vulnerable) then again Germany would be disproportionately affected. If contagion spreads to Latin America then Spain would be especially adversely affected.

Take another example. Italy's economy has proved especially vulnerable to the Asian troubles as its important clothing and textiles industry is not just facing weakened Asian markets but is also struggling to compete with Asian producers. And so it goes on. The eleven euro countries are simply nowhere near sufficiently convergent for EMU to be a happy experience. And the economic difficulties could be all the worse because of the restrictions placed on member's fiscal policies by the Fiscal and Stability Pact. But still the eleven countries persist.

UK is not in EMU's first wave …

SUFFICE TO SAY I am more than a little relieved that the UK will not be a first wave member of the euro club. But I am only too aware that the Treasury is pressing ahead with the preparations for the UK to join EMU – probably early in the lifetime of the next Parliament. If the next general election is in, say, the first half of 2001 and, assuming a Labour victory, the referendum could be soon after the election and the UK could be a euro member by 2002 (if the British people vote for the abolition of their currency). Only four years to go. Moreover, this seems to be the current government's timetable irrespective of whether the Treasury's "Five economic tests" (which were unveiled last October by the Chancellor of the Exchequer) will be adequately met or not. EMU entry for the current government is primarily a matter of politics. Economics plays a very poor second fiddle.

… but the government is planning for British entry early in the 21st century

IT GOES WITHOUT SAYING that I find the prospect of handing the British economy over to EU central institutions, especially as politics will play the upper hand, alarming – even if the world economy has settled down by then. Moreover, I find the prospect of government propaganda telling me that my future is in Europe, EMU is happening and therefore we must join EMU alarming. Inevitability arguments are not reasons. They are unpleasant and bullying examples of propaganda.

But there are other "arguments" we are likely to encounter over and over again in the expected forthcoming campaign for British membership of the euro. I suggest a few:

- we don't "control" our interest rates now, therefore we would lose nothing if we joined EMU. This is simply not true – we decide our short-term interest rates;
- the euro is coming and will be widely used by people (Eurocreep) so we should join. I believe that this is a gross exaggeration and will be proved to be so next year;
- business will have to adjust to the euro so we may as well join. Well, businesses which trade with euroland will have to make adjustments. But the vast majority of businesses will be broadly unaffected by the introduction of the euro. And for many businesses – especially in the retail sector (think of all the petrol stations!) – the costs of converting to the euro will far outweigh the benefits;
- we'll get left out of euro decision making if we're not in it. Alas, key decisions usually have been, currently are and probably always will be taken by the Germans and the French;
- the Euro will be so big and strong that we will find it hard to survive if we don't join. This is totally bizarre. Canada has coped perfectly will with a separate currency from the US. And the UK economy is larger than Canada's.

Conclusion

THE ELEVEN EU COUNTRIES joining EMU next year are embarking on one of the world's biggest economic experiments. The risks are huge and made all the larger by recent global turbulence. Under these circumstances, the UK's absence in the first wave is to be welcomed. But the current government is planning on entry early in the 21st century – driven by political imperative rather than economic considerations.

Ruth Lea is Head of Policy at the Institute of Directors.

… news in brief

So little change in the Soviet Union

The French paper of record, *Le Monde*, has been telling its readers for years about the struggle in Russia between 'reformers' and 'conservatives' – much like most other Western newspapers. Now that Western journalists' beatific view of developments in Russia have taken a beating, however, many of the same people are suddenly telling us that nothing has changed after all. 'Although the façade has changed, everything, or nearly everything, remains Soviet' ran a recent headline in the paper. How strange that we were not told this earlier. [*Le Monde*, 2nd September 1998]

Dictatorship *à la mode*

The Russian prime minister, Victor Chernomyrdin, has said that he wants to introduce an 'economic dictatorship' to help stabilise the Russian economy. The *Financial Times*, ever supportive of Russia, tried to sweep this declaration under the carpet, saying it was just one element of an ambiguous speech and that it should be understood as a sop to the Communists. One can't help being reminded of that splendid passage in Malcolm Muggeridge's memoirs, *The Green Stick*, when he goes to see the inveterate 1930s apologists for Communism, Beatrice and Sidney Webb. Muggeridge describes a visit to the Webbs by the Soviet ambassador, Mr Sokolnikov:

"We began with participatory democracy, which, the Webbs insisted, was perfectly exemplified in the system of representation laid down in the Soviet Constitution. As they elaborated on this theme, I could see that Sokolnikov was trying to say something; his lips were moving and his hands gripping the sides of the chair. By the time he managed to get the words out against the Webbs' duet – like a muted trombone and a particularly shrill flute – he was understood to say that his country made no bones about being a … Even then he could not bring himself to say it in English. So he tried it in French … a *dictature*. The word caused a stir even in French; Webb paused in mid-sentence, and then changed direction, going on to point out that, like the Catholic Church, the Soviet system was hierarchical. This parallel with the Church, equating Commissars in the Politbureau with Cardinals in the Consistory, got over any awkwardness the Ambassador's hasty remark might have occasioned." [*The Green Stick*, p. 231, cf. *Financial Times*, 5th September 1998]

Takeover Panel -v- Brussels

by Neil S. Sen

When the City of London discusses Europe, it usually dons the unshapely livery of the European Union. Yet most of the institutions of the Square Mile must have nodded approvingly at the recently published Annual Report of the Takeover Panel in which the regulatory body rousingly promises "vigorous opposition" to Brussels' plans for a directive on takeovers. The Report highlights, more incisively than the Panel has ever done before, the formidable cultural chasm between London's flexible, non-statutory form of regulation and the Commission's preference for highly doctrinaire legislation.

While the EU has tried in vain to interfere with the UK system before, there are now fears that the new Austrian Presidency could be prepared to expend considerable bureaucratic time and energy on this disruptive project. Already a Council of Ministers working group has been established, charged with proposing a directive which would need to be implemented in law and which Britain would not be able to veto.

With good reason, the Panel believes that this would result in a huge, time-consuming escalation of litigation in an area which is, in the first instance, deftly handled in a swift and low key manner by its own knowledgeable members. The Panel consists of experienced City hands who have a canny understanding of market practice and of the wiles of financial advisers. If this authority could be easily bypassed or sued, the courts would be inundated with cases with which they would be ill equipped to deal. The English courts have themselves acknowledged the benefits of self-regulation. Since the Datafin case of 1987, judges have accepted the Panel's interpretation and application of the Takeover Code, intervening only if there is an egregious error by the Panel. Statutory law would certainly imperil this mutually beneficial relationship.

Countries which have opted for a panoply of laws on takeovers, notably Australia, have had their system of regulation almost paralysed by persistent recourse to the courts. Under a Brussels devised system, the prospect would be still worse, with appeals being possible to the notoriously dilatory European Court of Justice. Even lawyers specialising in this area, who might be expected to be licking their lips at the prospect of such expensive tactical litigation, almost unanimously agree that the UK has an enviable system of takeover regulation which should not be altered. The Government, too, has solidly backed the Panel since 1996 when a Parliamentary Committee decided that the Panel should be allowed considerable freedom of action, and without fear of being sued for damages.

Indeed, so successful has the British system been that the Commission itself claims that any directive would simply embody the UK's Takeover Code. But the Panel has retorted that Brussels has so far failed to grasp some of the most important principles of the Code, especially its adaptability. "Arguably the worst amendment", the Panel says of the Commission's latest set of proposals, "is the express removal of discretion for the supervisory authority … to grant derogations from the rules". The Code is constantly being updated by the Panel in response to the fast moving markets with a speed that no legislature could hope to match.

There is undoubtedly strong opposition to the Commission on this question, but, having had its proposals cut down more than once since the first draft of a proposed takeover directive appeared in 1989, Brussels is altogether more determined this time around and is responding to any objections with some vehemence. Mario Monti, the Internal Market and Financial Services Commissioner, has insisted that the Takeover Panel would still be encouraged to exercise its supervisory role and that the European Court of Justice would only deliver judgements in "exceptional cases". The Commission even argues that the Panel's view of the proposed directive "flies in the face of evidence that litigation is already possible under a self-regulated system … the Directive would not provide any new means for action". If this is so, then the statement begs the question: why is the directive needed at all? The machinery of regulation in the UK already exists, but it could now be jeopardised.

While the 30 year old Takeover Panel is of course battling to defend its own *raison d'être,* the confrontation cannot be dismissed in such narrow terms, and nor is it an arcane technical dispute: it has a much wider resonance. It carries echoes of the larger struggle between the British empirical tradition and the dogma of Brussels, between a country which has enjoyed the peace to develop the nuanced refinements of an emollient, unwritten constitution based on convention and a continent whose very instability has led it to seek refuge in immovable statute. The Takeover Code is the offspring of a nation which has learned to abide by conventions and rules, of a people who understand that the spirit of the law is often more important than its letter.

Neil S. Sen is Editor of Corporate Money *– a weekly corporate finance magazine.*

… news in brief

French Right continues to disagree on Europe

The decomposition of the French Right continues apace, despite the assurance of Nicolas Sarkozy, Secretary-General of the Gaullist RPR, that 'the Right is returning'. They disagree on Europe and on how to react to the National Front. For the most part, they are opposed to any rapprochement with Le Pen's party, but Alain Madelin, the former Finance Minister who now heads *Démocratie Libérale*, is accused of wanting to establish such an alliance. Meanwhile, opposition to furhter European integration remains strong within the Gaullist RPR, while the centrists under François Bayrou insists that they role in life is 'to define the political sovereignty of Europe,' to quote Philippe Doust-Blazy a prominent centrist and former minister. 'When I voted 'yes' to Maastricht in 1992,' he told *Le Monde*, I voted for a Europe which would one day have a federal vocation.' He called for a constitution of Europe which would 'lay out what should be dealt with by the Federation, by the member states, and by the regions.' [*Le Monde*, 8th September 1998]

Tax harmonisation plans attacked

The German president of Eurochambres, an umbrella organisation which unites national trade and industry chambers of commerce, Jörg

Is Europe Ready for the Challenge?

by Burhan M. Al-Chalabi

To the bureaucrats of Brussels, the recent nuclear tests by Pakistan and India appear but a minor irritation, a mere side issue, to the great project of creating a European federal state. And yes, it is an issue which the EU's leaders should stop and consider. Why?

First, because these tests spell the death knell of the all-too-easy cartel of UN representatives (USA, USSR, France, Britain and China) that up until now have represented the so-called "nuclear club". Second, attempts by the EU to condemn Pakistan and India are seen by the rest of the world to be at best ironic and at worst hypocritical. After all, how could France condemn the governments of Pakistan and India when the French government itself had so recently, against universal opposition, conducted nuclear tests in the southern hemisphere. How could Britain condemn such tests when it had itself not so long ago exploded nuclear bombs in its imperial backyard, Australia?

But third and most importantly, the nuclear tests by Pakistan and India threaten to spark a chain reaction leading to not just an arms race but an outburst of Islamic fundamentalism, with potentially devastating consequences for world peace and the security of the EU. If this sounds too fantastic, let me explain further. As matters stand, the international sanctions are crippling the Pakistani economy which is currently on the verge of collapse. This economic crisis is threatening to bring down the Pakistani government. If this happens, it will almost certainly usher in an anti-western Islamic fundamentalist regime. If this sounds fanciful, we should not forget what happened in the Shah's Iran. Nor should we forget that within the EU there are millions of Muslims living in countries such as France, Germany and Britain; on the EU's southern shores lie a clutch of Islamic countries such as Algeria and Libya which are gripped with powerful anti-western forces. On Europe's eastern flank lies Turkey, a country ostracised by the EU and burdened with a growing Islamic fundamentalist opposition and a population composed 98% of Muslims.

Each of these countries is festering with resentment at the West's arrogant behaviour on the international stage. They are currently seething with rage at the West's condemnation of India and Pakistan for wanting to join the ranks of the Nuclear Club. Rightly or wrongly, the West is perceived as having used its nuclear might to dominate the international stage. No wonder the Islamic world resents the Nuclear Club's appearing to be the exclusive preserve of the big powers. After all, it is a "club" which neither reflects the religious, cultural, geographical or political diversity of the world nor pays much attention to the concerns of the third world. As a result, the Nuclear Club has upset many of those nations who feel excluded from the existing world order. In turn, it has reinforced the desire of these states to emulate India and Pakistan and to acquire a nuclear arsenal of their own.

The world is therefore on the brink of an unprecedented arms race. One that will undermine world peace and prosperity. But it is a disaster for which the UN Permanent Powers have only themselves to blame. Why was it that the West imposed sanctions on India and Pakistan only after the tests? Didn't everybody know long ago that Pakistan and India were building nuclear arsenals? If the West is so opposed to nuclear proliferation, why didn't it impose sanctions against Israel? And instead of condemning wannabe nuclear powers, shouldn't the nuclear powers be setting an example to the world by showing their readiness to disarm their own nuclear arsenals?

But this is all to presuppose that the risks and dangers facing the international community are truly understood and recognised. The tragedy is they are not. If the Europeans want to enjoy a safe and prosperous future, the EU must take quick concerted action to put an end to a crisis which has all the makings of a major disaster.

An action plan for the EU should include the following. First the EU should seek to put an end to the stand-off and isolation of India and Pakistan. It should encourage the Nuclear Club and international community to recognise the nuclear status of these two countries as a *fait accompli*. Second, it should reduce the real risk of a nuclear accident – a second Chernobyl – by offering technical expertise to the governments necessary to contain such dangers. Third, the EU in conjunction with the UN's Permanent Members should use its influence to mediate and avoid a nuclear confrontation.

Otherwise, the continued condemnation and isolation of India and Pakistan will result in a nuclear arms race which can only end in tears. The time for fresh thinking is now. Is Europe ready for the challenge? I have my doubts.

Dr Burhan M. Al-Chalabi is a Middle East political analyst and a Friend of the Arab League.

Mittelsten Scheid, has attacked the EU's plans to harmonise tax in the European Union. 'What we need is competition in the tax system,' he told the *Handelsblatt*. 'A competitive tax system is essential if European firms are to be competitive globally.' Mittelsten Scheid also wants to raise the profile of his organisation, which represents 1,200 chambers and which indirectly has 8 million members. [*Handelsblatt*, 9th September 1998]

Cohn-Bendit calls for 'political sovereignty of Europe'

The German Green MEP and former leader of the May 1968 student rebellion in Paris, Daniel Cohn-Bendit, is likely to lead the list for the French Green party at next year's European elections. This is obviously a powerful symbol, not only because it shows how a politician can 'cross borders' but also because it indicates the continuity between the anti-national policies of the 1960s and now. In an interview in *Le Monde*, Cohn-Bendit made his position on federalism clear: 'The European construction is obliging European nations to re-think their political functioning. Today, the political sovereignty of Europe must be accepted. Europe needs a Magna Charta, a fundamental charter which will define the rights of citizens, and which will establish what will remain national, what will be regional and what will be municipal.' [*Le Monde*, 25th August 1998]

Is an Independent Central Bank a Good Thing?

by Andrew Lilico

Under the arrangements for the euro, monetary policy will be controlled by the European Central Bank (ECB). Many of the objections to this arrangement are well-known and often rehearsed. However, one of the strongest arguments in favour of doing things this way is only rarely debated, and is almost never countered directly. This is the argument that the euro is good because it means there will be a central bank which is totally outside political control, indeed so far outside political control that for all but one country it is not even located on national territory.

Whether the ECB will really be independent of political control is, of course, a contentious question. I shall not discuss it here. I want to assume that it is independent and to discuss whether that will be a good thing. Clearly this discussion will also have a bearing on whether arrangements like those of the Bundesbank or the Bank of England are a good idea. My argument will imply that they are not.

I pause here to note that this argument in favour of the euro is the exact flip-side of the Sovereignty debate (see, for example, my paper "*Sovereignty, Currency Unions, and Trade Agreements*" in the January 1998 *European Journal*). EMU-sceptics have argued that the Euro will be a bad thing because it will involve the loss of sovereignty over monetary policy. This argument in favour of the euro is that the euro will be a *good* thing because it will involve the loss of sovereignty over monetary policy!

The argument in favour of independent central banks

The argument I am considering in favour of the ECB, and hence the euro, is just the argument in favour of an independent central bank, with the added element that the ECB will be more independent than most: super-independent, if you like. The argument rests on two planks.

First, one argues that, in the short term, there is a trade-off between unemployment (or output) and unexpected inflation. That is, if inflation is higher than economic agents expect, then the price rises they see will appear to involve real increases in value. When production becomes more valuable firms will produce more. This means that output will be higher and unemployment lower. This is a standard result of economic theory, and is not an area of dispute between the major economic schools.

Now, since governments are more popular when unemployment is lower and output is higher, that means that governments have an incentive to create unexpected inflation, if they can. But economic agents are not stupid. They are rational. Since government has an incentive to pursue unexpected inflation, economic agents will take account of this. This means that even the most prudent government will face an inflationary bias. That is, *even if the government does* ***not*** *pursue secret inflationary policies, inflationary expectations will reflect the risk that it* ***might***. This inflationary bias will be reflected in a need for higher interest rates, and in higher inflation (since inflationary expectations tend to be self-fulfilling).

Since inflation and interest rates are raised if government can create inflation secretly the obvious solution is to take that power away from government. The most powerful influence on inflation in the short-term is monetary policy. Hence by taking monetary policy away from governments and giving it to an independent central bank (e.g. the Bank of England) one would expect to have lower inflationary expectations and to require lower interest rates to implement monetary policy.

The second part of the argument is to point at the inflationary performance of countries with independent central banks. The most straightforward example is the Bundesbank, but there are many other countries in the world with independent or quasi-autonomous central banks. And the inflationary performance of these countries has almost always been better than the inflationary performance of countries with democratically controlled central banks. Furthermore, long-term interest rates, which reflect inflationary expectations, did indeed fall in the UK after the Bank of England was given operational independence, providing further support for this point of view.

I shall turn to the arguments against independent central banks in a moment, but I pause here to consider the observation that countries with independent central banks have lower inflation. This claim raises what economists call 'a problem of causality'. Cause and effect can be difficult to disentangle. Is it that countries with independent central banks have low inflation? or is it that countries with low inflation have independent central banks? or is it that there is something about these countries which creates both the independent central bank *and* the low inflation?

One might suggest that in the case of Germany, for example, we have a country which, twice in about twenty years (i.e. in the mid-1920s and the mid-1940s), faced social collapse through hyper-inflation, and hence developed a very anti-inflationary attitude throughout society. One manifestation of this anti-inflationary attitude might be low inflation. Another manifestation might be the Bundesbank.

Just observing that low-inflation countries have independent central banks does not, of itself, prove anything about whether independent central banks are good for reducing inflation.

I shall present four key arguments against independent central banks.

An independent central bank prevents the co-ordination of economic policy

First, and most famously, the old argument was that monetary and fiscal policy would work best if they were working together. If fiscal and monetary policy are not co-ordinated, if they are not working together as part of some overall strategy, then economic policy as a whole will not be as effective. But, by definition, if monetary policy is run by an entirely separate and independent institution it cannot be co-ordinated with fiscal policy, or indeed with any other part of government economic policy, such as labour market policy or industrial policy. Fiscal and other economic policies have an effect on inflation, so not even inflation will have a co-ordinated policy.

An independent central bank removes the incentive for government to avoid inflationary policies

A second, closely related argument is that if the central bank is put in charge of keeping down inflation the government will consider that controlling inflation is someone else's job. This means that the government can pursue expansionary fiscal

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One size fits all

policies, or other inflationary policies, without fearing that it will be blamed for the consequent inflation. The clearest example of this is the period of German unification after the fall of the Berlin Wall. German Unification and a large budget deficit were pursued by the government, while the Bundesbank was expected to keep down inflation.

The consequence of this argument is that, given that many policies which cause inflation are popular apart from their inflationary consequences, since the consequent inflation can be blamed on someone else an inflationary bias is introduced into the system precisely by having an independent central bank. That is, having an independent central bank leaves the government an incentive to pursue inflationary policies.

An independent central bank involves a loss of democratic control

Having an independent central bank removes the ability of government to trade off short-term output rises for long-term inflation. But this is a genuine political choice. I do not favour having higher output today in exchange for inflation tomorrow and the next day, but that is my political philosophy. Other people might prefer to be able to make this trade. Removing democratic control over monetary policy may prevent people from making short-sighted errors. But democracy is all about letting people make their mistakes for themselves.

Perhaps we *could* appoint a permanent panel of experts to run our economy for us without any of those foolish politicians messing things up. But the failings of democracy compared with rule by experts are well-known, and have been discussed for thousands of years. The fact is that in mature political societies we have decided that it is best if we can elect and reject our rulers, particularly those who have control over our money.

It is no good responding to this objection by observing that, for example, the British Chancellor could remove the current decision-makers at the Bank of England and replace them with someone else. That is true, but it merely means that the Bank of England is not totally independent of political control. Yet the argument presented in favour of independent central banks implied that the less political control there was, the better! And if we have an independent European Central Bank the degree of political control by the British, at least will be very low indeed

Central banks are intrinsically conservative

These days, appropriate monetary policy basically means appropriate interest rate policy. Appropriate interest rate policy depends on a number of things. Let us consider just one: unemployment. There are always some people changing jobs or retraining. Some unemployment is entirely natural. The amount of unemployment which is considered natural is called the "natural rate of unemployment" (NRU).

If current unemployment is above the NRU then this is a source of deflationary pressure. The extra unemployed people will be looking for jobs and thus bidding down wages, hence production costs, and hence prices. Roughly speaking, the higher deflationary pressures are, the lower interest rates will be.

In contrast, if unemployment is below the NRU, then that is a source of inflationary pressure. There are not enough people switching between jobs, and there is not enough retraining going on, so workers are scarce. Since they are scarce their wages will be bid up, meaning higher production costs and hence higher prices. Roughly speaking, the higher inflationary pressures are, the higher interest rates will be.

Now suppose we could reduce the NRU. That would mean that for any given level of unemployment we should have interest rates lower than they would be if the NRU had not changes. Now suppose the government pursues policies intended to reduce the NRU. The government claims these policies will reduce the NRU, but the political opposition claims that they will not, and opposes them. Clearly these policies are a source of political controversy.

Now suppose I am an independent central banker deciding interest policy. Clearly, since I am non-partisan, it would be inappropriate for me to assume that the government's policies have reduced the NRU until there is compelling evidence to this effect. (If the government changes then it becomes even more difficult. It would seem impossible for me to assume that the last government's policies were successful when the electorate have rejected them and those who opposed the policies have been elected!)

This means that during a period in which the government might believe, quite rightly, that its policies have been successful in reducing the NRU, and hence that appropriate interest rates should be lower, an independent central bank will keep interest rates higher until the lower NRU has been proven. Since central banks inevitably lag the political debate in this way, an independent central bank's interest rate policy will inevitably reflect the possible effectiveness of controversial and unproven government policies.

This conservativeness of independent central banks means that they may often pursue inappropriate policies (or at least policies which run counter to political will of the people, expressed through their elected government), and it is another reason why it is a bad idea to have an independent central bank.

Politicians might legitimately disagree with the central bankers for reasons other than wanting to increase inflation.

One classic example of this last point is the UK in 1996 and early 1997. Chancellor Kenneth Clarke believed that inflationary pressure was low, reflecting his view that the economy could sustain lower unemployment and higher economic growth than in the past, because of the economic reforms which the Conservatives had pursued. In contrast, Eddie George, governor of the Bank of England, argued that inflationary pressures were growing, reflecting the view that there was little evidence that anything had changed significantly about the NRU or the sustainable growth rate. This difference of opinion was reflected in different views about appropriate interest rate policy.

Conclusion

One strong argument in favour of the Euro is that it implies a central bank which is extremely independent of political control. I have presented two powerful arguments in favour of independent central banks :

- that they imply lower inflation in theory;
- and that countries with independent central banks have exhibited lower inflation in practice.

I have presented four argument against this :

- that independent central banks undermine the co-ordination, and hence the effectiveness of economic policy;
- that if controlling inflation is left to monetary policy exercised by a central bank the government has an incentive to pursue inflationary policies in other areas;
- that output-inflation trade-offs are genuine political decisions, and should be under democratic control;
- that central banks are intrinsically conservative, and that politicians might disagree with central bankers about appropriate monetary policy without wanting to increase inflation.

In my view the arguments against an independent central bank quite outweigh those in favour. Hence I conclude that the Euro, with its implication of a super-independent central bank like the ECB, is a bad idea.

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The Ninety–Sixth Thesis

by Dr Lee Rotherham

Prepare, O reader, for an act of apostasy. What I have to say will shock, stun and shame. Heresy may be but hearsay spelt sideways, but let this be scribed plainly on this page. I wish to share a thunderous insight into the European arena.

The MEP candidate selection results do not matter.

Not that MEPs don't matter. They do, but far less than MEPs care to admit. MEPs get to fiddle around with legislation, make rude comments in the legal margins and add twirly bits that end up on page seven of The Times showing that The Grand Project of a unified Europe is alive and kicking, albeit thrashing around like a beached behemoth, waiting for the next treaty tide to carry it onward.

No, I am referring to the selection proper. The process which has seen the reselection (as dead certs) of sitting MEPs, accompanied by a blast of nouveaux federalistes. At least, assuming research by the *Telegraph* and others is correct.

Of course, we won't find out before next summer for sure. We are presently in the Indian Summer of the Eurosceptic credo, as candidates mutter their mantra in order to get themselves elected. After which, of course … well, who's going to pay attention to which way one votes anyhow? And as for some idle Euro-commentator reporting one's *communautaire* speeches: not a chance.

Let's give credit where credit is due. Some MEPs seeking reselection did lay their cards on the table and come clean. Invariably, the audience respected their honesty, but dumped them lower on the list. Other candidates slapped on the gloss on their past. We have seen New Labour rebrand, but New Pseudosceptic is becoming a tiresome repeat performance, a hardy quinquennial.

So now we have our team. And we can expect so much of the same. But it doesn't matter.

Why? Because in the great game played in the glass dreadnought on rue Belliard, numbers don't count.

Sure, it would have been great if we could have sent over a platoon of Eurorealists rather than a section. It would have been an immense asset to William Hague in the coming Single Currency debate. It would have provided solid moral support and a voice to the millions of citizens across the EU who are anxious at the direction the continent is taking, a voice which across the Channel is in the gravest peril of being usurped by the extreme Right. Silence breeds desperation among the electorate.

It isn't happening, but at least from our perspective it's no crisis. And here's why.

The European Parliament is a breed apart from Westminster. Our twenty or thirty Conservative MEPs are a bucketload of water in a reservoir. Standing up and voting against a resolution acts as a marker, but in the great scheme of things this is but a trickle from the dam. Where MEPs really can make a difference is in conjunction with Members in the national parliaments, acting as the go-between and advance warning of legislation and schemes before they strike home – by which time it is typically too late to act. The Amsterdam Treaty, after all, allows for six weeks deliberation by national parliaments coming from the time when the documents hit the institutions, not the doormats back home. And the European select committees complain de rigueur of documents arriving after the debate, and not necessarily in the relevant language.

In this kind of exercise five MEPs can be as effective as fifty, and a whole lot better than none at all. If one seeks to put a belligerent tone to it, we are talking about an intelligence operation, and not a guerrilla war.

Where we can feel the absence of active critics in Brussels is over party affiliation. Nerves have been jittery in certain quarters over whether the new batch will agree to stick with the European People's Party or break up and have two sections each doing its own thing. Supporters of the EPP point to the fact that our Europarty is semi-detached and can get away with voting on more British lines; has a not inconsiderable share of EPP positions both internally and in terms of the allocation of committee posts; has a decent slice of the funding cake (very handy when inviting Party chairmen over in the run up to reselection); and can use the communal media team to get its message across more loudly. They also point to the recent embarrassment caused to Robin Cook when these contacts were used to vote down a motion endorsing Labour's handling of the UK Presidency.

These are indeed assets. Nor should we forget that, in the grand scheme of things, a Commission leak to a member of the EPP is perhaps easier to encourage than one to a more minor and patently more outspoken party grouping.

On the other hand, if we want to remember our principles, Conservative battlers should opt for the successor to the Europe of Nations Group (EdN). In the post-Goldsmith world, a new formation will inevitably follow the June elections. A different structure seems fairly assured, as one cannot guarantee with blind optimism the same showing in those elections for the French contingent. Maastricht is past, and Amsterdam was never allowed the same runaway hype that so charged the French electorate last time round. Still, a broader church with less numerical dominance by one national grouping would foster interest by other parties.

Such an association would allow allied Conservatives to speak out freely. But would this make a jot of difference to the key task of the MEP, the uncovery and dissemination of information? I fear not.

The EdN, despite its small size, is one of the rare assets of Euro pseudo-democracy. Its members provide an invaluable touchstone against which to mark the performance of every British MEP, of any party. Their speeches, interventions, research and voting records shine a light into the recesses of the Brussels political scene that federalists cannot readily counter. If the EdN did not exist, we would have to invent them.

But that does not mean that we have to join them. Like Conservative sceptics, their strength does not rest in numbers, except insofar as enough members from different countries join to make them viable. The quota for recognition varies depending on how many nations supply members. If one nation supplies members, an official group exists if 29 of them band together; if two nations, the number is 23; if three, then 18 MEPs are required; and for four, 14. At present, a British Member is already a part of the group – Ulster Unionist Colin Nicholson.

This complex arithmetic alone, I suggest, would provide the stimulus for Conservatives joining the new sceptic grouping. Other sceptics exist in the European Parliament, scattered amongst the Gaullists, Greens, Hard Left and Italian and Spanish Right. Not by any stretch of the imagination will many of them join a formal alliance to counter the chipping away of the nation state.

So, since we are in the world of the lobbyist, let us network instead. The formation of an informal club, to which individual MEPs rather than groups would be invited, could be the way of the future. Such a behind-the-scenes body – as good Europeans style it something like The Jacobin Club to spook the Commission – would not be eligible for direct EP funding, so finance would have to come from the not insubstantial reserves of the MEPs themselves and anything they could wheedle out of their groups as "fair share". With only a tiny secretariat required, this would not be a problem. But whereas flaming chariots from Hades could not see half of these MEPs anywhere near affiliating within the same party, gathering around a round table to share intelligence and discuss a common information campaign is a different matter altogether, and in the long run far more profitable.

Such matters lie in the middle distance. Time will bring clarity. In the interim, as a good Conservative, I am bound to say that I am convinced that every Tory candidate will carry out a sterling job fighting for deregulation, free trade, the Atlantic link and the preservation of the nation state. Brutus is an honourable man. But as I come off the happy cigarettes, I have to add that it is the duty of the Electorate of the First Instance, the Party membership who chose the regional lists, to recall every word and promise the candidate made during selection, and hold him to it. Each vow of loyalty to William Hague and the sovereignty of Parliament, each oath to block the Euro. Democracy demands no less.

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EMU – The Lib/Dem Position

A Motion proposed by Mr Paddy Ashdown and other Lib/Dems on the 21st July 1998

That this House believes that membership of the European Single Currency will be in Britain's long-term economic interests because it will promote trade, increase competitiveness, secure inward investment, reduce interest rates, boost economic stability, consolidate the City of London's pre-eminent financial market position, and promote growth, employment and Britain's influence in Europe; calls on the government to hold an early referendum on the principle of the Single Currency during the current Parliament and to join the Single Currency at the earliest practical opportunity; and in the intervening period to implement a series of policies to prepare for the Single Currency membership including: joint six monthly reports by the Treasury and the Bank of England on progress towards interest rate convergence with the Euro zone, steps to secure a stable and fairly valued pound, action to align UK and euro inflation levels and targets, and discussions with the UK's European partners aimed at promoting an accountable structure for the European Central Bank and maximum fiscal subsidiarity.

Dangers Ahead for the Euro

by Forrest H. Capie

Are there dangers lying ahead for the euro in the future international monetary system? Such a question needs posing before it is possible to consider the prospects for the role and size of the euro. The principal danger would seem to arise from the fact that without some form of political union monetary unions are unlikely to succeed. The proposed monetary union in Europe is in big part a political issue. Interestingly, not everyone accepts that political union is the basic objective. Some genuinely do not. Others claim they do not; and some of the latter do that disingenuously. Political union certainly seems to have been envisaged at an early date – for example by Schioppa at the Bank of Italy – and is present in the Delors Report. But even if that explicitly political goal is left aside, the whole process of monetary union is still in big part political. A thread running through the post World War II plans for European monetary union has frequently been that of a concern with political union, indeed has sometimes explicitly coupled monetary union with political union. On occasion that has been expressed as the need for fiscal harmonisation or hoped for convergence. At one extreme there is the suspicion that monetary union is simply a means of promoting political union.

The euro is soon to be born. Working on the assumption that it will survive the intermediate three year stage, what are its prospects after that? The prospects for the intermediate stage (three years from 1st Jan. 1999) have been accidentally enhanced recently with the upturn in the major European economies, and that is likely to keep the train on the track for a bit without too much difficulty. But what after that?

A consideration of the experience of monetary unions in the past coupled with two other important and related dimensions can alert us to the kinds of problems that could emerge. One of these dimensions is the possible need for a fiscal union to support a monetary union in view of the strains that might emerge. The second is the nature of the European Central Bank and what its strategy might mean, and indeed how its policy might contribute to the strains. Some consideration is needed of the nature of central banks and their relations with governments.

The origins of the proposed European Monetary Union can be taken back almost as far as one wants. The story could be picked up in the nineteenth century when the beginnings of European nation states and unions got under way. But it became much more specific in the world after the Second World War as a variety of schemes for co-operation in Europe were put in place. According to Duisemberg, the first Governor of the ECB, the first president of the Nederlandsche Bank was told when taking office in 1946 to provide a sound silver guilder, "… which will in time become part of a single European currency". And it is now almost 30 years since the Commission published a proposal for EMU in three stages. At The Hague Summit in 1969 a committee was set up under the chairmanship of the Prime Minister of Luxembourg, Pierre Werner. It is of interest to note that in March 1970 the Council of Ministers set up a working group to report on political co-operation in Europe.

> At one extreme there is the suspicion that monetary union is simply a means of promoting political union

While it is true that there is no strict historical precedent for the proposed European monetary union, there are some similarities with previous experience which can be instructive. However, two important points should be made at the outset and held in view. The first is that previous unions of any kind of size or significance are in the nineteenth century at a time when metallic monetary standards were almost universally used. This makes for considerable differences with any union which would take place now in a world of fiat money. The second point is that the nineteenth century was the century of the nation state when there was widespread desire for political union among groups of smaller states.

Some of the principal attempts at unions are found in Switzerland, Germany, Italy, the Latin Monetary Union and the Scandinavian Currency Union. The first three were successful in bringing together a number of disparate states, and the latter two were unsuccessful. The main points that can be made about these unions which are of interest for our purposes are as follows. First, they were principally driven by a desire for political union. Secondly, they were essentially currency unions in countries using the same metallic standard. As such it can hardly be regarded as a great advance to make the formal announcement that all their notes and coins were acceptable to one another. Thirdly, they did not have fully developed central banks but insofar as they did, they did not have explicitly unified monetary policy.

The question that naturally arises is can any monetary union survive in the absence of a fiscal union to support it?

A number of arguments can be advanced for the need for fiscal union to accompany monetary union. The basis of the theoretical case is the relationship between the money supply and budget deficits. This is likely to matter in EMU given that monetary policy is completely separated from fiscal policy but the latter's independence has been greatly reduced. On the basis of the historical unions cited, is there any evidence that these currency unions in any way led to fiscal convergence and ultimately to political union? Or did these previous unions in some way depend upon such fiscal political union? There is not a great deal of information to work on for the nineteenth century, particularly so because the state generally played a small part in the economy. But the evidence, such as it is, points to a close relationship between the monetary and fiscal variables.

There may also be some experience of the US in the 1930s to draw on. There was of course a fiscal union in place at that time but, in and after the great depression, there was a danger of monetary break-up as a consequence of the loss of gold reserves by individual states following on from the collapse of a state's banking system. In fact no state's system collapsed entirely since there were transfers from federal resources to alleviate poverty. These transfers were essential to the system's survival.

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Although many problems were experienced, no state's system collapsed entirely. Why not? An examination of the flows of reserves through the Federal Reserves' accounts (the only means of monetary movement apart from shipments of cash) showed that when a state was experiencing a net loss of reserves on private sector accounts, this was offset by inflows from the central government's account, arising not as a financial stabilisation measure but as a result of transfers from federal resources made to alleviate poverty and depression. It was these transfers that were essential to the system's survival. What would have happened had there not been such transfers? Would confidence in the continued integrity of the US as a currency area have been such that private sector funds would have responded? In response to that question it has to be said that, given the degree of economic difficulties at the time, it seems unlikely. The risks would have been too great.

This all points very strongly to the conclusion that, while monetary union may not lead automatically to fiscal union, without such a fiscal union a monetary union may well not last. It seems that as a matter of fact there has been a close connection between monetary union and fiscal union. Sometimes that has been a consequence of the assertion of political power. Whether they need to go together when the desire to assert political will is absent is another question. But the historical evidence looks highly suggestive.

Might the strains that point to the need for a fiscal union be produced by the design of the new central bank? In answer to the question, will the European Central Bank produce a sound currency, there is invariably a resounding yes. It is fairly generally agreed that there is little to worry about on that score. A great deal of noise has been made about the need to establish a central bank on the Bundesbank model to ensure a strong currency. But the question is, will the nature of the monetary system designed, and the inherent dangers contained in that design, prove serious before too much time has elapsed?

The independence of the central bank has been given great stress. But what kind of independence is being talked about? A variety of indicators of degrees of independence in central banking has been devised though none of them is easy to apply. In some recent writing a distinction has been made between goal independence and instrument independence. An Anglo-Saxon consensus has perhaps emerged that goals should be set by governments, and central banks given the job of achieving these goals, that is allowed to choose the means, and that is usually to operate on interest rates. The reason for this view is that giving goal independence to central banks results in the "democratic deficit" – unelected bankers deciding on issues of crucial importance to individuals.

The issue of what kind of central bank independence was needed was set out with typical clarity by Milton Friedman a long time ago: "The problem is to establish institutional arrangements that will enable government to exercise responsibility for money, yet will at the same time limit the power given to government and prevent the power from being used in ways that will tend to weaken rather than strengthen a free society". Friedman went on to suggest that the central bank should be "… an independent branch of government co-ordinated with the legislative, executive and judicial branches". In other words, it would have a mandate to carry out a law or laws passed by government and would only be interfered with by government if the law – its mandate – were changed.

Lamfalussy, of the ECB's forerunner, the EMI, recently set out with frankness the nature of the ECB's independence, but some will feel with an overly optimistic bias. "The Treaty and the Statute of the ESCB both contain very clear provisions regarding the relationships with third parties, which leave no room whatsoever for misinterpretation. To quote a key sentence: 'Neither the ECB nor a national central bank, nor any member of their decision-making bodies shall seek or take instruction from Community institutions or bodies, from any government of a member state or from any other body.' Moreover, the aforementioned authorities shall also – and I quote again – 'undertake to respect this principle and not to seek to influence the members of the decision-making bodies of the ECB or of the national central banks in the performance of their tasks'. To put it simply: the door to the single monetary policy is locked from both sides, and neither the ESCB nor third parties can open the door for political instructions. Even attempts to do so would be in conflict with the provisions of the Treaty and the Statute of the ECSB." In other words this is quite unlike any form of independence granted to central banks before.

In brief the ECB will be uncontrolled and uncontrollable. This is a flawed institution. Democratic accountability is lost completely. And there is no obvious solution. The ECB will not be accountable to anyone. It will report to the Commission on what it is doing but be unable to take instruction. Even if it could take instruction, would democracy in any way be enhanced in the absence of an elected president of an elected European government? Furthermore, in the design of the new bank there is almost no allowance for the transparency in its decision making which can act as a partial substitute for the absence of reputation in a new institution, the absence of credibility.

From what we know of previous monetary unions, and of the association of fiscal union, and of central bank behaviour more generally, what can we conclude about the possible strength of the euro in the medium to longer term? What gives a currency strength after the fundamentals are in place, is the credibility of the monetary authorities, acceptance of monetary stance and the reputation of the monetary and fiscal institutions.

The central question we have posed here is what are the prospects for EMU in the medium to longer term? The fact that such a union as the one proposed is without historical precedent is of some significance. Secondly, without the capacity for making fiscal transfers and with fiscal manoeuvre in individual states heavily circumscribed, further problems seen certain. Thirdly, giving goal independence to a central bank that is not accountable to any government carries other serious dangers. Again there is no historical precedent and that in itself is troubling. Additionally, lack of transparency does not help. Leaving aside the fact that there has been a degree of fudging in the establishment of EMU, and evidence of political interference in the last minute setting up of the central bank, the uncertainty surrounding what will happen to the euro in the medium term must of necessity weaken it. And the question is, can it be sustained in the absence of political union? And of course that raises the question, do Europeans want to belong to one country?

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POLL DATA

Opposition to the Euro Hardens Amongst Young

A dramatic shift in attitudes to Europe among young people has dealt a blow to Government claims that the young represent the largest group of euro-enthusiasts.

Fresh polling evidence, specially commissioned by Conservative Central Office has revealed that teenagers and those in their early twenties have become even more opposed to the single currency than the elderly. The survey, carried out by ICM for the Tories, has produced a number of encouraging results.

Question	Total	Sex		Age					
		M	F	15–24	25–34	35–44	45–54	55–64	65+
Britain should rule out joining the European single currency until we can see how it works in bad economic times as well as good.	72%	70%	75%	81%	68%	70%	58%	78%	73%
We are going to have to join the European single currency anyway so we might as well get on with it despite the risks.	31%	34%	28%	31%	35%	30%	37%	24%	30%
At the next election in three or four years time the parties should promise not to join a European single currency until the election after this.	42%	38%	46%	41%	35%	38%	44%	51%	40%
We cannot know whether it would be good or bad for Britain to join the European single currency until it has been operating fully for a number of years.	74%	74%	74%	86%	70%	76%	53%	74%	75%
Britain should not decide whether to join the single currency until we can see what all the consequences would be of joining.	64%	61%	67%	73%	59%	65%	53%	59%	71%
Britain should never join the European single currency.	16%	16%	16%	12%	15%	13%	14%	16%	25%
Britain should join the European single currency as soon as possible.	20%	25%	16%	17%	23%	18%	27%	20%	20%
Britain should not join the European single currency until we know whether or not it would mean our interest rates and tax rates were set in Europe.	59%	58%	60%	74%	59%	63%	52%	50%	57%

September Polls: Teletext and BBC Radio 2

Other recent polling evidence has bolstered the anti-EMU position. ITV's Teletext service conducted a telephone poll on Friday the 10th September, following William Hague's decision to ballot his party members on his decision to rule out EMU membership for this and the next parliament. Of the 5,400 people who responded, 88% supported William Hague's position.

Another more recent poll was carried out on BBC Radio 2's Jimmy Young Programme. Conducted on the 16th September, the phone-in followed interviews with the CBI's Adair Turner, representing the pro-EMU lobby, and the top City banker, Rodney Leach, a leading euro-realist. 31,146 people responded: 91% were against Britain joining EMU; only 9% were in favour.

Preliminary Results of the 1998 ESRC and Members of Parliament Project
Survey of Westminster MPs on Europe

David Baker (Nottingham Trent University) and David Seawright (Lincoln University Campus)
assisted by Ms Katrina Bull (Nottingham Trent)

This paper is preliminary: please contact the authors before citing from this work.

This third ESRC-sponsored postal survey of Westminster parliamentarians allows us for the first time to empirically analyse the attitudes towards Europe of the post-1997 election House of Commons. This is particularly important as the new parliament contains such a large proportion of new MPs, both because of high levels of retirements and the number of seats won by Labour and the Liberal Democrats at the expense of the Conservatives. Also, as anticipated, the issue of Europe remains a major aspect of British politics as Europe moves closer to monetary union.

Selected Results of the 1998 Survey

The overall response rate to the questionnaire for all the parties surveyed was 38% offering a representative sample of the 1998 Parliament, 32% for Labour, with the Conservatives at 42%, and Lib Dems at 74% [For fuller details, please contact the authors: see below.]

Preliminary findings

We will concentrate exclusively on the two major parties and on selected questions from the survey. Table 1 contains the findings selected for discussion. Question 2.1 concerns the perceived levels of debate over Europe within each party. Interestingly, given recent accusations of over-centralised party control over the agenda of internal debate, Labour MPs, at 53%, showed the highest propensity to agree with the assertion that there was a paucity of informed debate within their party over Europe.

With regard to the deeper Constitutional, institutional and sovereignty based questions, some interesting results emerged. 61% of Conservative respondents agreeing with the proposition that 'sovereignty cannot be pooled' (2.2) with 33% rejecting this notion. A surprisingly high number of Labour respondents (22%) agreed with this absolutist pro-sovereignty statement. Only Conservative MPs showed any marked wish to withdraw from the EU (2.3) with a sizable 26% supporting it and a further 11% neutral on the issue. On this evidence William Hague may struggle to hold his parliamentary élite, let alone his even more eurosceptical party grass roots, to a 'wait and see' strategy on the Single Currency for two terms.

On the issue of the Central Bank (2.4) respondents from the two major parties contained sizable majorities for (Labour) and against (Conservatives) this institution. On the issue of Britain rejoining the ERM (2.5) 11% of our Labour respondents rejected the notion of ever rejoining, with a further 19% undecided. On the Conservative benches, 64% were against ever rejoining, against which stands a significant minority of 30%. The proposition that: 'joining the single currency would signal the end of the UK as a sovereign nation' (2.6), drew strong support from the Conservative benches (66%), with 83% rejecting this proposition for Labour'.

Most MPs supported their respective leadership's policies of holding a national Single Currency referendum (2.7) The question of maintaining the domination of the political policy making process by the Council of Ministers (2.8) saw strong Conservative support at 72%. Significantly, 56% of responding Labour MPs were against this proposition.

With regard to the financial burdens of EU to its member nations, a powerful trend of Conservative scepticism is confirmed, with 91% rejecting any moves to enlarge the budget (2.9). This question deeply divided Labour MPs (who are evenly split on the issue – 36/28/36)

Our Labour respondents answers to some of the questions dealing with EU macroeconomic policy, revealed just how far the New Labour parliamentary elite has travelled along the path of economic orthodoxy. One of the most interesting indications of New Labour's change in economic perspective from 'Old Labour' can be seen in the answers to question 2.10: 'Public ownership is irrelevant for the achievement of social justice' – where 26% actually agreed with the statement and 15% remained uncommitted. Equally interesting as an indicator of increasing pro-Europeanism amongst Labour Parliamentarians, are the answers to the proposition that personal taxation should be harmonised across the EU, with 17% of Labour MPs actually agreeing with this, with a further 19% undecided.

The crucial question of whether the disadvantages of EU membership had actually been outweighed by the benefits (2.12) caused deep divisions in both parties. Conservative respondents rejecting this net advantage could only manage a narrow majority of 42% against this statement, with 37% agreeing with it and 21% undecided. Labour fared a little better with a 56/7/37 split. (Caution should exercised here, however, as this could simply be the result of a confusingly worded question.)

The final question chosen here, deals with national security, specifically that 'Britain should block the use of QMV in the areas of foreign and defence policy'. (2.13) As before Conservative MPs showed by far the strongest inclinations to support such a stance, with a 90% majority in favour of the proposition. Labour (36/22/42) proved much more divided on this issue.

Conclusion

The new survey data also confirms our earlier work (Baker and Seawright, 1998) suggesting that both major parties have significant minorities on key issues who are committed against their party's policy on Europe, especially on issues which deal with fundamental questions of national sovereignty and interdependence. The general drift of the responses to the survey questions tends to underline Conservative MP's continuing move towards Euro-scepticism and Labour parliamentarians opposite momentum towards pro-Europeanism.

In the case of our Labour respondents, what is particularly striking is the continued drift away from the old Euro-scepticism with 96% against Britain leaving the EU. On the other hand, some of the New Labour ideas on market driven solutions to economic problems at the level of the EU clearly continue to divide the party significantly, with a core of Blairite MPs emerging amongst our Labour respondents. Labour MPs remained rather cautious, however, about offering extra powers to elected EU institutions at the expense of the Westminster parliament.

On the key issue of Britain's possible withdrawal from the EU – a large minority of 26% of Conservative respondents agreed with this proposition, with 11% uncommitted. If this is, as we believe, an accurate reflection of Tory MP's opinions, it constitutes a very significant Eurosceptic minority in the parliamentary élite, suggesting that William Hague could have a considerable struggle ahead to hold to a long-term wait-and-see strategy on the Single Currency and by implication ever deeper union with Europe.

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The MPP Web Pages: can be found at http://www.ntu.ac.uk/epa/politics/dave3.htm.

Table 1. Selected Questions

	Questions	Party	Strongly Agree or Agree	Neither	Strongly Disagree or Disagree
2.1	There is a paucity of informed debate on Britain's role in Europe in my party.	Labour	53%	12%	35%
		Conservative	21%	14%	65%
2.2	Sovereignty cannot be pooled.	Labour	22%	17%	61%
		Conservative	61%	6%	33%
2.3	Britain should withdraw from the EU.	Labour	3%	1%	96%
		Conservative	26%	11%	63%
2.4	Britain should never permit its monetary policy to be determined by a European Central Bank.	Labour	20%	15%	65%
		Conservative	66%	9%	25%
2.5	Britain should never rejoin the ERM.	Labour	11%	19%	70%
		Conservative	64%	6%	30%
2.6	Joining the Single Currency will signal the end of the UK as a sovereign nation.	Labour	10%	7%	83%
		Conservative	66%	6%	28%
2.7	It is essential that there should be a national referendum before the UK enters a single currency.	Labour	80%	7%	13%
		Conservative	97%	1.5%	1.5%
2.8	The Council of Ministers should be the supreme institution in the EU.	Labour	29%	15%	56%
		Conservative	72%	10%	18%
2.9	The EU's budget should be enlarged.	Labour	36%	28%	36%
		Conservative	6%	3%	91%
2.10	Public ownership is irrelevant for the achievement of social justice.	Labour	26%	15%	59%
		Conservative	88%	9%	3%
2.11	Personal taxation should be harmonized within the EU.	Labour	17%	19%	64%
		Conservative	1.5%	1.5%	97%
2.12	The disadvantages of EU membership have been outweighed by the benefits.	Labour	56%	7%	37%
		Conservative	37%	21%	42%
2.13	Britain should block the use of QMV in the areas of foreign and defence policy.	Labour	36%	22%	42%
		Conservative	90%	1%	9%

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Table 2. Selected Questions Not Covered in the Text.

	Question	Party	Strongly Agree or Agree	Neither	Strongly Disagree or Disagree
3.1	Membership of the Euro is crucial for Britain's future prosperity.	Labour	65%	19%	16%
		Conservative	13%	16%	71%
3.2	A single currency will institutionalise neo-liberal economic policy in Britain.	Labour	23%	27%	45%
		Conservative	27%	28%	50%
3.3	An act of Parliament should be passed to establish explicitly the ultimate supremacy of Parliament over EU legislation.	Labour	13%	20%	67%
		Conservative	69%	7%	24%
3.4	The Commission should lose the right to initiate legislation.	Labour	29%	19%	52%
		Conservative	61%	10%	29%
3.5	Subsidiarity reinforces the federalist tendency in the EU.	Labour	30%	28%	42%
		Conservative	45%	15%	40%
3.6	Britain should not participate in the lifting of borders as specified in the Schengen agreement.	Labour	33%	23%	44%
		Conservative	87%	4%	9%
3.7	Subsidiarity reinforces the federalist tendency in the EU.	Labour	30%	28%	42%
		Conservative	45%	15%	40%
3.8	An increase in structural funds is essential for EU enlargement.	Labour	67%	19%	14%
		Conservative	29%	11%	60%
3.9	There should be a referendum on proposals from any future IGC that attempts to change the constitutional position of UK citizens.	Labour	47%	20%	33%
		Conservative	74%	6%	20%
3.10	The EU should be replaced by a commonwealth of Europe based on sovereign nations.	Labour	14%	22%	64%
		Conservative	61%	17%	22%

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Together in Peace as in War

*Extracts from a speech by **Bill Cash, MP,** to the 1998 College Republican Leadership Conference on the 1st August 1998 at the PGA National Resort and Spa, Palm Beach Gardens, Florida*

I am indeed honoured to be asked to speak at your annual convention of the Young Republicans at your Leadership Conference today.

To lead, you need to know what the real issues are and which principles are at stake and what dangers exist – and how to re-examine assumptions and test them against those principles.

We are all engaged in mapping out the politics of the new millennium, just as former generations have had to do in their own time.

My own family included that great statesman, John Bright, who was Abraham Lincoln's greatest supporter in Europe during the Civil War and whose bust was presented to Abraham Lincoln in 1865 and is now in the White House. The history of his contribution to the United States is well written in G.M. Trevelyan's *Life of John Bright*.

In developing my theme, I am reminded of the crisis in the Tory Party in the 1840s over the repeal of the Corn Laws. Then, as now, the Tory Party was divided over the great issue of the time and, in Disraeli's famous novel, Coningsby, when dealing with the consequences of the Tamworth Manifesto, he says, "There was a great deal of shouting about Conservative principles but the awkward question naturally arose, what are the principles we must conserve?". Our present day principles and ancient Conservative principles are well reflected in the works of Edmund Burke in the eighteenth century. So much of what was at stake in those days is relevant to our own time. Certain principles are immutable.

Today the shared values of the United States and the United Kingdom are based upon the principles of political freedom, democracy and enterprise. There is no commercial freedom without political freedom. Political freedom depends on open government. It depends on accountability and the right to ask questions in public. You are experiencing this at the present time with regard to the allegations against President Clinton. In the United Kingdom we have Prime Minister's Questions. We have Select Committees. And in the United States you have congressional accountability and your Congressional Committees.

In this present world of global contraction and modern telecommunications, satellites, the Internet, faxes and so on, these principles are ever more at risk as power becomes centralised and globalised.

We can, however, take comfort from the experience of the last sixty years in our relationship between the United States and the United Kingdom and the verifiable proof that our shared values have worked in practice.

Appeasement in the 1930s was an unmitigated disaster but this was followed by the 1940s and the joint contribution of Britain and the United States to preserving peace and freedom in the world from dictatorship. It was evidenced in the Korean War, again in the Falklands, in the Gulf, in Bosnia, and again in Iraq in 1998. Why were the United States and the United Kingdom alone? Where were the others?

As Churchill said, referring to the practice of those shared values of freedom and democracy, "The supreme fact about the twentieth century is that Britain and America have marched together". The proof of the pudding has been in the eating.

In 1942 a great philosopher, Erich Fromm, said, in opening his famous book, The Fear of Freedom, about what went wrong in the 1930s – "Modern European and American history is centred around the effort to gain freedom from the political and economic shackles that have bound men". He points out that it was the politicians who betrayed the people and allowed the growth in Europe of extreme nationalism.

John Dewey, a great American, said in 1940, "The serious threat to our democracy is not the existence of foreign totalitarian states. It is the existence within our own personal attitudes and within our own institutions of conditions which have given victory to external enemies." As Shakespeare said in Julius Caesar, "The fault, dear Brutus, lies not in our stars but in ourselves that we are underlings".

You Young Republicans are the future leaders of the democratic world. Is it at risk? I believe it is. I will tell you why I believe American leaders are coming to see this, as I found a few months ago in my meetings with your leaders on Capitol Hill.

We discussed the momentous issue of European integration and the political union of Europe based on monetary union, which I believe is threatening those shared values of freedom and democracy and which threatens the United Kingdom and its system of parliamentary democracy. This is absorbing us into an undemocratic Europe which will undermine both the United Kingdom and NATO and which is largely based on a profound anti-Americanism. In a nutshell, I believe that in all this the United States itself is under attack from the EU camouflaged by insidious EU propaganda.

I am not against Europe – I am for a Europe which is democratic, and that is not what is happening.

My slogan is European trade, yes; European government, no; European democracy, yes; European bureaucracy, no.

This is a great challenge for us in the United Kingdom but it is also a great challenge for the USA and for the Republican Party in particular. The European Union is embarked on a political union under the Maastricht Treaty (which I opposed against my own government) and now the Amsterdam Treaty this year which supplements it. It will be undemocratic, anti-enterprise and anti-freedom.

Let me be specific. Monetary union is political union. It creates a legal framework which is far removed from the ordinary diplomatic treaties which are made between nation states. Under these arrangements a central bank will be created which will be unaccountable and there is no possibility of questions being asked of the central bank governors, whatever mistakes they make. It will therefore be both remote and undemocratic. All this arises in the creation of the single currency in Europe under Economic and Monetary Union. The central bank governors are not allowed to seek or take instructions from the member states as a matter of law under the Maastricht Treaty. The British opt-out is merely a temporary palliative. As I pointed out in the Maastricht Treaty debates, it would be open to a future Labour Government to take us into Economic and Monetary Union and they have clearly stated that they regard entry to the Economic and Monetary Union as a matter merely of economic tests and that they are in favour of the principle. At the same time, the Maastricht arrangements for a common foreign and security policy and the Western European Union would undermine NATO. In trade there will be protectionism and a fortress Europe, putting transatlantic trade at risk. The Social Chapter ties down the economies of Europe by masses of regulations and will induce low growth and uncompetitiveness. Already there are 18 million unemployed in Europe in the pursuit of the principles of Economic and Monetary Union. We in the United Kingdom experienced the disaster of the Exchange Rate Mechanism. In the United States over the past twenty years, 30 million jobs have been created in the private sector, whereas in Europe none have been created. Youth unemployment stands at about 40% in Spain and at about 28% in France. With 400 million people or thereabouts in the new Europe which is being constructed, as compared to the 250 million in the United States, these massive forces are, in the minds of many, liable to put the dollar itself under threat. Already those in Central and Eastern Europe who are seeking to apply to the European Union are obliged to comply, as a precondition, with the *acquis communautaire* which will stifle the new democracies just as they have thrown off the yoke of communism.

Majority voting in the sphere of government, including monetary policy, foreign affairs and defence to mention but a few, means that the United Kingdom, and indeed other countries in Europe, would have their sovereignty handed over to a majority vote of other countries. John Dewey couldn't have been more right.

To see the issue from a United Kingdom perspective, imagine the United States being outvoted by new institutional arrangements based on a legal framework in which the USA was outvoted by Japan and China, with Congressional Committees made toothless and with an unelected President. Yet this is what is happening in Europe. All this will lead to disorder, the failure of United States investments in Europe, instability and grave risks, not only for Europe and the United States, but for the world as a whole. Indeed, we already see the beginnings of extreme nationalism and even the reburgeoning of fascism in Europe in the recent events in Saxony and in France.

But don't just take my word for it. United States commentators have made their own position very clear.

As your Chairman said in opening this conference yesterday, "Be active and ready to go, Spread the message throughout the campuses." If you are as convinced as I am that my message about European political union is a danger to the future of the United States, then spread my message in the same way. It is your future which is at stake. How should we do this? Persuade your leaders and your colleagues, in alliance with those like myself in the United Kingdom, to press the European Union against its undemocratic political union. Use your undoubted muscle in the vital national interest of the United States and in the interests of global stability. Call for a renegotiation of the European treaties. This is not an interference in the internal politics of Europe, but a legitimate exercise in United States foreign policy objectives, as it was in the 1940s. Times may have changed but the dangers remain. These issues are far more relevant to the United States than the Democratic Party's involvement in supporting terrorists in Northern Ireland.

… imagine the United States being outvoted by new institutional arrangements based on a legal framework in which the USA was outvoted by Japan and China, with Congressional Committees made toothless and with an unelected President.

I would urge you to build up in the Republican Party a strong alliance with those of us in the United Kingdom who share my objections to the European political union in principle, people such as Margaret Thatcher, and in doing so I urge you to support those shared values of the United States and the United Kingdom to which I have referred.

I have been deeply struck by the clear thinking I have heard from you at this conference and I have great faith in you. By taking part in this way, you are fighting for your own future. Let us work together in this great venture.

Despite the conventional wisdom of the State Department and academics who have been taken in by European propaganda, bear in mind that everything changed when the Wall came down in Berlin and that the assumptions of the 1950s have now become obsolete.

We have a referendum coming in the United Kingdom when the British people will have to make their choice. The voice of America will be a powerful help.

As I said to Margaret Thatcher when she was Prime Minister, her task in government was more difficult than Churchill's – he was faced with bombs and aircraft, she was faced with pieces of European paper. She was unseated over Europe and do not forget that the main architect of her usurpation walked out over the issue of Europe, as he said in his speech to his constituency. Michael Heseltine put the issue of European defence procurement as compared to the United States' involvement in Westland at the top of his agenda.

There are those of us in the Conservative Party who have won the battle over Europe but our enemies are regrouping. The voice of the Republican Party can never be more needed. We must treat the European issue as if it were the Normandy landings, with all the planning that that involves over the next few years. We needed the United States then and we need it now.

If the European Union goes ahead with its political union and if there is no renegotiation of the provisions of the treaties which transfer governmental functions, such as monetary policy, defence and foreign policy, to a new centralised European government, then let us prepare for a new alliance with the United States, a new deeper relationship based on those shared values. Perhaps even a new constitutional relationship based on 200 years of common traditions – a new beginning for a new millennium – and, to paraphrase the words of Churchill to which I referred at the beginning of my speech, let us continue to march together in peace as we have so often in war.

Bill Cash is Chairman of the European Foundation.

From Boom to Bust

by John Cryer, MP

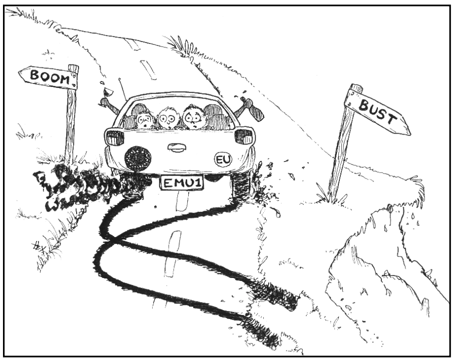
Rather cleverly, the European Union has performed one of the most startling confidence tricks of the past 30 or 40 years, something along the lines of *if you repeat something often enough it takes on the appearance of truth.* By this method, a large number of people have been convinced that the European Union was founded simply to ensure that peace would prevail in Europe forever more. This fraud has been especially successful among younger people – those of my generation, for example – who perhaps carry the idealism of youth and are therefore often prey to the cynical manipulations of those who wish to see the European juggernaut crush all before it.

I am not a 'Little Englander', nor a nationalist of any description. Indeed, I bitterly resent the fact that any criticism of the EU inevitably meets with accusations of narrow nationalism and xenophobia. I am opposed to the single European currency *because* I am an internationalist. I dislike the idea that elected democracies should hand over economic power to unelected and unaccountable bankers. The peoples of Spain, France Germany and Italy, as well as those in Britain, should have the right to say who runs their economy.

The key questions to ask about anyone who wields power is how did they get it, to whom are they accountable and how can they be removed. If the people in power are simply appointees, accountable to no one, all those questions immediately become redundant. And be assured, the EU is simply about taking power away from the people. The Maastricht Treaty, that stream of offensive, Euro-monetarist poison which should never have been allowed out by itself, is merely the most extreme manifestation.

That brings me back to the EU great confidence trick. Of course, the Common Market was never created to bring a cosy liberal salvation to Western Europe. Its aim from the start has been to make it easier for big business to exploit the people of Europe, to create a rich, white club, excluding the developing world. Indeed, the EU is now embarked upon schemes to force poor, Third World nations to enter deeply disadvantageous trade treaties and to create free-market blocks so that EU banks and corporations can rip them off even more easily. In effect, the EU is revealing what amounts to imperial ambitions in the Third World.

The long-term consequences of EU meddling will be disastrous, as will be the results for the working people of Western Europe of Maastricht and the Stability Pact.



The process we are embarked upon is the institutionalisation of monetarism. Deflationary policies will be set in stone, not especially good news for Spain, for example, where more than 40 per cent of young people are out of work.

However, the most vulnerable area for the EU and the single currency is not economic but political. That is where all those who wish to see an end to EMU should concentrate their fire. After all, there always have been arguments about how best to run an economy but the importance of democratic accountability is accepted by all but a handful of lunatics on the political fringe – and, apparently, the Euro-fanatics.

Make no mistake, once the power over interest rates is ensconced in a boardroom in Bonn or Frankfurt more executive powers will quickly drain away. Maastricht forbids national governments even approaching the putative European central bank for help even in the most acute economic crisis. The next step, however, will be the removal of tax rates from democratic control. The harmonisation of tax rates has already been discussed under the auspices of Ecofin. I have asked Treasury ministers for assurances that the harmonisation of income tax rates will not be discussed. Such assurances, strangely enough, were not forthcoming.

I am convinced that income tax rates will be the next target of EMU enthusiasts. Should that happen, the government in Westminster will no longer be a government in any effective way. Power will be shared between the European central bank and its friends in the banks and big business. Labour supporters who back this development – often from the best of intentions, however deluded they are – should recall the tremendous achievements of the post-war Attlee government. It created 3 million jobs in three years, returned hundreds of thousands of servicemen to civilian life, took key industries into public ownership and brought about the National Health Service. And all this was done because there was virtually irresistible public pressure for the pursuit of such policies. Yet, whether the people want it or not, such a programme would be impossible in the post-Maastricht world. Indeed, it would be illegal.

Yet taxpayers' money is being used to convince our children that monetary union is the best thing since sliced bread. Trailers are even now being hauled up and down the country packed with misleading propaganda supporting EMU. Again, I have asked ministers for assurances that money will also be available to put the opposite case. Again, none were forthcoming.

Then there is the question of the huge structural funds which will be required to finance EMU. These will necessitate hefty tax rises, yet I have not heard a single supporter of monetary union advocate higher tax rates. Yet again, I have questioned ministers about where this money is likely to come from. Yet again, there was no answer.

I am certain EMU is deeply unpopular in this country. During the General Election campaign last year, around one in four people raised the issue on the doorstep in my constituency of Hornchurch and not one supported it. Of course, supporters must hope that with sufficient time and lots of EU cash, they can engender the feeling of anxiety that in 1975 pushed many people into voting for membership of the Common Market when their natural inclinations would have been rather different. My feeling is that this time, when the arguments are really exposed to widespread debate and analysis, the result will be a crushing victory for those who still believe in democracy.

John Cryer is Labour MP for Hornchurch and a former Tribune *journalist.*

EURODATA

The Working Time Directive

The Working Time Directive (WTD) which comes into force on 1 October lays down rules regarding daily and weekly rest periods, the maximum working week, annual holiday, and certain aspects of night and shift work. The main provisions are:

- maximum working week of 48 hours
- minimum of 4 weeks holiday per year

The Engineering Employers Federation argues that the WTD will lead to "innumerable concerns and headaches". The extra paperwork involved in filling out time sheets and the additional hours spent on revising rosters are an unnecessary waste of time and money.

An Institute of Directors survey found that 53% of members thought their business would be harmed by the WTD, and concluded that it would be a "very major problem for business". The WTD is not just for big business and large corporations; it will also apply to freelancers and small businesses.

Supporters of the WTD argue that the government can reduce unemployment by sharing the total man-hours required by business and industry between more workers. In theory this sounds plausible but in practice it does not work.

The employer has to pay 'social costs' for each worker (e.g. Health Insurance in Germany) on top of the basic wage. Employing extra workers involves extra costs. Therefore, unless wages fall (an option prevented by the minimum wage) unemployment rises as employers seek to avoid further deadweight costs. . For example, Germany (with a minimum wage and high social costs) has the lowest annual working hours but an extremely high level of unemployment. And the reduction in the working week to 45 hours in France and Italy has not significantly reduced unemployment.

The WTD will reduce the competitiveness of British firms making them less able to compete in the *world* economy. Uncompetitive British firms will lose out to world competitors, resulting in redundancies and lower economic growth.

The WTD illustrates two facts:

- *The lack of subsidiarity*: Social legislation should be in the providence of national governments.
- *The absence of free market thinking*: The WTD increases regulation and prohibits flexibility.

A **Briefing Paper** on the Working Time Directive, priced at £2.50, is available from the European Foundation Research Unit, 61 Pall Mall, SW1.

£250 Prize Winner

As announced by Bill Cash in the Summer Edition of the *Journal*, £250 would be awarded to the best and most original national and local strategy plan for the 'No' Campaign.

We are pleased to announce that, after sifting through a number of entries, Mr Ian Moore, of Ingatestone, Essex has been selected by the staff of the Foundation as the winner. His cheque is on its way

… news in brief

President for life … and death

Anyone who says nostalgia isn't what it used to be should take a look at North Korea. Four years after the death of the 'Great Leader', Kim Il Sung, the country's 'parliament' has elected his son, Kim Jong Il to the 'highest office in the land', that of Chairman of the State Defence Committee. However, the presidency will remain officially occupied by Mr Kim's dead father, as a mark of respect.

Malta goes euro again

For a brief period, Malta had an anti-European Labour government. The former Labour prime minister, Alfred Sant, called an election to flush out opposition from within his own party, and lost. Now the centre-right pro-European Maltese Nationalist Party has won, supported by business interests, and the new prime minister, Fenech Adami, has reversed his predecessor's opposition to EU membership. Sant had withdrawn Malta's application and Adami has now resubmitted it. He has also promised the Maltese a referendum on membership.

Socialism by the back door

Dutch, Belgian, Luxemburgish and German trade unions have held a two-day meeting in Doorn (Netherlands) in order to attempt to rig the European labour market in order to combat 'wage dumping', i.e. competition. They want to engage their national governments, employers and the European Central Bank in a co-ordinated wage policy. The competent member of the leadership of the DGB, the German TUC, Heinz Putzhammer, said the agreement concluded between the four national trades unions organisations was 'an important step on the road to a Europeanisation of wage policy.' 'We have sent a signal to the other countries of the European Union, and especially to the 11 EMU member states,' he said. The Belgian, Dutch and Luxembourg unions 'supported' the German DGB's push for an Alliance for Jobs between governments and the social partners. They called for tax policy which would reduce the burden on workers. National initiatives had to be supported by European tax harmonisation, and they called for a Hobs-oriented economic policy to be encouraged by 'state intervention in social, technological and economic infrastructure.' Social protection should be fixed at its present level, and the unions called for employment measures like a reduction in working time to be enforced by law. [*Handelsblatt*, 7th Sept. 1998]

Meanwhile, lorry drivers from all over Europe set up blockades *à la française* to call for a single European working time. Border crossings in Belgium, France, Germany, Luxembourg and Spain were blockaded, causing severe delays to travellers. At present, the 48-hour per week working time directive does not apply to the transport sector. The European Commission has shown understanding for the drivers' demands. [*Handelsblatt*, 9th September 1998]

Only one in four companies are fit for the euro

According to a poll carried out by the *Wall Street Journal Europe*, only a quarter of European companies will prepare their computer systems for the euro after its introduction in 1999. To date, a mere 1% have undertaken the necessary technical modifications. [*Wall Street Journal Europe*, 8th September 1998 *Handelsblatt* 9th September 1998]

Will they never learn?

The IMF has just announced a new $2.2bn loan to the Ukraine. $257 million are to be paid immediately to 'stabilise the currency'. Following the Russian crisis, Ukraine has widened the ERM-style 'bands' within which it tries to keep the grivna-dollar parity. [*Handelsblatt*, 7th September 1998]

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Advertisement for The European Foundation Meeting
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The European Foundation

The *Great College Street Group* was formed in October 1992 in order to oppose the Maastricht Treaty. The group, consisting of academics, businessmen, lawyers and economists, provided comprehensive briefs in the campaign to win the arguments in Parliament and in the country. The European Foundation was created after the Maastricht debates. Its task has been to mount a vigorous and constructive campaign in the United Kingdom and throughout Europe for the reform of the EC as a community of independent sovereign states. The Foundation continues to establish links with other like-minded institutes across Europe.

Objectives

The objectives of the Foundation, set out in its constitution, are as follows:

- to provide a forum for the development of ideas and policies for the furtherance of commerce and democracy in Europe;
- to increase co-operation between independent sovereign states in the European Community and the promotion of the widening and enlargement of that Community to include all applicant European nations;
- to resist by all lawful democratic means all and any moves tending towards the coming into being of a European federal or unitary state and for the furtherance and/or maintenance of such end;

Activities

The Foundation pursues its objectives by:

- organising meetings and conferences in the UK and in mainland Europe;
- publishing newsletters, periodicals and other material and participating in radio and television broadcasts;
- producing policy papers and briefs;
- monitoring EC developments and the evolution of public opinion and its impact on the political process in the main EC countries;
- liaison with like-minded organisations in other EC and EC applicant countries and elsewhere;
- liaison with trade associations and other professional bodies .affected by EC action and policy.

The Foundation

The Foundation addresses itself to the general public and to politicians, journalists, academics, students, economists, lawyers, businessmen, trade associations and the City.

It concerns itself with the following main topics:

- industrial and commercial policy;
- economic and monetary matters;
- foreign policy;
- security and defence;
- environmental issues;
- the Common Agricultural Policy;
- the reform of Community institutions;
- the developing world.

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