Volume 9 Number 5

January/February 2002
£2.50

# The European Journal

## The Journal of the European Foundation


**Allister Heath**
**The Orwellian 'Stability and Growth Pact'**
&
**Theresa Villiers, mep • Keith Marsden**
**Christopher J. K. Arkell • Dr Irwin M. Stelzer**
**Matthew Elliott • Dr Richard A.E. North**
**Dr Bunny Smedley • Dr John C. Hulsman**
**Sudabeh Koochekzadeh • Struan Stevenson, mep**
**Marc Glendening • Russell Lewis**
**Tom Teodorczuk • Dr Lee Rotherham**

The European Foundation
www.europeanfoundation.org

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

January/February 2002 Volume 9 Number 5

# The European Journal
## The Journal of the European Foundation

## Contents



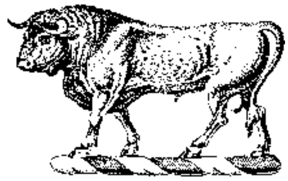
**Editor: Allister Heath**

Publisher: The European Foundation, 61 Pall Mall, London SW1Y 5HZ
Telephone: +44 (0) 20 7930 7319 Facsimile: +44 (0) 20 7930 9706
E-mail: euro.foundation@e-f.org.uk
ISSN 1351–6620

For subscription and advertising enquiries, please contact the editorial office.
A subscription form is printed on the inside back cover.



*Typeset by Nelson & Pollard, Oxford*



SOLON

# Who Calls the Tune on Tax and Spending?

One of the great myths of our age is that the British government remains in charge of the economy. Gordon Brown is widely believed to be a ‘prudent’ Chancellor concerned with long-term economic prosperity above all else. Regardless of whether the decisions he takes on public expenditure and taxation are applauded or criticised, they are almost invariably analysed on the assumption that they are being taken for domestic reasons. In fact, the decisions are largely imposed as a result of our treaty commitments.

Although it is not generally recognised, Economic and Monetary Union is about far more than the abolition of the pound. EMU also involves signing up to a broad EU macroeconomic framework, spun by its architects as a means supposedly to prevent individual governments from destabilising the eurozone. Although the current treaties do not yet require the same degree of budgetary harmonisation now prevalent with monetary policy, national taxation and spending must nevertheless be quite closely aligned with that of other member states. The framework under which they operate was originally set out in the Maastricht Treaty. Crucially, our opt-out allows Britain not to proceed to Stage III of EMU, but provides only partial exemptions from its fiscal rules; and we remain bound by the requirements of Stage I and II.

All EU members must be deemed by the ECOFIN Council of Ministers to have met four Maastricht Convergence Criteria before they can enter stage III of EMU and join euroland. These include the requirement that national budget deficits may not exceed 3% of GDP, except in exceptional circumstances, and must not be deemed ‘excessive’ by the Council; and the related condition that government debt may not be judged ‘excessive’, defined as being above 60% of GDP and not declining at a ‘satisfactory’ pace. Annual inflation must remain within 1.5% of the average of the three member states where it is lowest. Average yearly long-term interest rates must remain within two points of the average rate prevailing in the three countries with the lowest rate of inflation. Finally, countries must be part of the Exchange Rate Mechanism for two years. The Maastricht Conditions formed the basis for the ‘Stability and Growth Pact’ agreed at Amsterdam in 1997. Sanctions in the form of fines can be imposed on offenders who run up too great a budget deficit.

The three non-eurozone EU members, while not strictly tied to the same conditions as members, are still required to co-ordinate their economic polices with those of the eurozone. They have to take part in humiliating ‘multilateral surveillance’ procedures by submitting reports on their national economies to ECOFIN. The 2001 *Red Book* is peppered with references to the Maastricht criteria and our *“European commitments: Maastricht deficit and Maastricht debt ratio”*. All national accounts procedures have been harmonised to conform to EU guidelines. In addition the UK government is shadowing the fiscal conditions to enable it to join.

Occasionally, we get a glimpse of what is really happening, as, for example, when a row broke out in February 2002 about German and Portuguese taxation and spending plans for the year. In the end Germany agreed to “*endeavour*” not to aggravate its budgetary position, thus ruling out sorely needed tax cuts. The Commission also attacked Gordon Brown’s taxation and spending plans. As Anatole Kaletsky reported in *The Times*, the Treasury released a statement entitled simply *“Brussels demands £10 billion hospital cuts as entry fee for joining euro”*. In reality of course, the problem is about the interaction of the government’s revenue and expenditure: in this case, the EU would have been just as satisfied by a £10 billion tax rise. The rules relate to budget deficits, and thus to both taxes and spending.

The fallout from the ECOFIN meeting is merely the latest instalment in a long running saga. The EU’s finance ministers criticised the United Kingdom’s public spending plans in 2001 because of a forecast 1% budget deficit. The same day, despite boasting a surplus of 4.7% of GDP, Ireland was also ordered to mend its ways for violating the EU’s Broad Economic Guidelines on inflation. But having abolished the punt and joined the euro, Ireland no longer has a monetary policy. It was effectively being told to slash aggregate demand by hiking taxes.

Remarkably, the Blair government is so deeply committed to greater European integration that it appears even willing to sacrifice its base of traditional supporters. As our cover story on ‘The Orwellian Stability and Growth Pact’ outlines in greater detail, Gordon Brown’s embrace of the corporatist Public Private Partnerships/Public Finance Initiatives is a way of shifting public spending liabilities from the government’s balance sheet. The idea is to placate the public by increasing spending on public infrastructure without dipping too heavily into the public purse, thus not falling foul of the EU. But this has infuriated the trade unions and the ‘left’ of the Labour Party, who view the contracts passed with private companies as a form of back-door privatisation. Recently, the GMB Union’s seventy-member executive cut £250,000 immediately from an expected £650,000 donation to Labour, and agreed to slash donations yet further over the next three years if Tony Blair does not back down. Trade union leaders from Bill Morris to Doug Nicholls are furious, and rightly blame the Stability and Growth Pact.

Britain’s inability to decide upon its own levels of taxation and public spending has presented the Conservative Party with a golden opportunity. By exposing the undemocratic nature of the ‘Stability and Growth Pact’, the Conservatives could demonstrate to the public the connection between the EU and domestic policies such as tax rates, schools and hospitals. This would turn much centre-left opinion against both Tony Blair and the EU. A campaign against the whole of EMU would reinforce the public’s general eurorealism while dealing the government a devastating blow.

# Transaction Costs: No Change with the Euro

*by Theresa Villiers, MEP*

In their arrogance, supporters of the euro assumed that as soon as British holidaymakers pile into Majorca this summer – and catch a glimpse of shiny new coins – they will abandon their consistent opposition to the currency and demand its introduction at home. But what the anti-Sterling lobby failed to realise was that the introduction of the euro would, in fact, demonstrate that the single currency does not live up to its promises. The issue of euro transaction costs is a case in point.

One would have thought that the abolition of separate currencies would mean that the cost of taking money across the internal national borders of the eurozone would disappear. But in practice costs have only been eliminated where transactions are made entirely in cash. Costs incurred through payments by money transfers, cheques and debit or credit cards have remained as high as ever. For example, a German resident who goes on holiday to France and puts his German bank card into a French cash machine will pay the same charges as he did before the introduction of euro notes and coins. Moreover, he will actually pay the same charges as an English tourist in France who uses his UK-issued bank card to withdraw cash, despite the fact that Britain has not joined the eurozone.

When even this most basic promised benefit of euro membership remains undelivered, one can see with ever-greater clarity that the euro is about politics and not economics. It is about building a country called 'Europe', not about delivering practical benefits for ordinary people.

Let us cast our minds back to the last time Labour clearly set out its case for joining the euro. We can thank the *Guardian* for leaking an internal party document on 30 August 2000, which Labour had then planned to deploy at the 2001 general election in favour of the currency. It set out various alleged benefits of membership. At the very top of the list came: *"Elimination of transaction costs for holidaymakers and travellers"*. It is no coincidence that transaction costs were given top billing. It is precisely the kind of concrete benefit to ordinary people that Britain's euro enthusiasts wish to emphasise in order to win waverers over to their side.

The problem of high costs for transferring money across the EU is not a new one. With little success, the European Commission has spent the last twelve years trying to persuade banks to reduce their charges for cross-border payments.

> Costs incurred through payments by money transfers, cheques and debit or credit cards have remained as high as ever

Financial institutions have been roundly criticised for high fees, but there are reasons why international transfers cost more. The key point is that there is no single clearing system for small value payments in Europe. Only around 1 per cent of transactions are cross-border payments, so there is no critical mass to create economies of scale. Payment cultures vary greatly across member states with different preferences for cheques, giros or transfers.

In May 2000 it was revealed to the European Commission that consumers were still being charged on average a fee of €17.10 for transferring €100 between member states, compared to €1 for a domestic transfer. Cross-border transfers were generally more expensive than domestic transfers despite the elimination of exchange rate risk between eurozone countries since 1999. In addition, in 25 per cent of cases, the recipient was charged part of the costs of the transfer despite specific requests that all charges should be borne by the originator.

During a European parliament discussion in June 2000, I asked the European Commission if the situation would improve on 1 January 2002 – the date when euro notes and coins would enter circulation. The Commission representative admitted that there would be no automatic reduction in costs on that date, in the absence of a pan-European clearing system. He admitted that we were still a long way from a single payment area and that firms doing large amounts of business in different eurozone countries would probably need to retain different euro bank accounts in different member states, even after the physical introduction of notes and coins.

Faced with impending embarrassment, the technocrats decided that something had to be done. The hasty result was an EU Regulation on cross-border payments in euros called *COM(2001)439* which was published in July 2001. By EU standards, the Regulation was rocket-propelled through the EU institutions. It scraped through the Council at the end of November 2001 by qualified majority, with Austria, the Netherlands, Portugal and Finland voting against; and was printed in the *Official Journal* on 28 December 2001.

Under the Regulation:

1. Charges for withdrawals from cash machines and the use of bank cards (up to €12,500) must be the same, denominated in euros, for both national and cross-border transactions within a single member state, from 1 July 2002;
2. Charges for credit transfers (up to €12,500) must be the same, denominated in euros, for both national and cross-border transactions within a single member state, from 1 July 2003;
3. Customers must be properly informed in advance of charges and changes to prices;
4. Use of ISO standard codes becomes mandatory so that banks process transfers in a fully automated way;
5. Banks no longer need to declare to the authorities any payment below €12,500;
6. Member states outside the euro may apply to extend the rules to payments in their national currencies (see further below);
7. The Regulation's rules will be extended to cash machine withdrawals and to the use of bank cards and credit transfers up to €50,000 from 1 January 2006.

Even though Britain is outside the single currency, the Commission's proposal, being a Regulation, will automatically form part of the law of the United Kingdom and will be enforceable accordingly.

Article 9 of the Regulation provides the option for the 'out' countries, Britain, Denmark and Sweden, to apply the rules to their national currencies if they wish (point 6 above). Denmark and Sweden have confirmed their intention to apply the rules to their national currencies, while the British Government has declared it will *not* apply them to sterling denominated payments.

Treasury officials explain that the Regulation applies in the UK to any cross-border euro payment which has a domestic euro equivalent. For example, I could open a bank account in the UK denominated in euros. If I then made a credit transfer from my UK euro account to a Belgian euro account, the charge would have to be the same as for a credit transfer from my UK euro account to another UK euro account.

The situation is less clear-cut in terms of Automatic Teller Machines (ATMs), credit cards and debit cards. Is there such a thing as a UK domestic euro payment by credit card? Could you ask to pay Marks and Spencer's in Oxford Street by credit card with the amount denominated in euros, and then demand to be charged the same amount when using your credit card in El Corte Inglès in Madrid? This one defeated the Treasury completely! The rules presumably could not apply to ATM cash withdrawals, as you cannot take money out of a UK cashpoint in euros.

So does the Regulation now mean Blair would be correct to argue that the euro means the *"Elimination of transaction costs for holidaymakers and travellers"*? Hardly. Even with this last-ditch attempt to legislate the euro's promised benefits into reality, there are a number of difficulties.

**First**, the Regulation only applies to certain types of transactions. Cheques are deliberately excluded as the Commission and European Central Bank are trying to discourage their use in favour of purely electronic payments.

**Second**, the fact that this Regulation is about imposing price controls means that it could well backfire. The Regulation states that, within a particular member state, the charge for a cross-border transaction must be the same as the charge for domestic payments. This would penalise countries with efficient banking systems, such as the Netherlands, which currently provides domestic transfers for free. A Dutch bank might now impose a fee on domestic transfers or simply stop offering cross-border payment services to its customers. The most rudimentary economic theory tells us that price controls seldom have much effect other than to choke off supply of the commodity in question. The Irish Banking Federation warned recently that some banks may be forced to withdraw their cross-border services because of the potential imposition of 'unrealistic' rates. Already, one Belgian bank has written to its customers to inform them that it will increase its charges for euro transfers.

**Third**, none of the Regulation's supposed cost reductions will come into effect until July 2002; the provisions on money transfers will even be delayed for a further 12 months. Returning to our German tourist in France: if he uses his German credit card to pay his hotel bill in Paris he will still face the same charge as before the abolition of the Deutsche Mark. The level of charges he will pay in the future will depend on his German bank, which could reduce them but could equally choose to level up domestic charges or cut the supply of cross-border services.

People in the eurozone will be shocked to learn that the introduction of the euro will not mean the elimination of transaction costs. Furthermore, there is no guarantee that this will happen in the foreseeable future, even with the implementation of the EU's heavy-handed Regulation. The case for the euro gets weaker by the day, when even the most basic of benefits – the much heralded elimination of costs for travellers taking their money abroad – has not materialised.

*Theresa Villiers is an MEP for London and is Deputy Leader of the Conservatives in the European parliament. She is the author of* European Tax Harmonisation: the Impending Threat *published by the Centre for Policy Studies in June 2001.*

### *… news in brief*

**Candidate countries attack entry conditions**

As *news in brief* has been saying for years, the fiction has been maintained that all is well with the enlargement process. In reality, none of the really difficult issues has been addressed. In particular, the pattern of agricultural subsidies was never discussed, even though access to subsidies is one of the main reasons why Eastern European governments all want to get their snouts into the euro-trough in the first place. Now, with a nonchalance bordering on the sadistic, the Commission has coolly announced that in fact the level of subsidies paid for agriculture to the new member states will be a mere fraction of that paid to present members. The new states will start off with 25% of the current level and ascend to 100% only by 2013. Moreover, in the intervening period, their agricultural sectors will have to "modernise". What this means in reality is that, as is already the case with the CAP, only large farms will receive subsidies. Small farms, by contrast, will be allowed to go to the wall. That way, the price of land will fall and German and Dutch agri-businesses will be able to move in, buy up land for a song, turn the landscape of, say, Poland, into a huge prairie, and then set up farms which will be "modern" enough to receive subsidies. This is one reason why the EU has demanded that its citizens (i.e. Germans) will be allowed to buy land in new candidate countries without restriction. Citizens of the new candidate countries, however, will not be allowed to come and work in the rest of the EU for seven years, so that the German and Austrian labour markets are not subjected to competition.

The governments of the principal candidate countries have all expressed their shock at this sudden announcement that they will not get the money they had been hoping for. The new neo-Communist government of Poland said that the Commission's proposals were "unsatisfactory". New member states could not be expected to wait for a decade before receiving the same subsidies as old member states. Leszek Miller, the Polish Prime Minister, said that this transitional period was "definitely too long". The President of the Polish farmers' association said that Polish farmers (of which there are 2 million) would not support Polish membership of the EU on these terms. He demanded that Polish farmers receive 100% of the subsidy from the moment of accession in 2004. The Czech Prime Minister, Milos Zeman, said on 30th January that his country disagrees with the proposals as well. Zeman criticised the proposal that the contributions of the new member states will be calculated on the same basis as those of old member states but the subsidies received would be different. The Hungarian Prime Minister, Viktor Orban, said that the Commission's proposals for the subsidies were not compatible with Hungary's interests. The outspoken leader of the Hungarian Justice and Life Party, Istvan Csurka, attacked the proposals in very strong terms and said that Hungary should declare unambiguously that it will not accept EU membership on these terms, or otherwise the new member states would simply become colonies of the EU. [*Radio Free Europe Newsline*, 31st January 2002]

# The Orwellian 'Stability and Growth Pact'

*by Allister Heath*


In George Orwell's dystopian masterpiece *Nineteen Eighty-Four*, when Big Brother and the Party said 'peace' they meant 'war'; when they said 'freedom' they meant 'slavery'. In order to consolidate their grip over their subjects, the rulers of Oceania began to impose a new language. 'Newspeak' was designed to make it impossible for people to think the 'wrong' things. As Orwell wrote in *The Principles of Newspeak* – an appendix to *Nineteen Eighty-Four* – *"Newspeak was designed not to extend but to diminish the range of thought, and this purpose was indirectly assisted by cutting the choice of words down to a minimum. Newspeak was founded on the English language as we now know it, though many Newspeak sentences, even when not containing newly created words, would be barely intelligible to an English-speaker of our own day."*

Orwell was writing in 1948 during a decade of unprecedented popular ideological involvement; today we live in a broadly post-rational, post-political age. Yet the elimination of National Socialism, followed eventually by the collapse of communism, did not usher in the 'end of history'. The open societies of the west are once again under threat, most notably from political correctness (in Europe and the USA) and from the emergence of a corporatist regional superstate in Europe. Astonishingly, the leaders of these movements have self-consciously taken on the role of the thought-police so brilliantly satirised in Orwell's fictional dictatorship. They have embraced a political strategy designed to eradicate dissent by progressively narrowing the bounds of acceptable public discourse by usurping language. The European Union has evolved into a notably gifted practitioner of such linguistic warfare, with 'Eurospeak' gradually squeezing out rational thought on television, in schools and universities and in government.

To illustrate my thesis, take the growing EU involvement in fiscal and budgetary policy, and the torrent of propaganda that has accompanied this process. As we shall see, although this involvement is having a huge impact on British public policy, it has been largely covered over, partly because of official obfuscation and partly because of a lack of media awareness. Economic and Monetary Union is about far more than the abolition of the pound. EMU also involves signing up to a broad EU macroeconomic framework, the 'Stability and Growth Pact'. All EU members are bound to limit their budget deficit to 3% of GDP and government debt to 60% of GDP (the so-called 'Maastricht Conditions'). Although we have an opt-out of the final stage of EMU, we remain bound by many of the EU's macroeconomic rules.

First of all, I must make clear that my criticism of the Stability and Growth Pact is not an attack on fiscal responsibility, whatever Brussels' Orwellian operatives may claim. Quite the contrary: as a classical liberal economist, I could not be more aware of the need to prevent a return to 1970s-style irresponsibility. Budget deficits are nothing more than a particularly unfair form of deferred taxation; inflation wreaks havoc with the structure and performance of an economy. But it is not only the old 'tax and spend' left that opposes the EU rules; true Thatcherites should campaign against them too. The problem is that the constraints imposed by the EU are actually inappropriate, even on Brussels' own terms. *First*, they would penalise a country with, say, a 10% public expenditure to GDP ratio which was temporarily running a 3.1% budget deficit. But they would see nothing wrong with a Soviet-style economy where the government spends 95% of national income, as long as budgets are balanced. *Second*, the figures for government debt are fundamentally biased against Britain because they do not include unfunded pension liabilities. For this reason, among others, the Stability and Growth Pact is arbitrary. *Third*, the conditions now provide an insurmountable obstacle to economic reforms, especially in France and Germany. These countries require swingeing cuts in marginal tax rates and in overall taxation, so as to re-incentivise entrepreneurs. In the short run, this would probably lead to an increase in budget deficits.

There may well be a good case for imposing constitutional limitations on the power of governments to tax and spend. For instance, many leading American scholars, such as the Nobel Laureate economists Milton Friedman – a staunch opponent of the euro – James Buchanan and Gary Becker have made a strong case for certain constitutional limitations on the power of governments to tax and spend. But, be that as it may, the current EU arrangements, even if they were effective, are a constitutional affront. The authoritarian structures imposed by Maastricht and Amsterdam are wholly unaccountable and thus wholly unacceptable. If we chose to adopt our own economic rules, we could do this ourselves in a fashion compatible with the preservation of our democracy and as part of an independent British constitution. In any case, we need to get our priorities right: it will be necessary first to renegotiate the EU treaties before we can turn our attention to a new constitutional settlement for the United Kingdom.

Predictably, the Commission has opened fire on opponents of the Maastricht criteria, especially following a much-publicised row in the Council of Ministers in February 2002, when Germany escaped a formal reprimand despite a predicted 2.7% budget deficit. For in Orwell's lexicography, words and phrases such as the 'Stability and Growth' Pact are *"deliberately constructed for political purposes: words, that is to say, which not only had in every case a political implication, but were intended to impose a desirable mental attitude upon the person using them"*. 'Black' means 'white', and 'day' means 'night'. And as we shall see below, 'privatisation' means 'state control'. And in the end, the EU becomes more powerful – and more lawless – than ever before.

Both Kenneth Clarke and Gordon Brown realised that they needed to find a way to reconcile four seemingly incompatible constraints: the Maastricht Criteria, their wish to increase public spending, the public's dislike of tax hikes and the effects of global fiscal competition on government's ability to levy certain forms of taxes. Clarke ended up raising taxes and limiting the rise in public expenditure, thus alienating traditional Labour supporters and conservatives alike, and helping to precipitate electoral disaster for the Tory Party. Adherence to the Maastricht criteria was also the reason why, during his first years in office, Gordon Brown kept to Ken Clarke's spending plans while pushing through dozens of stealth taxes. Now, even more worryingly, he has begun to rig the national accounts by incurring new long-term liabilities which do not immediately count against the Maastricht criteria. As we shall see, the Labour government's apparent enthusiasm for working with the private sector is not only caused by its obsession with preparing for euro entry, it is also largely fake and duplicitous.

> It is not only the old 'tax and spend' left that opposes the EU rules – true Thatcherites should campaign against them too

There is certainly more to Brown's so-called Public Private Partnerships (PPPs) than meets the eye. These Partnerships, sometimes also known as Public Finance Initiative (PFI) projects, were originally developed in the early 1990s by civil servants and management consultants who were supposed to be researching ways for the private sector to play a greater role in health, education and transport. After decades of pioneering work in those areas, it appeared that the market-based solutions developed by a new generation of think tanks were at last being taken seriously. Policy makers were only too aware of the growing disenchantment with lengthening National Health Service waiting lists and declining standards in education. The public was increasingly prepared to give private firms the benefit of the doubt in policy areas previously monopolised by the state, just as they had come to accept private telephone companies.

Unfortunately, those in charge failed to bite the bullet. Rather than seizing the opportunity and embracing successful policies pioneered internationally from Washington, DC, to Calcutta, such as school choice or a greater role for private health insurance, they devised the PFI. Under the scheme, private companies pay up-front for capital work (such as the construction of a new hospital) in return for an agreed annual fee from the public sector. Thatcherites, pay attention: this has nothing to do with 'privatisation' or the setting up of true joint ventures with the private sector. The PFI/PPP is merely a novel form of public procurement which has the key advantage, from Gordon Brown's perspective, of enabling him to meet the Maastricht criteria by mortgaging the future of the UK. Liabilities for hundreds of infrastructure projects are being incurred, though their entry into the accounts is being made off the national balance sheet.

Clearly, the PFI is a curate's egg – it is certainly good in parts. There have been some slight cost savings at the Colfox secondary school in Dorset, according to a report published by a Treasury taskforce on the matter. A study organised by the National Audit Office concluded that PFI hospitals cost around 3% less than their fully state managed counterparts. But often the interest charged under the scheme is prohibitively high. Over the long run projects may cost several times more than under outright public or private ownership. This is not an argument against proper private sector involvement, which would be hugely beneficial; it is a critique of a profoundly statist Maastricht-induced policy.

What would Orwell have thought of the European Union? As he died in 1950, the most we can do is to speculate. It is tempting to believe, however, that a thinker as politically shrewd as he was would have unhesitatingly classified the EU as a species of the illiberal *genus* he so detested. Orwell would have loathed the EU's soft totalitarianism and its anti-democratic nature. Most interesting perhaps would have been his reaction to the EU's smokescreen of spin and propaganda. Doubtless he would have treated those *apparatchiks* in Brussels and their half-baked fiscal pacts with the contempt they deserve.

*Allister Heath is Head of Research at the European Foundation and Editor of the* European Journal.

# The European Union is No Role Model

*by Keith Marsden*

The recent European Union Summit held in Laeken in Belgium in December 2001 ended with an unseemly squabble over the location of new European institutions. The dispute, in essence a fight over a few jobs and perks funded by other members' taxpayers, remained unresolved. But this did not stop European leaders from issuing a Laeken Declaration that proclaims: *"the European Union is a success story"*. The EU has brought peace, prosperity, and enormous increases in the standard of living of the Union's weaker regions, they claim. And they pose a rhetorical question – *"Does Europe not, now that it is finally unified, have a leading role to play in a new world order, that of a power able both to play a stabilising role worldwide and to point the way ahead for many countries and peoples?"*

Is this self-satisfaction justified? Do the claims stand up to independent scrutiny? The Declaration traces the progressive transformation of the EU from economic and technical collaboration, through the introduction of direct elections to the European parliament twenty years ago, to the construction of a political union over the last ten years. Has this process of ever-closer integration resulted in improved performance? Can the outcome be attributed to EU policies, or exogenous factors? How do EU achievements compare with those of other countries and continents? Has it contributed effectively to the development of its Eastern European neighbours, and to its wider goal of poverty alleviation around the world? Have the aspirations of EU citizens and the declared objectives of its leaders been met so successfully that the Union can act as a role model for other peoples?

Let us rigorously examine some of the various claims made in the Laeken Declaration against published data and other evidence, and discuss whether the changes in the EU's decision-making procedures being considered are likely to put it on the right path for the future.

1 **Laeken claim:** *"Along with North America and Japan, the Union forms one of the three most prosperous parts of the world."*

Facts and Analysis: Europe was relatively prosperous before the EU started life as a coal and steel community. The real story is that it has since been overtaken by Japan, and fallen further behind the US. In the 1960s, Japanese average income per head was 25% below the average of the current 15 members of the EU, according to Eurostat. By the year 2000, Japan's was 12% higher. US per capita income exceeded the EU's by 55% in 2000, ten percentage points more than in the 1970s. The main policy instruments of the EU – creation of a single market, harmonisation of laws and regulations, monetary stability and fiscal balance – were all supposed to result in faster economic growth. Faster growth was desired because it raises living standards and generates more resources for public services.

If one only looks at intermediate indicators, EU policies appear to be working. The volume of intra-EU exports grew by 4% annually from 1990–2000, and their value reached 17.8% of EU Gross Domestic Product (GDP) in 2000 according to the World Trade Organisation (WTO). Over 80,000 pages of EU regulations have been promulgated, and assiduously applied or supervised by a European Court. EU-wide inflation has been brought down to an average rate of 3.1% in the 1990s and 2.0% in 2000, from 3.8% in the 1960s, 10.8% in the '70s, and 6.7% in the '80s, reports Eurostat. And government fiscal deficits were reduced to below 1% of GDP in 2000, from over 4% in the 1980s, says the Organisation for Economic Co-operation and Development (OECD).

But the ultimate goal of faster economic growth has proved to be elusive. The six original founders of the EU failed to maintain their early momentum, while later joiners generally expanded at a slower rate within the EU than they had outside it. The average annual GDP growth rate of the EU 15 fell from 4.9% between 1961 and 1970, to 3.0% between 1971 and 1980, 2.4% between 1981 and 1990, and just 1.9% between 1991 and 2000. (Note that the long-term trend rates given in this article are for periods selected by the organisations cited, and data for the latest available years are used). These disappointing trends suggest that the policy instruments used were less effective than hoped for, were in conflict with each other, or didn't tackle other root causes of the slowdown.

The EU's main competitors performed significantly better. From 1965–99, US output expanded at an average annual rate of 3.0% and rose by 3.3% annually over the last decade. The two other countries of the North American Continent (now members of the North American Free Trade Association (NAFTA), a more flexible model of co-operation than the EU) also did well. Canada's GDP climbed by 3.2% annually from 1965–99, and Mexico's by 4.0%. The EU average rate over this period was 2.6%.

Japan's growth averaged 4.1% annually from 1965–99, despite a sharp slowdown in recent years. But other Asian countries, not mentioned in the Laeken Declaration, were the real stars. GDP soared by 8.3% annually in Singapore and by 7.3% annually in Hong Kong between 1965 and 1999. Real income per head in both countries is now higher than in Italy, the UK and Sweden. Korea started further back. Its per capita income was similar to Ghana's in 1960. But with a GDP growth rate averaging 8.1% since 1965, Korea's income per head (in purchasing power parity dollars) had reached $15,530 in 1999, on a par with Portugal and Greece. East Asia's developing countries have also performed spectacularly, led by China with an average growth rate of 8.1% since 1965. China has become a major economic power, with a total national income of over $4.4 trillion in 1999, more than half the EU's $8.2 trillion.

South Asian economies have also responded to global trading opportunities and technological advances by adopting more outward-oriented policies over the past two decades. They have been rewarded by GDP growth rates averaging 4.7% annually in the 1980s and 5.6% in the 1990s. The combined national income of South and East Asia (excluding Japan) amounted to $9.9 trillion in 1999.Thus Asia is now a bigger player in the global economy than the EU.

2 **Laeken claim:** *"As a result of mutual solidarity and fair distribution of the benefits, the standard of living in the Union's weaker regions has increased enormously."*

Facts and Analysis: Most EU regional development funds have gone to four countries – Spain, Portugal, Greece and Ireland. Their income levels were all below the EU average when they joined, and the gaps have subsequently narrowed in all cases. But this cannot be attributed to EU redistribution policies. With the exception of Ireland, convergence occurred because the pace of income growth slowed more dramatically in the richer countries than it did in the poorer ones. Eurostat reports that Spain's annual growth rate fell to 2.6% in the 1991–2000 period, from 2.9% in the 1980s, 3.5% in the 1970s and 7.3% in the 1960s. A progressive slowdown in Portugal culminated in a 2.7% average rate from 1991–2000, less than half the 6.4% rate in the 1960s. Greek GDP increased by just 1.5% annually over the last two decades, a quarter of the pace over the previous two.

In Ireland, growth slackened significantly to 3.6% annually in the 1980s from 4.7% in the 1970s, despite substantial infusions of EU aid. It was only over the last decade that Ireland experienced a rapid take-off, generated by a massive inflow of foreign private investment attracted by lower taxes. Its tax/GDP ratio fell to 32% in 2001 from 39% in 1988. Its people, investors and government were delighted with the outcome. Ireland's GDP soared by 7.3% annually from 1991–2000, and at an astronomic 10% rate over the last five years. Profits and investment boomed, the latter at an 8.9% average annual rate over the last decade. Its unemployment rate dropped to 3.8% in 2001 from 14.7% in 1991. And far more revenue flowed into treasury coffers to pay for public services than during the previous high-tax regime. Yet Ireland has been criticised by the European Commission for its lack of solidarity – by engaging in supposedly harmful tax competition!

3 **Laeken claim:** *"Citizens want results in the fields of employment and combating poverty and social exclusion."*

Facts and Analysis: The Laeken Declaration says that co-operation has been established in the field of employment over the last ten years, but studiously avoids any reference to the results. Not surprisingly, because Eurostat data show a secular increase in unemployment levels. During the 1960s the average unemployment rate for the EU 15 was just 2.2%. Then it rose successively to 4.0%, 9.0% and 9.8% over the next three decades. There was some marginal improvement over the 1998–2000 period, coinciding with a cyclical upswing in output, but unemployment rates began to rise again in the larger member states during 2001. For example, German unemployment has gone up for eleven consecutive months to 9.5% of the labour force, and is likely to top the psychologically important four million mark soon.

Joblessness has hit young people particularly hard. The EU-wide unemployment rate for youths (15–24 year olds) averaged around 20% from 1991–2000, and was still as high as 29.6% in Greece and 26.2% in Spain in 2000, says Eurostat. And although hard data are kept under wraps, unemployment among immigrant families is believed to be much higher. Nearly half of all EU unemployed persons stayed without jobs for a year or more during the last decade. EU efforts to tackle social exclusion are clearly not very effective. Moreover, various measures adopted by some member states – such as generous unemployment benefits and welfare payments to single parents, restrictions on firing by enterprises, reduction in working hours, and increased powers given to trade unions in wage negotiations and management decisions, may have made the unemployment problem worse by reducing labour market flexibility.

Despite Britain's efforts (and example), discussion of these possible conflicts remains taboo in some quarters. They fear that it would raise doubts about the effectiveness of the so-called European social model that is so cherished by some EU governments and their 'social partners'. And even if the political will existed, the legal obstacles to any reform of EU social policy have become formidable since the Social Chapter was incorporated into the EU Treaties at Amsterdam and the Charter of Fundamental Rights annexed in Nice.

Nor do EU leaders appear to be ready to accept the idea that high taxes discourage innovation and investment, and therefore retard job creation and productivity growth. Yet OECD data show that the total tax/GDP ratio of the EU 15 soared to 41.5% in 1998 from 27.8% in 1965. And by adding royalties, fees, public sector borrowing and other ways of extracting money from their citizens, EU governments managed to spend a whopping 46% of EU income in 2000. Meanwhile, EU gross capital formation rose by just 1.7% annually over the last decade, compared with an average rate of 6.7% in the US, reports the World Bank. US tax and spending ratios have stayed within the 25–35% range. And the US has consistently kept its unemployment below EU levels over the last 20 years, bringing it down to 4.0% in 2000.

Until the last decade, Japan created jobs for almost all its labour force. Its tax ratio remained low (around 25%). And investment boomed (by 5.3% annually in the 1980s). But higher taxes, a property bubble, bank insolvency and slackening investment growth (just 0.5% annually in the 1990s) have brought three recessions over the last decade, and a sharp rise in its unemployment rate to 5.0% in 2001. In Singapore and Hong Kong, unemployment has generally stayed below 3%. They also have low tax ratios (under 20%) and high investment growth rates (averaging 6.3% and 8.5% respectively in the 1990s). Low taxes have generally coincided with high rates of capital formation in East Asia (6.8% annually) and South Asia (6.2%) as a whole from 1990–99. Comprehensive data for unemployment are not available for these regions.

Another indicator of social progress is the trend in real wages. Again, Eurostat data show a progressive slowdown in the EU over the last four decades, from a 5.1% average annual increase during the 1960s to 0.8% during the 1991–2000 period. Ordinary industrial workers have not enjoyed the expected benefits of economic integration. Average real industrial wages increased slightly faster in the US (by 1.3% annually) during the 1990s, despite the dampening effects of larger inflows of immigrant labour (with lower initial wage expectations) and an upsurge of cheap imports from developing countries. But from a global perspective, the social benefits of the more open US economy were substantially positive, as shown below.

4 **Laeken claim:** *The EU is "a power wanting to change the course of world affairs in such a way as to benefit not just the rich countries but also the poorest,"* and to *"set globalisation within a moral framework."*

Facts and Analysis: According to the OECD, the EU provides more official aid to poor countries than the US ($27.4 billion against $8.8 billion in 1998). But these amounts are far exceeded by financial flows resulting from trade and labour migration. And here the US contribution has proved to be much greater. The WTO reports that the value of merchandise exports from developing countries to the US was 56% higher than their exports to the EU in 2000, although the latter had 35% more potential customers. And developing countries achieved a positive trade balance (exports minus imports) with the US amounting to $253 billion in 2000, nearly three times their balance with the EU ($84 billion). US imports from a single southern neighbour Mexico reached $140 billion in 2000, well above EU imports ($127 billion) from twenty neighbours on its Northern and Eastern frontiers (including the Russian Federation), with a total population nearly five times Mexico's. Trade creates jobs, rewards entrepreneurship, and generates both investment funds and tax revenue in poor countries. Government to government aid, not being subject to market incentives and disciplines, is too often used inefficiently and corruptly.

World Bank data show that the US has also welcomed more migrant workers from poor countries. About 12% of the US labour force (some sixteen million people) are recorded as foreign born, and up to seven million unregistered immigrants may be added. The majority have come from Asia and Latin America. In Europe, the equivalent percentages are 7% in Germany, 6% in France, 4% in Britain and 1% in Italy, and many of these immigrants are citizens of other EU countries. Wages paid to immigrant workers boost their incomes directly. And the remittances they make to family members remaining at home contribute significantly to poverty alleviation in poor countries. The IMF reports that total remittances from the US rose to $15.4 billion in 1998, from $9.4 billion in 1992. They amounted to less than $4 billion from Germany, France and the UK, and have dropped since 1992.

5 **Laeken claim:** *"The Union is about to expand to bring in more than ten new members, predominantly Central and Eastern European… At long last, Europe is on its way to becoming one big family."*

Facts and Analysis: The EU hardly put out the welcome mat to their Eastern and Central European cousins after they gained their freedom from communism, and adopted democratic market systems. More than half the total population of this part of Europe are living in countries that are not included on the current list of candidates. And the ten that have been promised eventual accession have been kept waiting on the doorstep for several years until they meet strict membership criteria set by the EU. In the meantime, the EU has maintained high tariff and non-tariff barriers to their exports, and severely limited their labour mobility. Thus they have been unable to take full advantage of their proximity to higher-income consumers and better-paid jobs in the EU. And their competitiveness in other markets has been eroded by rising costs caused by their efforts to reach the labour, product quality, environmental and social standards imposed by EU regulations and *acquis.* As a result, the economies of some of the most advanced countries in the candidate group, such as the Czech Republic and Hungary, have stagnated. Their average annual GDP growth rates from 1990–99 were just 0.8% and 1.0% respectively. Out of seventeen Eastern/Central European countries for which data are available, eleven suffered a contraction in their national incomes from 1990 to 1999. The World Bank says the GDP of this group as a whole fell by 2.3% annually over this period.

> Eurostat data show a progressive slowdown in the growth of real wages in the EU over the last four decades, from a 5.1% average annual increase during the 1960s to 0.8% during the 1991–2000 period

In contrast, an Asian country with a communist past, Vietnam, has been more successful in making the transition towards a market economy without having to join a trading bloc or political union. Vietnam's GDP has risen at an average rate of 8.1% over the last decade, and its export growth rate of 19% annually from 1990–99 made it one of the world's top trading performers, according to the WTO.

6 **Laeken claim:** *"For over half a century now, Europe has been at peace."*

Facts and Analysis: This claim, which the Declaration attributes to the EU project alone, ignores the sustained terrorist activities of separatist groups in Spain and Northern Ireland, causing substantial loss of life and property damage. It also omits to mention the brutal suppression of uprisings in Hungary and Czechoslovakia, the ethnic wars in former Yugoslavia, and the EU's own military intervention in Kosovo and Serbia – all taking place on European soil.

Of course, we should all be grateful that Europe's largest power didn't invade its neighbours for a third time in a century. But surely this can be attributed to the installation (under Allied guidance) of a democratic political system in Germany after its last defeat, to US Marshall Plan aid that allowed it to rebuild its economy quickly (and prevent a repetition of the destabilising effects of post 1914–18 war reparations), and to the sound monetary policies pursued by an independent Bundesbank (thus avoiding Weimar Republic-style hyperinflation), rather than to any restraining effects of EU membership.

The vital role played by US-led NATO in deterring further Soviet aggression should also be recognised. And is it not a bit rich for some EU leaders to boast about the preservation of peace, when in earlier years they were members of, or had links to, organisations that sought to weaken Europe's defences (Campaign for Nuclear Disarmament) and undermine its capitalist system (Trotskyist cells and the Baader-Meinhof terrorist group)?

7 **Laeken claim:** *"What they [EU citizens] expect is more results, better responses to practical issues, and not a European super-state or European institutions inveigling their way into every nook and cranny of life."*

Facts and Analysis: In a statement to the House of Commons on Laeken, Tony Blair said he opposed the creation of a European super-state, and cited the above claim to support his contention that other EU leaders shared his view. But this sentence only says that citizens don't expect any level of government – whether in Brussels, Strasbourg, Westminster, small town council or bureaucratic unit – to pry into or control all aspects of their lives. Almost everyone agrees on that. After all, it would be incompatible with the democratic ideals espoused by the EU. Most people certainly do not want an authoritarian state on Soviet or Nazi lines.

The real issues are where to draw the lines between government intervention and individual and market freedoms, and what decisions should be taken at the EU, national, regional and local levels. The sentence does not exclude the formation of a super-state to further the goals of a politically unified Union. In fact, the Declaration uses another term – *"a power"* (which is defined in the Oxford Dictionary as *"a State or nation with regard to its* *international authority or influence*") when it spells out the EU's main objectives. These are ambitious in both scope and magnitude, and exceed the powers of any single medium-sized state. Most leaders clearly want the EU to act as a super-state with the economic size, military strength, moral stature and political will to rival the only existing superpower, the United States of America. Germany's Chancellor Gerhard Schröder confirmed this objective during the World Economic Forum on 1 February 2002. When asked if he felt like a junior partner to the Unites States, he replied: *"there is a power divide between the United States, on the one hand, and any other country in Europe because America is the world's sole superpower and the only power in a position to act on its own… The answer or remedy is easy,"* he said*: "We should integrate and build a deeper and bigger Europe to have more clout."* (reported in the *International Herald Tribune*, 2–3 February 2002)

Three of the proposed 'power' roles for the EU outlined in the Laeken Declaration have already been discussed. In addition, EU leaders describe Europe as "the *continent of humane values*" and "the *continent of liberty, solidarity and above all diversity*" (note the use of the definite article *the*, implying that other continents do not possess the attributes claimed for Europe). And they are also eager to play the role of *"a power resolutely doing battle against all violence, all terror and all fanaticism"*.

Considering the modest achievements of the EU so far, wouldn't a little humility be appropriate? Should EU leaders not give priority to tackling Europe's own problems, instead of embarking on a 21st century crusade to convert or transform the rest of the world into the EU's own (distorted) image? The superior performance of North American and Asian countries (most of which are not super-states or super-powers) suggests that other models meet peoples' aspirations more effectively.

8 **Laeken claim:** *"The important thing is to clarify, simplify and adjust the division of competence between the Union and the Member States."*

Facts and Analysis: This statement hints at the possibility of allowing greater 'flexibility' than in the past. However, a closer reading of the Laeken Declaration indicates that the voices calling for further centralisation remain strong. The Declaration suggests that the Union *"determine whether there needs to be any reorganisation of competence,"* but it insists that the *acquis communautaire* be respected. This term (for which no precise English equivalent apparently exists) is much used in EU circles and Treaties. It indicates the inviolability of rights and obligations established by EU directives and regulations. But how can true democracy flourish if newly-elected governments are unable to correct the policy errors of their predecessors, or respond to the changed priorities and preferences of their electorates by revising existing legislation?

Although EU leaders say they are ready to consider *"restoring tasks to the member states,"* and to apply *"the principle of subsidiarity,"* they appear to reject any form of policy competition between sovereign member states. The Declaration stresses the need to be *"constantly bearing in mind the equality of the member States and their mutual solidarity"*. And its suggestions for reform generally lead in the direction of greater uniformity. Thus it calls for *"a more integrated approach to police and criminal law cooperation,"* stepping up *"economic policy coordination,"* and intensification of *"cooperation in the field of social exclusion"*. The only area that might be *"left more emphatically to the Member States,"* the Declaration indicates, is *"the day-to-day administration of the Union's policies"*. In other words, policy decisions should be made at the Union level, leaving less and less scope for sovereign choice. National and local governments would become mere executants of policies set in Brussels or Strasbourg.

Tony Blair still appears to believe that he can change majority views by *"having a seat at the table"* and *"staying involved"* by arguing his case within EU institutions and forums, rather than what he calls the alternative of standing aloof and criticising from outside. But he cannot cite any major successes for his approach. For five years he has argued for radical revamping of the Common Agricultural Policy and for greater labour market flexibility, without persuading other members to adopt significant reforms. In the long run, deeds are more powerful than words. Although voluntary co-operation among states can strengthen their collective efforts, disagreements over appropriate courses of action are often best resolved by allowing alternative policies and models to be applied, and then to compare the results.

This approach requires not only retention of the power to pursue different policies, but also the willingness of all parties to make objective assessments. Unfortunately, the scope for such controlled experiments has been progressively whittled away by the extension of majority voting rules. However, the opportunity to assess the impact of different policies on member states still exists in some areas of tax and labour policies. And it is always possible to take a wider perspective by looking at the experience of other continents.

The Declaration says that citizens want better democratic scrutiny and accountability. The Summit agreed to convene a Convention to pave the way for the next Intergovernmental Conference. Its task will be *"to consider the key issues arising for the Union's future development and to try to identify the various possible responses"*. If it is not to be a pseudo-democratic front for deals made secretly by Heads of State, the Convention should undertake an independent evaluation of the EU's current policies, procedures and standards before proposing any new blueprint.

However, considering the composition of the Convention (with convinced federalists appointed as Chairman and Vice-Chairmen), it would be unwise for Euro-realists to wait until it has presented its findings. They should press their governments to prepare White Papers setting out clearly the options, so that parliaments, the media and the public can debate their merits without the usual evasions and clouding of the issues.

*Keith Marsden, a former World Bank adviser and expert of the International Labour Organisation, writes regularly for the* Wall Street Journal Europe. *His recent publications include* Miracle or Mirage: New Labour's Economic Record in Perspective *(Centre for Policy Studies, 2001);* Towards a Treaty of Commerce: Euroland and NAFTA Compared *(Centre for Policy Studies, 2000);* Handicap, Not Trump Card: the Franco-German Model Isn't Working *(Centre for Policy Studies, 1999);* Is Tax Competition Harmful? *(European Policy Forum, 1998); and* Miracle or Mirage: Britain's Economy Seen from Abroad *(Centre for Policy Studies, 1997). He is a regular contributor to the* European Journal *and a member of the European Foundation's International Advisory Board.*

# The EU's Plans for Harmonising Corporation Tax

*by Christopher J. K. Arkell*

The European Commission (EC) has recently published its plans for harmonising company tax across the EU.[1] The heart of this stage of planning is to standardise the base of the tax, reliefs and rules of computation. The EC points out that companies in the EU are obliged to comply with as many as 15 different sets of corporation tax rules, and that taxation on what it regards as similar activities varies by up to 30 percentage points. It regards this as unacceptable for companies which are based in more than one EU member state, and it considers that this variety of company tax regimes inhibits the unification of the EU's Internal Market. Since the establishment of this Internal Market is a vital objective of the Commission, anything which stands in its way must be removed: *"company taxation must become an instrument for achieving the European Union's goals ."*

At present the EC plans no harmonisation of tax rates. These remain a matter for member states, but the EC will continue to monitor rates and the overall level of taxation borne by companies, to ensure that member states continue to come into line on this measure.

In order to implement its plans for company tax harmonisation, it proposes the following actions:

1 The development of guidance on important rulings from the European Court of Justice (ECJ) (such as *ICI v Colmer*; and the Safir case) to *"facilitate compliance with the [EU] Treaty and the application of Community legislation"*.

2 Amending both the Parent-Subsidiary and Merger Directives (the only two important pieces of company tax legislation already agreed to be within the remit of the EC) in order to extend their scope to include many more types of taxes and transactions (thus avoiding the need for the introduction of new company tax legislation at the EU level which would be unlikely to be agreed by the member states unanimously).

3 A more comprehensive Directive dealing with the relief of cross-border losses than the one suggested in 1990 and rejected by the member states (as being too great an interference in their tax sovereignty).

4 Setting up a new organisation called The European Union Joint Forum on Transfer Pricing in order to police purchases and sales between connected parties in the EU.

The above proposals will require the establishment of what will come to be regarded as EU Tax Inspectors (with, eventually, an enforcement and collection capability). They will also smooth the path to the EC's eventual goal, a consolidated tax base for all corporate activity in the EU, with a single set of rules providing, according to the EC, greater efficiency, effectiveness, simplicity and transparency in company tax systems and also the reduction of compliance costs for multinational companies.

Further steps are envisaged:

5 'Home state' taxation – that is, the taxing of a company which operates in a number of member states in its 'home state'.

6 A 'common tax base' whereby any multi-national company could choose to compute its EU-wide tax position according to the EC's new common EU-wide tax code rather than that of any particular member state.

The attitude of the UK Government to the Commission's proposals was amply illustrated by the following answer to written questions to the Chancellor.[2] Dawn Primarolo replied that *"tax harmonisation, including proposals for a consolidated company tax base, is not the way forward for Europe."* She said that the Government *"would not support any action at European level"* which would threaten British jobs or competitiveness.

What Primarolo did not mention, because it would embarrass her too much, is that the EC can introduce virtually all of its company tax regime by means of Qualified Majority Voting under Single Market legislative procedures. And for any bits it does not obtain that way, it can rely upon the ECJ to interpret existing EU legislation in its favour.

Welcome to the European Superstate!

1 See www.europa.eu.int/comm/taxation_customs/whatsnew.htm

2 See *Hansard*, 31 October and 1 November 2001, 373(42), cols 743W and 798-99W

*Christopher J. K. Arkell is an accountant specialising in tax. He is also Editor of* London Miscellany *and Publisher of* The London Magazine.

## *… news in brief*

**Criticism grows of European "Convention"**

Having got off to a bad start with the row over Giscard's salary (he is not to be paid anything in the end), the European Convention – the body which is supposed to draw up a new "European constitution" by 2004 – is now also attracting criticism from MEPs. The veteran German MEP, Elmar Brok, has said that he fears a fall-back to the bad old days in which everything is decided behind closed doors. "We cannot accept that the 12 person presidium of the Convention meets ten times a month while the 105-member plenary meetings are held only once a month," said Brok, who evidently likes nothing more than a good committee to get his teeth into. One of the European parliament's representatives on the Convention, Klaus Hänsch, has said that he would welcome the body making a preliminary proposal for "a European constitution" before the summer holidays. Giscard is believed to want to produce four suggestions for a final document. The reason why the MEPs dislike the presidium and like the plenary sessions is that they are in a minority of four out of twelve in the first whereas representatives of national parliaments and the European parliament constitute the majority of the second. [*Handelsblatt*, 29th January 2002]

**Economists attribute inflation to euro**

The opinion that the introduction of the euro will drive up inflation is apparently gathering ground among economists. It is now widely expected that prices in January will rise by 1.1% with respect to the previous month, whereas they rose by 0.1% in December. In other words, the inflation rate since the physical introduction of the euro has increased by a factor of 10. [*Handelsblatt*, 29th January 2002] When the new inflation rate of 2.1% for the euro zone was published at the beginning of February, newspapers went out of their way to say that the rise had nothing to do with the euro but it remains to be seen whether this will impress ordinary consumers. [*Frankfurter Allgemeine Zeitung*, 2nd February 2002]

# RESEARCH ROUNDUP

## Thirty Year Rule Revisited

*by Allister Heath*

A year ago I reported in this space on the publication on 1 January 2001 of secret cabinet papers relating to Britain's accession to the Common Market.[1] The documents were released under the 'thirty year rule', the government's official declassification scheme. They demonstrate without any doubt that Sir Edward Heath's government was prepared to join the European Community at almost any cost. One year later, the duplicity of the British government and of much of the Foreign and Commonwealth Office (FCO) establishment of the time is confirmed in a new batch of papers accessible to the public for the first time.[2] These provide yet further evidence that ministers knew full well the implications of EEC accession for sovereignty and parliamentary democracy in the UK.[3]

To put these documents in the context of their time, it is worth repeating some of the key passages of the Heath government's infamous White Paper of July 1971 on accession to the European Community.[4] *"Our country will be more secure,"* the government promised, *"our ability to maintain peace and promote development in the world greater, our economy stronger, and our industries and people more prosperous, if we join the European Communities than if we remain outside them."* The most important section of the White Paper was without doubt its solemn pledge that *"there is no question of any erosion of essential national sovereignty; what is proposed is a sharing and an enlargement of individual national sovereignties in the general interest."* As we shall see, this was a gross misrepresentation of the truth.

### Exposing the 1971 White Paper

The most important document for our purposes is *Sovereignty and the European Communities*, a short briefing paper dated 1971 and authored by anonymous FCO officials.[5] The document appears contradictory in places, possibly because it contains conflicting messages. However, it is immediately clear from the following excerpts that the key players were fully aware that joining the Community would entail an ever-greater loss of 'sovereignty': *"external and parliamentary sovereignty will be limited, while in the case of parliamentary sovereignty it will be real and novel but not likely to damage British interests."* The loss of sovereignty will "*… increase as the Community develops, according to the intention of the preamble to the Treaty of Rome 'to establish the foundations of an ever closer union among the European peoples'.*" The contrast with the official line and the White Paper's promise could hardly be any greater.

And "*in the longest term the progressive development of the Community could indeed mean the weakening of the member states' independence of action and in the last resort of their national institutions and their sovereignty.*"

The authors were also fully aware of the fluid and dynamic nature of European integration, which evolves continuously towards ever-closer Union, even in the absence of new Treaties. "*It should also be noted that the boundaries* [between competences reserved to national governments and those reserved to the EEC] *are changing all the time, as Community policies develop.*"

The authors are adamant that *"there would be many implications for both external and internal (particularly parliamentary) sovereignty. Some of these would be wholly novel, and the general effect particularly in the longer turn would be of more pervasive and wide-ranging change than with any earlier commitments. Largely this is because the Community treaties when drawn up were seen as arrangements not merely for collaboration but for positive integration of large parts of the economic and social life of the Member States."* More and more areas of public policy would hence take on a European dimension: *"as a result the conventional theoretical line dividing internal from external affairs has become blurred."*

### Over-ruling Parliament

The document contains an extremely lucid analysis of the legal revolution entailed by membership. "*It is not correct to regard the European Community Treaties as involving solely matters of a legal significance equivalent to that of other existing treaties,*" the officials explain. Unlike the case of Britain's membership of NATO *"we shall be accepting an external legislature which regards itself as having direct powers of legislating with effect within the UK, even in derogation of UK statutes, and as having in certain fields* exclusive *legislative competence, so that our own legislature has none; in matters in which the Community has already adopted a common policy, we shall be accepting that the Commission will jointly represent the member states, who to that extent will have their individual international negotiating powers limited; and we shall in various fields be accepting a wide degree of coordination of our policy with that of the rest of the Community. All of this we shall be accepting 'for an unlimited period', with no provision for withdrawal."*

*"By accepting the Community Treaties we shall have to adopt the whole range of subsidiary law which has been made by the Communities."*

In other words, Britain had to adopt the entire *acquis communautaire* without discussion, a situation similar to that faced by the Eastern European applicant states today. *"Not only this but we shall be making provision in advance for the unquestioned direct application (i.e. without any further participation by Parliament) of Community laws not yet made…"* Thus Parliament handed the EC a permanent right to pass laws in policy areas signed away by the Treaties, which the British government is required to implement without any debate in the House of Commons.

The reason underlying the recent defeat of the Metric Martyrs in the High Court becomes clear from the briefing paper. Quite simply, the Weights and Measures Act of 1985, a purely British statute, is superseded by EU directives in the form of a Statutory Instrument which the British government is required to issue.

*"Community law is required to take precedence over domestic law: i.e. if a Community law conflicts with a statute, it is the statute which has to give way… Previous treaties have imposed on us obligations which have required us to legislate in order to fulfill the international obligations set out in the treaty, but any discrepancy between our legislation and the treaty obligations has been solely a question of a possible breach of those international obligations. The conflicting statute has still undoubtedly been the law to be applied in this country."* The basis for the Metric Martyr case appears to have been the suggestion that the EU is no different from these traditional treaties. But in reality *"the community system requires that such Community Law as applies directly*

*as law in this country should by virtue of its own legal force as law in this country prevail over conflicting national legislation. The Law Officers have, however, concluded that while the European Community will uphold the supremacy of Community Law in its application within the United Kingdom, our Courts, if faced with a statute intended by Parliament to override Community Law, are most unlikely in the immediately foreseeable future to be restrained from giving effect to the statute."* The Law Officers were consulted thirty years ago; times have changed and the legal profession has apparently internalised the legal, political and constitutional revolution entailed by the treaties. Also, *"the European Court's decisions will be binding on our courts which might then have to rule on the validity or applicability of the United Kingdom statute."*

Finally, "*the Law Officers* [including the Attorney-General and the Lord Chancellor] *have emphasised that in accepting Community Law in this country we shall need to make it effective as part of a new and separate legal order, distinct from, but co-existing side by side with, the law of the United Kingdom. They have referred to the basic European Communities Treaty provisions as amounting 'in effect to a new body of 'Federal' statute law'."* One can but imagine the public's fury had the White Paper explained the imminent introduction of US-style federal law to Britain.

### A Constitutional Revolution

As the authors of *Sovereignty and the European Communities* remind us, traditional UK-type parliamentary sovereignty signifies that Parliament is the only body able to make supreme law. This has at least three corollaries. *First*, a statute that has been passed through both Houses of Parliament and that has been given the Royal Assent cannot be contested by British Courts, even if they deem the statute to violate international law, constitutional law or common law. *Second*, no Parliament is bound by its successors. *Third*, there is no legislative power in the land save by the authority of Parliament. Because of our membership of the EU, the first is no longer valid in areas where competences have been ceded to Brussels. The second remains true in the sense that Parliament could amend the European Communities Act in whichever way it chooses and at any time. But the document actually states that there may come a time when British sovereignty is actually abolished 'irreversibly' and Parliament becomes unable to modify or overrule the European Communities Act, even as a last resort. This is what the FCO paper has to say: "*For a very long time – almost certainly until the end of the century – the major member states would retain the practical 'last resort' political possibility of seccession (albeit in probable breach of international obligations and with increasingly damaging economic consequences for the defector). So long as the member state's participation is subject to national scrutiny and can in practice be withdrawn, it may be said that the nation's status as an equal and independent state in the international community will be unaffected. Parliament's power will likewise survive; if Britain can in practice renounce the Treaty then the Community laws which are applied automatically within the member states are seen to depend upon the continuing (and pre-eminent) acquiescence of Parliament which may in the last resort be withdrawn. Even with the most dramatic development of the Community the major member states can hardly lose the 'last resort' ability to withdraw in much less than three decades.* [i.e. circa 2003; remember that an EU constitution is planned for 2004]. *The Community's development could produce before then a period in which the political practicability of withdrawal was doubtful. If the point should ever be reached at which inability to renounce the Treaty (and with it the degeneration of the national institutions which could opt for such a policy) was clear, then sovereignty, external, parliamentary and practical would indeed be diminished."*

### Towards an EU State

As was already revealed in these pages in January 2001, the Cabinet and senior civil servants had been acutely aware in 1971 of the EEC's plans for EMU, a European army and tax harmonisation. They also knew of the plans for a massive increase in Qualified Majority Voting and the emasculation of the veto. The new releases reinforce this interpretation: "*it will be in the British interest after accession to encourage the development of the Community toward an effectively harmonised economic, fiscal and monetary system and a fairly closely coordinated and consistent foreign and defence policy. This sort of grouping would bring major politico/economic advantages but would take many years to develop and to win political acceptance. If it came to do so then essential aspects of sovereignty both internal and external would indeed increasingly be transferred to the Community itself … over a wide range of subjects (trade, aid, monetary affairs and most technological questions) Community policies toward the outside world would be common or closely harmonised… By the end of the century with effective defence and political harmonisation the erosion of the international role of the member states could be almost complete… It is hard to envisage the necessary decisions being taken under the present organisation of the Community; more effective decision-making at Community level would either require majority voting on an increasing range of issues in the Council or stronger pressures to reach quick decisions by consensus … the development of a prestigious and effective directly elected Community Parliament would clearly mean the consequential weakening of the British Parliament as well as the erosion of 'parliamentary sovereignty'."*

### Conclusion

To say that Edward Heath's 1971 White Paper was deliberately misleading is no longer even controversial. The question is: what should be done next? A useful start would be to campaign for a new White Paper on the full constitutional and political implications of EU membership. Were the government to accept this proposal, it would be imperative in the current climate for the Consevative Party, the media and the public to ensure that the level of duplicity that was seen last time around is not repeated. A White Paper could instigate a much needed reappraisal of the errors of the past, culminating in a new consensus for the renegotiation of the Treaties.

1 Allister Heath (2001) "Thirty Year Rule Reveals", *European Journal* 8(3): 12-13 (January/February)
2 See www.pro.gov.uk/releases
3 See also Lionel Bell (2001), "Review", *European Journal* 8(4): 26-28 (March)
4 British Government (1971), *White Paper: the UK and the European Communities*, Cmnd 4715, 7 July
5 *Sovereignty and the European Communities,* 1971, FCO 30/1048

Allister Heath is Head of Research at the European Foundation. He can be reached by telephone on 020 7930 7319; fax 020 7930 9706; e-mail: allister_heath@yahoo.co.uk

# Is Europe a Threat?

***Dr Irwin M. Stelzer**, a leading American commentator, explains how and why attitudes in the US to the process of European political integration are beginning to change.*

Ever since the end of the Second World War, the United States have consistently encouraged the nation states of Europe to become more like America – to integrate their economies, to come together behind a single foreign policy and to end the national rivalries that twice in the 20th century dragged America into bloody wars. A United States of Europe, we reasoned in the late 1940s, would help secure peace by binding Germany so tightly into all-European institutions as to prevent still another round of bloodshed. It would spur prosperity by bringing down barriers to trade on the Continent itself and, by extension, with us. And, as Henry Kissinger would famously put it, it would give our State Department a single telephone number to dial in an emergency.

This policy won acceptance on both sides of the Atlantic. First, it met the perceived needs of Europeans themselves. For Germans, it offered a way to assure the world that they had broken with their history of trying to unify Europe by the sword. For the French, it was a way of combining their country's limited economic strength – limited as compared to the United States – with that of others, and of controlling the whole with their superior bureaucratic skills. Several smaller countries perceived union as a means of sharing in the wealth that would flow from richer Germany and France to them. And, of course, idealists everywhere saw the goal of an 'ever closer union' as the key to peace.

A second impulse toward union came from without: the fear of an expansionist Soviet Union, its westward looking ambitions whetted by continued squabbling among the European states and/or discord between Europe and America. To contain the Soviet threat, the United States needed both bases and allies, while Europe needed the shelter provided by the American nuclear umbrella. Relatively trivial differences – and all differences were relatively trivial compared with the magnitude of the Soviet danger – could not be allowed to disrupt the solidarity symbolised by and embodied in the NATO pact.

As everyone knows, the experiment worked. The Soviet Union was held at bay until it finally collapsed, and in the wake of that collapse the European nation states not only accelerated their moves toward economic union but moved rapidly to fashion ever more centralised institutions of governance. In fact, the European Union (EU), now fifteen nations strong, is on the way to becoming a superstate of its own. And this, in turn, is compelling both the Europeans and the Americans to take a fresh – and, in the event, rather acrimonious – look at where their respective self-interests lie.

This re-examination is taking place against the background of the undeniable successes achieved by Europe. Peace – more or less – prevails on the Continent, and the threats to its tranquillity are, at least for now, local and manageable rather than global. Many, although far from all, of the intra-European barriers to free trade are down, to the benefit of all EU members. The economies of the poorer countries – ranging from Spain to Ireland – have been enriched by income transfers from the EU's richer members.

Much progress (to use a descriptive term preferred by EU advocates) has likewise been made, though not without controversy and dissent, in turning over to the European Union some of the traditional functions of individual sovereign governments. All but three members – the 'holdouts' are Great Britain, Sweden and Denmark – have ceded control over their money supply, interest rates and exchange rates to the European Central Bank (ECB) in Frankfurt. This new monetary reality is being brought home to Europe's citizens with great force now that their marks, francs and other national currencies have disappeared from circulation and been replaced by the euro.

Important as this single step is, many more are on the way. Chancellor Gerhard Schröder of Germany and President Jacques Chirac of France may differ on details, but they agree that they are after much more than a common market or even a mere federation of sovereign nations. In the words of David Marquand, writing in the *New Statesman*, they are *"supranationalists"*, driving toward a true central government complete with a parliament, courts, an army, a single foreign policy, a harmonised tax system, a constitution and much other paraphernalia designed to supplement and, better still, displace many of the functions previously reserved to national institutions. Working prototypes already exist in such established entities as the Council of Ministers, the European parliament and the Court of Justice. In the European Commission, headquartered in Brussels, a fully empowered executive branch is operating, with all its bureaucratic ganglia intact.

But now the EU has arrived at a crossroads. On the one hand, it must look inward and revise its own apparatus so as to accommodate some ten or so new applicants for membership. It must also decide whether and how to maintain its members' steadily enlarging welfare states in the face of competition from lower-cost producers in Asia and the Americas, and demographic trends that are increasing the number of retirees relative to the size of the productive workforce. It must choose between the model of increased social spending and taxation favoured by Belgium and the supply-side reforms preferred by Spain. It must convert its new currency into an asset the world's investors are willing to hold, a goal that has so far eluded the European Central Bank. And, since the ideal held so fiercely by the likes of Schröder and Chirac is still far from being embraced wholeheartedly by the European 'street', it must somehow expand the constituency among Europeans themselves in favour of closer integration.

On the other hand, and equally importantly, the EU must look outward and define its role in the world. With the cold war over, Europe enjoys a freedom of manoeuvre that it has not had in over a half century. But independence has a price, though one the EU has so far steadfastly refused to pay. That price entails assuming a larger share of the burden of keeping the peace, both in Europe's own backyard and around the world. The EU must decide whether it intends to accomplish this without simultaneously subverting the NATO alliance that has served the world so well or, as the French would prefer, by dismantling or at least neutering NATO and thus also reducing American influence in Europe.

And thereby hangs another tale. For it is no secret that the EU, as it has strengthened itself economically and politically, has come to define itself as a rival to America's 'hegemony' in the post-cold-war world, or that deep and long festering resentment of the United States has come to the surface among Europeans, especially European elites. So America, which for decades has devoted large resources to NATO and Europe, is likewise at a crossroads and faces some hard decisions.

When our foreign policy establishments encouraged the Europeans to integrate their economies, we surely did not anticipate that one result would be a large economy intent on challenging the United States for world economic leadership and the dollar as the world's reserve currency. When we encouraged the Europeans to do more for their own defence, we hardly intended for them to form a defence force independent of NATO. And when we encouraged the Europeans to set up one telephone number that we could call, we did not intend it to be answered by a French policy-maker whose most frequent response would be *"non"*.

But, in a perfect example of that darned law of unintended consequences, this is what has happened. To be sure, an element of competition with the US has always accompanied the effort to bind Europe together more closely; the French in particular have long viewed union as a tool for advancing their own international ambitions, which since the days of de Gaulle, if not earlier, have included reducing American power. But the current situation is different and more worrisome.

Much hostile feeling is directed at the new American President and his administration. With the exception of friendly governments in Great Britain, Spain and Italy, European leaders, seconded by European editorialists, made few bones about their extreme displeasure with George W. Bush, even prior to his 'axis of evil' speech. His decision to state publicly that the United States would never ratify the Kyoto Protocol on global warming because doing so would damage the American economy without solving the problem, if there is one, of global warming, or to announce that he sees it as his moral obligation to protect the US by means of a missile defence system, even if that signifies exercising the nation's right to abrogate the Anti-Ballistic Missile Treaty, were icily received. No less extreme have been European expressions of distaste for the social and cultural milieu from which the new President emerged, a Texas that loves its guns, its giant sports-utility vehicles, its religiosity and its right to execute murderers who have exhausted their decades-long legal appeals. As the *Daily Telegraph* put it, *"the arrival of a Texan conservative, with ties to Christian fundamentalists and strong opposition to abortion, has brought the flood of hostile feelings into the open."*

But as this comment itself suggests, it would be a mistake to attribute European dissatisfaction to feelings about Bush alone. America's emergence as the world's sole superpower – or, to use the expression preferred by French politicians, 'hyperpower' – has led much of Europe into a reactive mode. Goran Persson, the Prime Minister of Sweden, used a press conference during his term as EU president to declare that Europe's new role was to serve *"as a balance to US domination"*. What this really means, according to Jeffrey Gedmin of the New Atlantic Initiative, a Washington-based international think tank, is that, for the EU, *"whatever diminishes the stature of the United States is of benefit to Europe"*.

> When we encouraged the Europeans to set up one telephone number that we could call, we did not intend it to be answered by a French policy-maker whose most frequent response would be *"non"*

Having worked for decades to encourage a united Europe, America thus appears to face an emerging continental superstate defiantly determined to cut it down to size. Certainly, to anyone following Europe's media, or listening to the speeches of its leaders, there can be no mistaking the seriousness of that determination. But before asking what should be done about it, we should first ask how plausible this goal is. Does the EU possess, or will it soon possess, the sort of power, military or economic, that could place it on an equal footing with the US, or at least close enough to be able to frustrate American policy?

The EU's interest in building a military capacity of its own is fairly recent. Ironically enough, it originated with Tony Blair, a European leader eager to retain his position as America's first friend. In the wake of Europe's utter failure to end the slaughter in the Balkans without US help, Blair proposed that the Treaty of Nice – the comprehensive intra-EU agreement completed late in 2000 – provide for an all-European peacekeeping force, to be deployed in conflicts in which the United States has no interest of its own at stake.

Blair himself had no desire to challenge NATO's pre-eminence in European security arrangements; quite the contrary. But his proposal played into the hands of France, which has long bridled at America's military influence on the Continent. During the marathon negotiations leading up to the signing of the Treaty, President Chirac and Prime Minister Lionel Jospin of France persuaded Blair to accept clauses making it clear that the new European rapid reaction force, as it is officially called, would be able to operate independently of NATO, with an *"autonomous capacity to take decisions"*. As if to emphasise the point, the force is to have its own uniforms, flags, marching song and military hardware, and its commander will come from Finland – a non-member of NATO. The aim, according to the declaration adopted by the EU at the conference that preceded Nice, is for Europe to *"make its voice heard in world affairs"*.

What remains to be seen is whether this army will look formidable somewhere other than in the minds of EU planners. Its goal – sustaining 60,000 troops in the field for a year – will require a total pool of 200,000 available troops plus three mobile corps headquarters. Even its most ardent advocates concede that this target is ambitious; it certainly cannot be realised without reducing the forces available to NATO.

As for the British government, despite Blair's acquiescence, and his stated willingness to contribute troops that his military advisers say cannot be spared from other missions, it remains wary of any European arrangement that would endanger military relations with the United States.

A special concern in this regard is intelligence, an area in which co-operation between the two countries is intimate and longstanding. If Europe requires Britain to share sensitive material gathered from American sources, the US intelligence community – as the British have every reason to know – will pull away from any further co-operation, so distrustful are the Americans of the French, who are widely thought to have leaked information during the recent war in Kosovo.

More pointedly, even France, the great booster of the rapid reaction force, appears to have little appetite for devoting the necessary resources to it. Chirac and Jospin have approved a new defence budget for 2003–08 that is slightly smaller than the last five-year budget. In addition, even while insisting that the European army's planning staff must be independent, they have had to concede that it would need access to NATO's airlift capacity and intelligence apparatus.

As the American defence analyst Richard Perle has aptly observed, paraphrasing Voltaire on the Holy Roman Empire, the rapid reaction force outlined in the Treaty of Nice would be neither rapid, nor capable of reacting on its own, nor much of a force. Little wonder that eleven retired British and French generals and admirals recently charged the EU with *"building a fictitious paper army [that] will only serve to weaken even further our national capabilities to the detriment of our own security"*.

In the economic realm, needless to say, the European Union is a far more impressive player. The EU's population of over 370 million exceeds that of the United States by about one-third. Its output of goods and services admittedly falls short of ours, but it absorbs over 20 per cent of our exports and accounts for almost half of all direct foreign investment here. In the estimate of Gordon Brown, Britain's Chancellor of the Exchequer, two-way trade and investment between the US and the EU now amounts to an astonishing $2 billion every day.

Yet if the EU is far from an inconsequential factor in the world economy, it is also hobbled by a refusal to respond to the demands of doing business in the new global marketplace. Leftist and left-of-centre politicians – who control thirteen of the EU's fifteen states – remain wedded to policies that have put their economies at a serious and ongoing comparative disadvantage.

French bureaucrats make no secret of their distaste for what they consider the 'red in tooth and claw' competition of American-style capitalism. Labour regulations in France are designed to provide high wages and short hours for those workers who actually have jobs, and generous income-transfer payments for those who do not. The result: high job security, high long-term unemployment and very little leeway for French companies seeking more flexibility in hiring, firing, closing redundant factories or organising work flows.

In Germany the story is very much the same. Faced with rising unemployment, Gerhard Schröder has explicitly rejected any move in the direction of American-style 'hire and fire' policies. In as clear a statement of antipathy to flexible labour markets as one could ask for, he told the magazine *Stern*, *"Your average worker is not there to be pushed around by capital and thrown out in the street in a downturn. I am interested in the fate of a worker's family. That's why I am a social democrat."* Unable to get rid of workers, companies are disinclined to hire them.

Thanks to the dominant role played by France and Germany, such policies are slowly being imposed on the entire fifteen-nation organisation. EU-wide rules have been designed to eliminate market competition among members, so that the less costly welfare states do not put pressure on the more generous ones to lower their benefits. The European Court of Justice recently ruled, for example, that Britain must align its policies with the EU and require employers to give four weeks of paid leave each year to part-time workers, thus wiping out a significant portion of Britain's advantage in the cost of such labour.

The result of these policies has been to make the European economy, for all its prowess in certain sectors, a rather weak competitor, even at a moment like the present one when the US economy is slowing down. The EU itself estimates that hourly labour costs in the twelve-nation euro area exceed those in the United States by over 30 per cent, and the gap seems to be widening. Unemployment has averaged twice the level of the US in recent years, with France's jobless rate sometimes almost triple our own. The same goes for productivity rates: falling in the EU, steadily rising in the US. As beleaguered managers in EU countries will attest, costs have mounted with every new rule and regulation issued by Brussels, a situation perhaps best symbolised by the fact that it is now more expensive to manufacture a Mercedes in Germany than in America.

Still more troubling for these countries, especially Germany, is the capital flight that has been spurred by the Continent's ever more intrusive regulations and high tax rates. Last year alone, European companies poured a quarter of a trillion dollars into the United States; European investors purchased $165 billion in US corporate bonds in the twelve months ending 31 May 2001, and invested $134 billion in American shares despite the recent stock market swoon. This capital flight has not been slowed by America's current economic difficulties or by the less attractive interest rates that the Federal Reserve Board's monetary policy-makers have introduced to stimulate the US economy.

There is no mystery here: European investors have quite sensibly preferred the relatively low-tax, low-regulation environment of America (and, at least for now, Britain) to the increasingly over-regulated and overtaxed economies of the Continent. In Germany, taxes have been so high – the average unmarried German production worker keeps 23 per cent less of his wages than does his American equivalent – that evasion has become a national pastime.

But the leaders of the EU, determined as they are to maintain and extend a massive Franco-German style welfare state, and the power that such an economic/social policy confers upon a nation's governors, have so far eschewed the policy changes that Europe's difficulties would appear to dictate. As Anne Applebaum has written in the *Spectator*: *"above all, the European left doesn't like tax cuts, which threaten its own assumptions – and could even threaten its own power if they were ever to catch on over here."* Still another reason for European politicians to dislike George W. Bush: his tax-cutting example might prove contagious.

For all the EU's military and economic deficiencies, perhaps the most serious obstacle to its superpower aspirations is the unwieldy and undemocratic bureaucracy that determines its policies and whose worst tendencies promise only to grow.

The European Central Bank, intended to be the equivalent of our Federal Reserve, is something of a laughing stock among the world's central bankers, currency traders and economic policy-makers. Though some of the ECB's problems are attributable to the mismanagement of its president, Wim Duisenberg – known in financial circles as 'dim Wim' – the deeper problem is intrinsic: its charter calls upon it to set a one-size-fits-all interest rate for the twelve economies that have ceded control of these rates to the ECB, and for all others that will adopt the euro in the future. Since some of these twelve economies (Spain, Ireland, Portugal) are in the process of overheating, while others (France and Germany) are simultaneously dipping into recession, even a European clone of Alan Greenspan would be hard-pressed to tell a dim Wim what rate might be appropriate for all of euroland.

In its defence, the ECB might point not just to the intrinsic difficulty of its mission but to the confused direction it has received from its political masters. Article 105 of the Maastricht Treaty (which called the EU into being) names as the bank's primary goal the maintenance of price stability, but the same article directs it to support the *"general economic policies in the Community,"* and these include *"a high level of employment"*. The goal of stable prices was set in deference to Germany, a nation with a history that makes clear the dangers of hyperinflation; the goal of full employment was set by France, a nation prone to riots by workers threatened with redundancy.

The problem of Europe-wide economic management is compounded by the straitjacket imposed by the EU's Stability and Growth Pact. Any member country that runs a fiscal deficit of more than 3 per cent of GDP is subject to huge fines. This forecloses the possibility of tax cuts that, while creating temporary deficits, might in the proper circumstances not only help forestall or shorten a recession but increase long-term economic growth and tax revenues.

Rigidity in the formulation and execution of economic policy is matched, finally, by rigidity in foreign policy – as a rueful Henry Kissinger, for one, has recently had occasion to observe. "*When America encounters spokesmen for the unified Europe,*" he writes in his new book, *Does America Need a Foreign Policy?*, "*it discovers that its interlocutors have very little flexibility, because decisions taken by the [EU] Council of Ministers can be altered only by going through the entire internal European process again.*" It is no doubt convenient for Secretary of State Colin Powell to be able to place a call to Javier Solana, the EU's High Representative for foreign and security policy. But after the usual pleasantries, Solana can only relay a position – a non-negotiable position – laboriously worked out by a fifteen-nation consortium, and hardly likely to be sensitive to American interests.

These problems, which beset every aspect of policy-making, are likely to grow still worse. For one thing, the EU shows no sign of reversing the centralisation that has been its hallmark. Brussels' tireless bureaucrats steadily grind out regulations to govern employer-employee relations, limiting (say) the permissible working week of British cabbies; to harmonise various aspects of life, for example by making it a criminal offence for UK greengrocers to use pounds and ounces rather than metric weights; to set euro-wide standards for everything from the size and strength of condoms to the specifications for supermarket carts and what may or may not be labelled *"chocolate"*; and to define just what human rights protections EU members must confer on minorities, including gays and other groups Brussels decides are inadequately protected by member states.

A Europe faced with persistent high unemployment but unable or unwilling to make the necessary structural reforms is more likely to turn to illiberal measures to mitigate the effects of its rigid labour markets and the impotence of its macroeconomic tools – with adverse consequences for American exporters and world trade alike.

The internal mechanisms by which the particulars of these policies are determined, moreover, can only become more cumbersome as the EU tries to incorporate ten Eastern European countries over the next decade. When two dozen countries are each demanding a say, the governing institutions of the EU may simply freeze up. The sheer weight of the translation problem, and the paper it will generate, may prove an insuperable burden – the European Commission estimates that enlargement by ten countries will require 400 new interpreters, an expansion of its total administrative staff by 2,500 employees and an increase of $22 million in its budget for recruitment, translation and editing costs. A proposal that millions of pages of early drafts of documents be only in English has led to charges of 'unilinguism' by the French and Germans, and has been shelved.

EU governance structures are not only rigid and cumbersome, they are incorrigibly elitist, suffering from what both critics and advocates have rightly referred to as a 'democratic deficit'. Today, however, the relative quiescence of the European 'street' has begun to give way to a growing demand for a greater role – or at least a veto – in EU policy-making. Reminding their masters that policies formulated by unaccountable politicians might not always be accepted by the putative beneficiaries, Irish voters recently rejected the Nice Treaty, just as the Danes earlier voted against replacing their krone with the euro. More skirmishes of this kind may be safely predicted.

Does all this mean that the US can afford to ignore challenges from the EU, or to be indifferent to the growing transatlantic breach, secure in the knowledge that, as a serious rival, the EU will simply never get off the ground? Hardly.

In purely commercial terms, European hostility may yet prove harmful to American companies and consumers. Our rejection of the Kyoto Protocol, and especially the less than felicitous manner of that rejection, have given the EU an excuse to threaten to discriminate against high-tech equipment manufactured by American firms in the areas of energy conservation and pollution control. Already, despite our common interest in smooth commercial relations, the EU has not hesitated to restrict imports of bananas produced by American companies and genetically modified foods produced by American farmers; to limit the ability of European broadcasters to show American-made television programmes and play American music; to subsidise a European-wide competitor to Boeing; or to drag its feet on a new round of trade talks lest agricultural liberalisation be on the agenda.

This protectionist attitude should come as no surprise. A Europe faced with persistent high unemployment but unable or unwilling to make the necessary structural reforms is more likely to turn to illiberal measures to mitigate the effects of its rigid labour markets and the impotence of its macroeconomic tools – with adverse consequences for American exporters and world trade alike.

The good news is that the possibility of an actual trade war is relatively small. All industrial nations recognise the threat posed by such a war, and the World Trade Organisation, despite its many imperfections, provides a useful forum for the adjudication of specific disputes. But the nuisance value of Europe economic attitudes is hardly negligible, and in any case the greater threat lies in the general European view that America is a rival with whom it need no longer co-operate. This, combined with the rigidity of the EU's institutions, will make it more difficult to cope with all sorts of international economic crises.

As the current slowdown in the American economy became apparent, the EU's first reaction was to dismiss the old adage that when America sneezes, Europe catches a cold. These days, said euroland's central bankers, the European economy is so self-contained as to be immune to diseases blowing across the Atlantic. So they only belatedly and tentatively took steps to co-ordinate interest policy with the Federal Reserve Board. Instead, EU authorities passed the word that the fall of the euro against the dollar – until then an embarrassment to the founders of the new currency – was really a virtue, as it would make European goods cheaper in America and American goods dearer in Europe, strengthening EU economies at the expense of the US. The technical term for this is 'exporting recession', not generally considered by the unwilling importer to be a friendly act.

In the event, Europe has caught more than a mild case of the sniffles. A slowing America is buying less of Germany's engineering products, putting that country's export oriented economy on the verge of a recession that is rippling outward. If Europe continues to be unwilling to stimulate its economies in co-ordination with the United States, the worldwide slowdown may be prolonged still further.

But even were the Europeans willing, they might prove unable. As noted earlier, the Central Bank is hampered by its mandate to set a single interest rate, while in fiscal policy the EU countries are captives of a stability pact that must have John Maynard Keynes spinning in his grave. This combined inability to adopt monetary or fiscal policies sufficiently flexible to cope with changing conditions is bad news indeed, and not only for Europe.

If Europe can hamper our ability to cope with worldwide cyclical swings, no less nettlesome will be future European forays in the area of foreign policy. Today, for example, the EU wants an easing of sanctions against Iraq so that its members can profit from investments in that country's oil resources; a leader of the French oil industry told me that his nation's commercial interests must have priority over other considerations. Then, too, the EU heaps subsidies on the corrupt bureaucracy of the Palestinian Authority, rails against what it sees as American bias toward Israel and reportedly has urged the United States to join it in an embargo of arms shipments to the Jewish state. EU bureaucrats see Kim Jung Il's North Korea and Fidel Castro's Cuba – the world's remaining Stalinist regimes – as victims of an excessively aggressive American foreign policy.

There can be little question that the new administration is less tolerant of the EU's growing hostility to American influence and American values, less likely to be deflected from its chosen course by that hostility and less patient with the Europeans' decreased willingness to follow the US on major policy issues

And so it goes on. Europe's eagerness to prove that it can place limits on America's power when it chooses to do so was demonstrated in the recent fiasco over the Bush administration's decision to sell diesel-powered submarines to Taiwan. As it happens, we do not make these vessels; Germany and the Netherlands do, and they simply declined to fill the order.

The EU can cause problems for us in international bodies as well: it was the Europeans on the UN Human Rights Commission who decided they would rather have the company of Sudan and Libya than of America, engineering our removal from the Commission in order to make us *"think twice"* (according to *Le Monde*) about our allegedly barbaric devotion to the death penalty. There is a long list of areas in which we could use but may be unlikely to get EU co-operation in international forums, from money laundering and drug trafficking to some aspects of environmental policy and research projects in social policy.

What then should the US do? One possibility is to react in kind and (to put it crudely) see how they like it. In his recent book, Henry Kissinger drops a not so heavily veiled threat: *"Those who seek identity via confrontation with America must not delude themselves into believing that the United States will remain forever passive when its policies are challenged as a matter of principle."*

Kissinger's dictum is in keeping with the new mood in Washington, where the Clinton administration's emphasis on multilateralism and international institutions is being replaced by a more unilateral approach to foreign affairs. Richard Haass, Director of Policy Planning at the State Department, calls the new policy "à la carte *multilateralism… We'll look at each agreement and make a decision, rather than come out with a broad-based approach."* Whatever the correct term may be, there can be little question that the new administration is less tolerant of the EU's growing hostility to American influence and American values, less likely to be deflected from its chosen course by that hostility and less patient with the Europeans' decreased willingness to follow the US on major policy issues.

The US might well decide, for example, that if the Europeans are unalterably opposed to a missile defence shield, and want to remain vulnerable to missile attacks by rogue states, that is their business. And if the Europeans want the Yankees to go home, we can always use the freed-up military resources to good effect elsewhere in the world, or at home to meet domestic needs.

After all, as Deputy Secretary of Defence Paul Wolfowitz has pointed out, the military threat in Europe is today *"indisputably lower than the threat in other parts of the world"*. The success of the North Atlantic Free Trade Agreement (NAFTA) with Mexico and Canada suggests that there is benefit in increased relations and trade north and south of our borders; continued EU discrimination against America's three most efficient industries – agriculture, aircraft manufacture and audio-visual products – makes it all the more tempting to prove our negotiating resources to more affable partners like Mexico and Canada, both of which have valuable energy resources that we need. There is also the possibility of better relations with Russia that is, in any event, currently too weak economically to pose a direct danger to the United States.

Specifically, we might begin fashioning trade, economic and foreign policies that no longer assume support from an EU that claims to want nothing more than to diminish our power and influence. Bilateral rather than multilateral trade deals that do not confer on the EU the benefits gained for US companies might replace the more traditional treaties in which we have insisted that any advantages pried out of trading partners apply not only to us, but to all other nations.

It is true that we would pay a price for any such policy. In particular, ordinary Europeans, who traditionally have not shared the visceral hostility to America of their elites and media, might find themselves without an anchor or, worse, might begin to move into closer conformity with elite opinion; recent polls on the Continent suggest that this might already be happening. To which one might still reply: no matter, Ronald Reagan also aroused European enmity, and he won the cold war for them as well as for us.

But is that the right reply? To the extent that we make even fair-minded European voters nervous, we will also make it more difficult for those political leaders who are not committed to anti-Americanism as a way of life – and such leaders assuredly exist – to enlist themselves on our side in matters of national and international importance. A better course might therefore be to try shaping the EU to meet our needs and interests, and in accordance with our original vision of what a united Europe could be – namely, a peaceful and prosperous trading partner, and an ally when unified action is necessary to meet a military threat or an economic crisis.

That brings us back to Great Britain, and to its historic 'special relationship' with the United States. Prime Minister Blair is anxious to preserve that relationship, while also serving as 'a bridge' between us and Europe, of which he aspires to be a (the?) leader. During President Bush's trip to the Continent shortly prior to the events of 11 September 2001, he urged his fellow Europeans to tone down their aggressive rhetoric. To no particular effect: the media, feeding on an ample supply of leaks from EU politicians, labelled Bush a *"murderer"* for allowing the execution of Timothy McVeigh, a *"thug"*, a *"toxic Texan"* and worse. This will not stop Blair from persisting in his role as America's friend in Europe and Europe's voice in America, but he is likely to find that the attempt to avoid a choice between 'us' and 'them' is doomed to failure. And soon.

Ireland's rejection of the Nice Treaty has put all of that document's provisions on hold. This gives the British Prime Minister an opportunity to rethink his support for the European rapid reaction force. Should Britain please France by sticking to the definition of the new independent army as contained in the treaty, or do what is necessary to make certain that the new force will not undermine NATO? There simply is no 'third way' here. But with ingenuity, perseverance – and a little discreet American help – Blair might yet turn things around. If he did, he would also help avoid a rift with the US that, as he himself has frankly acknowledged, can only help 'the bad guys'.

Other opportunities exist on the economic front, where Blair is a member of what appears to be an emerging coalition within the EU for a freer market. Blair wants to break up the Continent's energy and telecommunications monopolies, to reform agricultural policy, to remove trade barriers with developing nations and to make labour markets more flexible. His Chancellor of the Exchequer wants to reform the secretive and often chaotic procedures of the European Central Bank. Only by pressing hard on these issues can Britain hope to influence the EU for the better. Here, too, there is no third way, and the task is hardly easy, though the rewards would be great all around.

Other conspicuous members of the pro-freer-market coalition are José María Aznar and Silvio Berlusconi, the new Prime Ministers respectively of Spain and Italy. Not only do these men fail to share the visceral anti-Americanism of their EU colleagues, but both are also attracted by American-style, supply-side economic reforms. Spain's Deputy Prime Minister, Rodrigo Rato, has announced that following Spain's appointment to the presidency of the EU in January 2002 it will press for deregulating Europe's energy and telecommunications sectors and for increasing labour market flexibility, and will oppose tax harmonisation and new taxes. Berlusconi plans to cut Italy's own tax rates, and has made it clear that he will support a US missile defence shield and stand with America against EU efforts to discriminate against US goods and services. These are some of the men, and the policies, who might be usefully encouraged within the EU by an America that has avoided an outright break with it.

Still another source of optimism may lie in the EU's planned expansion to include the countries of Central and Eastern Europe. Having experienced what life can be like when being hugged by the Russian bear rather than sheltered inside a US umbrella, these countries are instinctively pro-American. As premier Mikulas Dzurinda of Slovakia puts it, *"We have always perceived the United States as the protector of democratic principles in the world."* They are also decidedly suspicious of statist policies; their eagerness to join the EU is traceable not to any love of Brussels but rather to an enthusiasm for markets and the free movement of goods. Although economically of much lesser significance, at least for the foreseeable future, they can add a strong voice in the councils of the EU on behalf of the ideas and principles that impelled the US to encourage the formation of a united Europe in the first place.

At the moment, the EU has neither the economic strength, the governing institutions, nor the military ability to harm our vital interests. But it is capable of actions both annoying and debilitating. Moreover, there is no reason to believe that it is intrinsically incapable of getting its act together one day; managing its currency with greater skill, reforming its undemocratic and inflexible institutions, modifying its stability pact and even coming up with the money for a credible military force.

That possibility, plus the fact that there are important areas in which America would benefit from closer co-operation with the EU, suggest that we should make an effort to support our friends in Britain, Italy, Spain and other countries who are now or soon to be members of the EU, while never losing sight of the fact that others are ceasing or may have already ceased to be our friends. If we prove unsuccessful in dissuading a united Europe from its hostility to all things American – and I do not rate our chances excessively high – a redirection of central aspects of US policy would seem very much in order. That is what President Bush will be forced to consider, and sooner rather than later.

*Dr Irwin M. Stelzer is Director of Regulatory Studies at the Hudson Institute in Washington, DC, a Contributing Editor of the* Weekly Standard *and US columnist for the* Sunday Times. *For help in preparing this article Dr Stelzer would like to thank Toni Allen, Leyre Gonzalez and Cita Stelzer. This article, written before the terrorist attacks on America, and edited slightly to account for this, is reprinted from* Commentary *magazine, October 2001, by permission;* 

# BRUSSELSBOURGER

*by Matthew Elliott*

On 14 January, the European parliament elected its new President after *"the first ever political campaign for the office"* (*European Voice*, 17–23 January 2002). That is to say the candidatures of three MEPs from the smaller groups made the election more competitive than usual. A deal done behind closed doors was threatened by democracy in action.

## Ready!

In 1999, the EPP-ED and the ELDR came to a gentleman's agreement: the ELDR would support Nicole Fontaine for the Presidency of the European parliament in 1999, if the EPP-ED supported Patrick Cox for the Presidency in 2002. Since the Christian Democratic leadership of the EPP-ED honoured their side of the pact by standing aside and supporting Cox, his election should have been a foregone conclusion: the sum of both parties' votes, 285, also happened to be the absolute majority required for a win. However, the stitch-up was not to be. Cox only managed to attract 254 votes in the first round because, first, only 583 of the 626 MEPs voted, and second, several British Conservative MEPs went for Bonde and one or two are known to have gone for Martin (*Rapporteur*, 15 January 2002).

Although David Martin polled more votes (184) than there are MEPs in the PES (179), he clearly lacked a winning coalition. On the positive side, as well as his support from the Conservative delegation, he also received support from the Greens/EFA and the GUE/NGL, whose presidential candidates polled fewer votes than there are MEPs in the group. On the negative side, Martin failed to attract full support from his group. The French Socialists, who have 22 MEPs in the PES, allegedly withdrew their support from Martin following Michel Rocard's failed bid to chair the parliament's Social Affairs Committee (*European Voice*, 24–30 January 2002).

European Foundation Advisory Board Member Jens-Peter Bonde amassed the greatest breadth of support by attracting over three times as many votes as there are MEPs in his group. As well as support from the EDD and the Conservative delegation, he also received support from the UEN and independent and non-aligned Members.

## Steady!

After the first round, the two lowest ranking candidates decided to drop out. Francis Wurtz urged his 42 supporters to transfer their votes to Martin, explaining why his vote increased from 184 to 226 in the second round. Gerard Onesta refused to endorse another candidate, a reflection of the obvious split in the Greens/EFA that had prevented the leadership from officially endorsing anyone. However, it is quite clear where his 37 votes went: Cox's tally increased by 23 votes, Bonde got an extra 10 votes and the total number of votes fell by 4.

## Go!

The third and final round of the ballot was described by the *European Voice* (31 January–6 February 2002) as *"arguably both the finest and most farcical moment in Jens-Peter Bonde's 22 years as an MEP"*. After Cox and Martin confirmed their intention to stand in the third round, the acting chair asked if Bonde planned to put his name forward again. But the European parliament's most famous eurosceptic was nowhere to be seen. When Bonde eventually ran into the Chamber, clutching his speech withdrawing his candidature, the third round of voting had already been set in motion, with his name on the ballot paper. This confusion explains why Bonde's vote fell from a grand total of 76 votes in the second round to 33 vote in the final round. Twenty-one of his votes went to Cox, 11 went to Martin and the number of abstentions increased by 11.

Oh, and Cox stumbled over the 285 mark to be elected President.

**Voting for the EP President**

| Candidates and party | Supporters | Round 1 | Round 2 | Round 3 |
|---|---|---|---|---|
| **Patrick Cox** (ELDR, Ireland) | ELDR: 53, EPP-ED: 232 MEPs | 254 | 277 (+23) | 298 (+21) |
| **David Martin** (PES, UK) | PES: 179 MEPs | 184 | 226 (+42) | 237 (+11) |
| **Jens-Peter Bonde** (EDD, Denmark) | EDD: 18, UEN: 22 MEPs | 66 | 76 (+10) | 33 (-43) |
| **Gerard Onesta** (Greens/EFA, France) | EFA: 45 MEPs | 37 | - | - |
| **Francis Wurtz** (GUE/NGL, France) | GUE/NGL: 44 MEPs | 42 | - | - |
| **Total number of votes** | | 583 | 579 (-4) | 568 (-11) |

| | |
|---|---|
| ELDR | European Liberal, Democratic and Reform Party |
| EPP-ED | European People's Party/European Democrats |
| PES | Party of European Socialists |
| EDD | Europe of Democracies and Diversities |
| UEN | Union for Europe of the Nations |
| EFA | Greens/European Free Alliance |
| GUE/NGL | European Left/Nordic Green Left |

*Matthew Elliott, a researcher in the European parliament, can be contacted at matthewjimelliott@hotmail.com.*

# The Regionalisation of Europe

*by Dr Richard A.E. North*

Local government in the UK is undergoing reform of a magnitude at least equivalent to the reorganisation of 1974. It involves, among other things, the gradual abolition of county councils and the imposition of regional bodies and assemblies, together with the introduction of elected mayors in major cities. What is so very different from the earlier reorganisations, however, is that this process is being carried out progressively, almost by stealth, without there having been major statements by Ministers or the customary White Papers and a publicly declared plan.

The piecemeal programme very much follows the line of similar initiatives being carried out on mainland Europe, on which basis many commentators have attributed the developments to the European Union. The developing structures certainly accord with its overall objective of introducing a 'European dimension' to local government, under the general heading of a *"European Union of Regions and Cities in an integrated Continent"*. They are an essential part of building a *"European civil society"* which was flagged up in the EU governance White Paper of July 2001.

## Supporters of Regionalisation

However, despite outward appearances, the reorganisation project can not be attributed directly to the activities of European Union institutions and its Committee of the Regions (CoR) formally established in 1993 by the Maastricht Treaty. On the face of it, it is being led by the Council of Europe, fronted by its subsidiary organisation, the Congress of Local and Regional Authorities of Europe (CLRAE). Its remit extends beyond the boundaries of the European Union, to include candidate and other countries. But the Council and CLRAE is only part of a bewildering network of official and semi-official organisations pursuing the regionalisation agenda.

Other structures, which are not formally part of neither the EU nor the Council, include the Assembly of European Regions (AER), formed in 1985, and the Eurocities organisation, established in 1991. But the key organisation, at the heart of the whole project, is the Council of European Municipalities and Regions (CEMR), formerly the CEM (Council of European Municipalities). This was set up in 1951. The UK body most involved appears to be the Local Government International Bureau (LGIB) which acts as the European and international arm of the Local Government Association for England and Wales (LGA), an organisation affiliated to the CEMR.

Through the CEMR, the regionalisation project seems to be an enterprise independent of the European Union, although stemming from the same political philosophy and sharing the same objective of political integration. It is largely a 'bottom up' operation, primarily driven by a loose confederation of local and municipal politicians, with the help of some national figures, organised through national local authority associations.

In this paper, the process of regionalisation is examined, its history, objectives and mechanisms, with particular emphasis on the organisations involved.

## History and Organisations

The genesis of the regionalisation movement in fact pre-dates the European Union and even the European Coal and Steel Community of 1952, with the establishment of the Council of European Muncipalities in 1951. However, the original impetus was the town twinning idea which was conceived after the Second World War. The ethos was very much in line with the philosophical well-spring which drove the movements which were eventually to become the European Union, i.e. *"the goal of protecting Europe from another fratricidal war in the future"*. The idea was to bring populations closer together, *"separated up till then by national rivalries, which gave rise over many centuries to prejudice and hate"*. But this action was to be carried out beyond frontiers and, unlike the European Union which acts at a national level, within the framework of local authorities.

The ambition was given effect by fifty Continental mayors who joined together to found the Council of European Municipalities in January 1951. They took the view that Europe would not be able to overcome its difficulties without unifying its forces. By inventing a new form of relationship between municipalities, they introduced the notion of a 'Citizens' Europe' to be brought about by means of twinning, initially concentrating on linking French and German towns.

It required each municipality formally to declare an oath: *"to maintain permanent ties between our municipalities, to encourage exchanges in all domains between their inhabitants so as to develop, through a better mutual understanding, the notion of European brotherhood, to join forces so as to further, to the best of our ability, the success of this vital enterprise of peace and prosperity: the union of Europe"*.

Before the twinning movement had been formally launched, in 1949, the Council of Europe, Europe's first political intergovernmental organisation, had been set up. Eight years later, heads of state on the Council agreed to set up the European Conference of Local Authorities, which first met between 12 to 14 January 1957. It was to be *"a consultative organ genuinely representing both local and regional organisations in Europe"*.

Shortly afterwards, the Treaty of Rome was signed by heads of states of the six member states, but regional policy was confined to *"reducing the differences existing between the various regions and the backwardness of the less favoured regions"*. The European Commission, in fact, did not present the first memorandum on regional policy until 1965, and did not found a separate General Directorate, responsible for regional development, until 1968. Clearly, regionalisation – as in the development of new regions – was not a central policy. Merely, existing regions were seen as geographic and economic entities through which to channel aid.

Instead, regional development found an outlet outside the formal structure of what was to become the European Union, with the creation of a galaxy of inter-regional associations. This process started in 1971, when the Association of European Border Regions was formed, followed by the Working Community of Alpine Regions in 1972, the Conference of Peripheral Maritime Regions in 1973 and the Association of Alpen-Ardia. 1982 saw the formation of the Working Community of the Western Alps; 1983 the Working Community of the Pyrenees; in 1984 the Association of European Regions of Industrial Technology, followed by the Jura Working Community in 1985. But, in common with the European

Union ethos, all these organisations shared the central aim of the eventual union of Europe.

### The Next Step

It was in 1985 that something of a breakthrough in the regionalisation programme was achieved. The eight regional associations, plus the newly-formed Capital City Regions Network, and a group of 47 regions, formed the Council of European Regions. Chaired by Edgar Faure, former French Prime Minister and President of the Region of Franche-Comté, this Council went on to become the Assembly of European Regions (AER).

An overtly political organisation, its 'mission' was to bring together the regions of Europe and to allow them to act in the construction of Europe and European integration. Currently, one of its main aims is to promote *"the institutional participation of the Regions in decision making processes and in order to do this increase their active role in the construction of Europe, especially in the work of the Council of Europe, of the Organisation for Security and Cooperation in Europe and of the European Union"*.

But the central event of 1985 took place in the Council of Europe, with the promulgation of a Charter of Local Self-government. Sponsored by what had now become the Standing European Conference of Local Authorities, the agenda had actually been set by the Council of European Municipalities which, in 1984, had become the Council of European Municipalities and Regions (CEMR).

It is the CEMR which, having *"originated from the conviction that local and regional authorities have a fundamental role to play in the realisation of the European Union,"* is the driving force behind the regionalisation programme. It claims to provide *"popular support for Europe through the efforts of local politicians who are the elected representatives closest to the citizens"* and *"brings together more than 100,000 local and regional authorities in Europe, federated through 42 large national associations of local and regional authorities in 29 countries."* Interestingly, although it incorporates in its logo the EU's 'ring of stars', the CEMR is an international non-profit Association under the French law of 1901. It is currently presided by Valéry Giscard d'Estaing, President of the Auvergne Region.

The Charter itself enshrined the right of local governments in Europe to exist and required that they should be *"endowed with democratically constituted decision-making bodies and possessing a wide degree of autonomy with regard to their responsibilities, the ways and means by which those responsibilities are exercised and the resources required for their fulfilment"*. In terms of regionalisation, the Charter entitled local authorities to form consortia with other local authorities *"in order to carry out tasks of common interest"* and to belong to international associations of local authorities, which had to be recognised in each State. It was ratified by 23 States, including the UK, and signed by 8 others.

> The regionalisation project seems to be an enterprise independent of the European Union, although stemming from the same political philosophy and sharing the same objective of political integration

A breakthrough, in terms of the EU, arrived in 1986 with the passing of the Single European Act which, in Article 103, established the European Regional Development Fund, intended to *"help redress the principal regional balances in the Community, in regions where development is lagging behind and in declining industrial regions"*. While not requiring the development of regions, this initiative created a powerful incentive for the formation, as a conduit for attracting Community funds.

Other milestones came in 1991, with a Charter of the Regions of the Community, produced by the European Parliament and the creation of 'Eurocities', another association which extended the regionalisation programme into cities. Then, in 1993 came the Maastricht Treaty which created the Committee of the Regions, the first formal regional institution within the European Union. However, in its own words: "*… it would be wrong to see the Committee as a vehicle for regionalism. Our aim is not to preach all-out regionalism to the detriment of the national or European dimension. On the contrary, the Committee of the Regions sees itself as the champion of partnership.*" It was merely a consultative body with rights to be consulted as a matter of course on all areas likely to have repercussions at local or regional level: economic and social cohesion, trans-European infrastructure networks, health, education and culture.

What really drove the agenda forwards was the Standing Conference of Local and Regional Authorities of Europe which, in 1993, organised a Conference in Geneva on *"Regionalisation in Europe: Evaluation and Perspectives,"* at the invitation of the Republic and Canton of Geneva. This tied in with the first Summit of Heads of State and Government of the Council of Europe in Vienna, which called for the setting up of the Congress of Local and Regional Authorities of Europe (CLRAE). This was agreed by the Committee of Ministers, in January 1994, and CLRAE became a statutory body within the Council of Europe, replacing the Standing Conference. Its aim was to develop regionalisation in countries which did not (yet) have regional authorities.

The Geneva Conference, in its final declaration, had invited what was shortly to become the CLRAE to draw up a *"European Charter of Regional Autonomy"* along the lines of the European Charter of Local Self-Government. It started work at its first session in June 1994, setting up a working group which produced a first draft of the text for a hearing in Hannover on 22 March 1996. This text, after a few amendments, was referred to the Assembly of European Regions which declared its support for what had now become the draft Charter.

From this, the group then drew up a text which could become a Council of Europe convention. It offered *"essential elements for the definition of a region, and in particular the foundation of regional self-government, regional self-government itself and regional attributions and powers…"* The text was then finalised at a meeting in Paris, whence it was submitted to the 4th session of the Congress and adopted on 5 June 1997. Although not (yet) formally adopted by the Council of Europe, it is this draft that forms the template for regionalisation of Europe.

### The UK Dimension

The key organisation in the UK regionalisation programme is the Local Government International Bureau (LGIB) which acts as the European and international arm of the Local Government Association for England and Wales (LGA). It also represents the Northern Ireland Local Government Association (NILGA).

The LGIB is a company limited by guarantee and it involves itself in European and international networks for local and regional government and, in particular, acts as the UK member of the CEMR.

With the agenda having being determined on a European level, the current Labour government is now committed to taking forward the regional governance agenda in England. However, while only now preparing a White Paper on regional governance, it has already established regional chambers in each of the eight English regions (outside London). This builds on *"pre-existing arrangements"* (in some regions) of what are called *"partnership working between local authorities and regional partners"*.

Each chamber comprises 70 percent local authority members and 30 percent drawn from other sectors, including higher and further education, the Confederation of British Industry, the Trades Union Congress, chambers of commerce, the small business sector, parish and town councils, the National Health Service, voluntary organisations, Learning and Skills Councils, regional cultural consortia, rural and environmental groups and other regional 'stakeholders', conforming with what the EU calls 'civil society'.

Having been established without prior democratic consent, each chamber has been formally recognised by the Government as being representative of the interests of the region in relation to the work of the region's Regional Development Agency (RDA). They operate within the same boundaries of the Government Offices in the regions and the RDAs. Their constitutions vary from region to region.

The chambers, some of which have already adopted the title 'assembly', include the North West Regional Assembly, The North East Regional Assembly, the Regional Chamber for Yorkshire and the Humber, West Midlands Regional Chamber, the East Midlands Regional Assembly, the East of England Regional Assembly, the South East of England Regional Assembly, and the South West Regional Assembly. These 'assemblies' are represented by the English Regions Network (ERN), which was formed in early 2000. Currently, the ERN chairman is Councillor Robert Jones, CBE.

On 9 March 2001, the government announced plans for a new fund of £15m for the chambers, to be made available over three years. The fund's claimed purpose was to enable *"the chambers to enhance their scrutiny role* vis à vis *the RDAs,"* and thus *"strengthen regional accountability"*.

According to the government, "*Ministers believe that the creation of directly-elected regional assemblies, where people want them, could play a part in bringing democracy closer to the people, strengthening accountability and in helping re-invigorate the political process.*" However, we are told that elected regional assemblies are not going to be imposed on regions. People will be given the choice through regional referendums. The Government is keen to encourage a wider public debate "*about the shape regional government takes*".

### The Nature of Modern Democracy

It is ironic that the regionalisation project, intended to play a part in *"bringing democracy closer to the people"* is the culmination of a series of initiatives developed in a European context, decided by little known groups and organisations in Paris, Geneva, Vienna, Strasbourg and, of course, Brussels, completely by-passing the normal British democratic institutions. And only now, when the agenda has already been decided – with many of the structures already in place – is a White Paper to be published. And through this, the public is not to be asked whether it approves of regionalisation, *per se,* but merely *"about the shape regional government takes"*. Such is the nature of modern democracy.

The point is that the British public have not been 'engaged' in what amounts to a substantive – and alien – revolution in the nature of local government. Structures and traditions going back centuries have been wilfully abandoned, all to conform with what is, essentially, a European agenda. But for all that the project has been determined on a European level, however, it is not ostensibly a European Union 'plot'. Rather, it is a well-intentioned, if misguided attempt to rationalise and improve local government on a European level, inspired mainly by local politicians in Europe, who have used European institutions to pursue this goal. Only latterly does it seem that the EU has appreciated the utility of these efforts and directed funding at encouraging them, all in the interests of political integration.

And, if there are to be objections to the process of regionalisation – other than the valid and well-founded criticisms that regions are far too remote and detached to be able to manage effective local government – it is the fact that local government structures are being designed and exploited, not primarily for the purpose of securing good local government, but for the fulfilment of a greater political dream, the unification of Europe. However valid and desirable that objective might be – which in itself is debatable – that is not the purpose of local government. On this basis, the regionalisation programme is not in the interests of local people, nor of good governance.

*Dr Richard A.E. North is the author of* The Death Of British Agriculture: The Wanton Destruction of a Key Industry, *Duckworth, 2001.*

## *… news in brief*

**Dutroux accused Belgian judiciary of cover-up**

The Belgian paedophile, pornographer and murderer Marc Dutroux, has accused his country's judicial authorities of being unwilling to investigate the paedophile network of which he says he was a part. A Flemish TV journalist who had been smuggled into his cell by a politician interviewed Dutroux secretly on television. He said that he had procured under-age girls for a paedophile sex ring but that the Belgian authorities did not want to investigate who else might have been involved. This statement confirms the deeply-held suspicion of many Belgians that Dutroux, who was arrested in 1996 and has still not come to trial, is being protected by the state out of fear of whom he will name when he is in the dock. For years there have been rumours of orgies organised by Dutroux's accomplices in Brussels in which, among others, a European commissioner supposedly participated. But Dutroux did not name anyone in this interview, which was recorded on 4th January and broadcast on Monday evening. Instead, he bemoaned the fact that only he and his wife were being investigated. Dutroux said there was "a network involved in many different kinds of crimes" but that "you can't count on the judicial system in this country". "The judicial authorities want to put everything on me and Michèle (Michèle Martin, his wife). They don't want to open the door on an enquiry which may lead to something else because then they will enter into a nest of scorpions and they don't want to go there." Dutroux went on, "Why stop at the girls. These networks are involved in all sorts of crimes. The thing is that I was in contact with certain people." [*La Libre Belgique*, 21st January 2002]

# The London Art Market Catches a Cold

*by Dr Bunny Smedley*

For the London art market, 2002 is off to a particularly uncertain start. In early January the Lefevre Gallery announced its imminent closure. Martin Summers, managing director and a partner in Alex Reid & Lefevre, explained the decision to the *Daily Telegraph*: *"Fewer and fewer people have been coming to London to buy the kind of art we specialise in, due both to the pre-eminence of New York and to the effect new EU taxes are having on the British market. We feel that a big commercial gallery such as this with its high overheads is now a thing of the past."*[1]

Since the demise of Lefevre is only the most recent in a string of high-profile gallery closures and sales – casualties have included such well-known names as Spink, Colnaghi and Anthony d'Offay – it's worth examining the circumstances that drove Lefevre to closure, and considering whether London can realistically hope to retain its stature as Europe's leading fine art market, and as an internationally significant art world centre.

The *"new EU taxes"* to which Mr Summers refers are twofold, and have both been widely discussed, both in the pages of the *European Journal* and elsewhere.[2] One is the increased level of Value Added Tax (VAT) payable on art entering Britain from outside the European Union. The other, and perhaps even more destructive one, is *droit de suite* – a resale levy, under which the seller of any work (including ceramics, photographs, textiles, manuscripts and 'readymades' as well as painting and sculpture) made by a EU artist is required to pay a royalty to that artist, or to his heirs, on any sale made up to 75 years after the artist's death. In 2001 the UK government proved unable or unwilling to defend British art markets against the full force of *droit de suite*, which will now take effect in 2006 on sales above EU 1,000 – and given the current state of the euro, this means almost all gallery sales. The transition period allowed for the imposition of *droit de suite* was slashed from ten years to six, and may be further truncated.

It would, of course, be wrong to suggest that EU harmonisation policies were the sole cause behind the closure of Lefevre. Part of the problem was the nature of Lefevre's specialist market. The gallery, which has been trading in more or less its present form since 1926, has long been recognised as one of the world's most respected dealers in Impressionist paintings. Increasingly, however, such work is being sold from private collections into public ones; once there, it tends to stay put, starving the market of important work and big sales. Lefevre's decision in 2000 to start trading in contemporary art was an attempt to confront this reality, but one that came too late.

Ironically, another policy introduced under the threat of single market harmonisation – in this case, one far more attractive in the eyes of free market enthusiasts – may inadvertently have tapped a nail or two into Lefevre's corporate coffin. In 2001, Sotheby's and Christie's were allowed to break a monopoly dating back to 1556, which had barred non-French auction houses from holding public sales in France. It is widely expected that this move will inject a bit of life into France's sclerotic auction market, which now handles only 6 per cent of global auction sales. *"France lost the pre-eminent position it enjoyed until the 1960s because it could not adjust to the globalisation of the market,"* according to François Curiel, President of Christie's France.[3] But while there is general agreement that most significant paintings – and hence most high-profile sales – will continue to be sold through New York, it is also possible that now, for the first time in decades, Paris is in a position to steal away some of London's art market. The threat is perhaps greatest in the particular area of Lefevre's specialisation – French paintings and drawings. As London's tax regime grows relatively more harsh, buying French art in France, whether from galleries or at auction, seems an ever more appealing prospect.

In his explanation of the demise of Lefevre, Mr Summers also suggested that the *"big commercial gallery"* with its *"high overheads"* was *"a thing of the past"*. This is doubtless true, and is reflected in the experiences of other London galleries. In March 2000, Christie's decided to sell off the Far Eastern art specialists Spink, making the commercial decision that – particularly in a climate where Far Eastern sales are increasingly moving to New York, Taiwan and Hong Kong – weak profits could no longer justify retaining Spink in its handsome King Street headquarters.[4] In September 2001, the pre-eminent contemporary dealer Anthony d'Offay surprised virtually everyone with his decision to close his gallery and concentrate on trading as a private individual. Meanwhile, in November 2001, Colnaghi – London's oldest art dealership, with a strong history of selling Old Master paintings – was parcelled off as a shell company, while its senior staff left to set up their own private dealerships.

In other words, the contours of London's art world are changing, and changing fast. Familiar names are vanishing. Part of this is as simple, and as complex, as a change in art-world style. A decade or two ago, an art-lover visiting London would need to learn his way around St James's, feel comfortable in the club-like interiors of its older galleries, brave the bespoke suits and clipped tones of the grander dealers – whereas today a tube-ticket to Shoreditch and a credible pair of trainers might be more to the point.

But there are changes that follow on from this. The distinction between public and private is no longer as clear as it once was. Where once it was unusual for a 'young' artist to be given a major solo show in a public collection, rather than in a private gallery, it is now entirely unremarkable. Given that this is the case, why bother to maintain an expansive, expensive, centrally-located private gallery?[5] By the same token, the line between dealer and collector – never absolute – looks ever more permeable, as the example of Charles Saatchi makes abundantly clear.[6] Private dealers have the benefit of flexibility (not least in terms of international boundaries); the larger auction houses have the benefit of scale (not least in terms of international operations); almost inevitably, it is the smaller, more specialised, more entrenched galleries which end up feeling the pressure. It was undoubtedly rational for the partners of Lefevre to do what they did. Pressure from destructive EU policies was only one of several reasons behind the decision, although under the circumstances it can hardly have helped.

And yet it is impossible not to sense, in these closures, a chill wind passing through Europe's largest and most successful art market. Spink, Colnaghi, d'Offay, Lefevre: all of these were, to coin a phrase, 'galleries of destination' – places which serious collectors (including buyers for public collections) would seek out on purpose, in many cases travelling to London specifically to do so. Such galleries put London on the map in terms of Far Eastern art, Old Masters, French Impressionists, and 'Modern Masters' of the Contemporary scene. In economic terms, there can be little doubt that this had a 'trickle down effect' which benefited a host of related enterprises – smaller galleries, framers, shippers, restorers, insurers, book dealers, even hotels and restaurants – in ways that are impossible to quantify, but which will be missed once they are gone. As the costs of increased VAT and newly-imposed *droit de suite* begin to bite, we can expect more closures, more losses of income, more sales transferred to increasingly appealing markets elsewhere.

Such losses are, however, damaging on another level as well. Part of London's long-standing art world success has been predicated on the complex cross-fertilisations that take place between artists of the past and present, the conflicting currents enlivening the local art scene, that indescribable but undeniable 'buzz' that makes a place exciting for anyone who cares about art. The closure of a few galleries does not, in itself, change that. London is, and will doubtless remain for some time, one of the world's most important art world centres. At the same time, however, it is difficult not to worry that, bit by bit, successive British governments have allowed the EU to erode some of the very qualities that, since the eighteenth century, have allowed London to reach and retain this stature. And in these terms, the closure of Lefevre is anything but a good omen.

1 Colin Gleadell, "London out of the picture as gallery closes", *Daily Telegraph*, 12 Jan. 2002.

2 See, *inter alia*, Bunny Smedley (2001), "How the EU will destroy Britain's art market", *European Journal* 8(7): 22-24 (June); Rt Hon. David Heathcoat-Amory, MP, (1999), *A Market Under Threat: How the European Union could destroy the British art market*, London: Centre for Policy Studies.

3 Quoted by Alan Riding, "Legal Changes Allow Sotheby's and Christie's to Hold First Sales on French Soil", *New York Times*, 28 November 2001. It is worth noting, though, that Christie's is presently owned by the Frenchman François Pinault, and Phillips, de Pury & Luxembourg (which in turn owns Bonhams) is owned by the French company LVMH Moët Hennessey Louis Vuitton.

4 See Elspeth Montcrieff, "Death of the Oldest Art Dealership in the World", *The Art Newspaper*, 3 March 2000.

5 One sign of this is the way that reviews of private exhibitions have virtually vanished from newspapers, and have become both less exhaustive and less frequent even in specialist art publications.

6 For Charles Saatchi as a collector-dealer, see Julian Stallabrass (1999), *High Art Lite: British Art in the 1990s*, London: Verso, especially pp. 196–9.

*Bunny Smedley holds a Ph.D. in history from Cambridge University. She writes about art and related matters.*

## *… news in brief*

**Polish Eurosceptic fined**

The main Eurosceptic politician in Poland, Andrzej Lepper, has been fined nearly $5,000 for calling President Kwasniewski "a layabout". A previous verdict on the same charge, against which Lepper had appealed, had sentenced him to 16 months' imprisonment. The silence with which the international community has reacted to this judgement is impressive, considering how it protested for years when the late President of Croatia, Franjo Tudjman, sued a satirical magazine for insulting him – and lost. Tudjman was always branded a tyrant for trying thus to silence the press. The indulgence shown towards Kwasniewski may have something to do with Lepper's European politics. Following the announcement of the subsidy proposals for new member states, Lepper said that if the EU failed to propose better accession conditions for new members then he will start persuading Poles to vote against joining the EU at all. [*Radio Free Europe Newsline*, 1st February 2002]

**Germans attack USA policy towards Iraq**

The German Chancellor and the Foreign Ministry have distanced themselves from the threats being made by the United States against Iraq. Chancellor Schröder told *Newsweek* that he did not expect a unilateral American action against Iraq, while a government official in the Foreign Ministry spoke harshly against the Americans "settling old scores" and using the war against terror as an excuse for finishing off the Gulf War. The leader of the Green Party (which controls the Foreign Ministry) said that an American attack on Iraq would endanger the coalition against terror. She definitely ruled out any German participation in such attacks. In his *Newsweek* interview, the Chancellor said that his government was determined to pursue "a resolute policy" against Baghdad but that this did not mean military action. Politicians in the Christian Democrat and FDP Liberal parties also warned of the "incalculable risks" of a war against Iraq.

**German exports to US drop sharply**

As if all this bad news were not enough, it has been announced that German exports to the US and other countries of the European Union fell sharply last November. With respect to the same period in 2000, German exports to the US fell by 9.7% and by 5.6% to other countries in the EU. Exports to France fell by 8.6% and to Britain by 3.5%. This last figure shows, despite what pro-euros claim, that exports do not depend absolutely on exchange rates. Pro-Europeans in this country are always claiming that the weak euro is hampering British exports to the euro zone. But if that relationship of cause and effect really existed, then German exports to Britain should be cheaper for British buyers and should therefore have risen. [*Handelsblatt*, 6th February 2002]

**Have the Americans killed off NATO?**

A commentator in *Die Welt* has suggested that the United States has now reduced the Atlantic alliance to irrelevance, after years in which the Europeans were always suspected of being the ones trying to undermine it. Jacques Schuster points out that one of the lessons of the war on Afghanistan is that the USA now regards NATO at best as an irrelevance and at worst as an obstacle. Although Article 5 of the NATO treaty was invoked after 11th September, the Americans have effectively ignored the alliance ever since. Schuster says that NATO will soon become like the OSCE – full of members and effectively useless. He claims that, at the NATO summit in Prague in November 2002, the Americans may well agree to throw open membership of the alliance to a large number of countries – for the simply reason that they no longer really care who is in it. There might even be room for some special accommodation between NATO and Russia. After all, Russia has already proved to be a compliant partner in the American operations in Central Asia and in the "war on terrorism." Schuster says that some in the American administration do not even rule out full Russian membership of NATO. [Jacques Schuster, *Die Welt*, 31st January 2002]

# The Real Democratic Question

*by Dr John C. Hulsman and Sudabeh Koochekzadeh*

In March 2002 a grand convention to draft a constitution for Europe will open in Brussels. This convention was unveiled with much pomp and ceremony at the Laeken summit held in December 2001 and is designed to debate nothing less than the political future of the European Union. Valery Giscard d'Estaing, a former French President and passionate federalist, who will chair the affair, modestly compares it to the Philadelphia convention that gave birth to the American constitution.[1] The obvious danger is that this overarching convention will end up debating many under-arching esoteric notions of democratic governance – Qualified Majority Voting, the German triple veto and the weighting of the voting in the European parliament; issues in which the average member of the European public has little interest. Sadly, the one issue that ought to be vigorously debated by the convention's members will not be discussed: the EU's proclivity to meddle in the domestic affairs of its member states. Rather than trying to do less and do it better, a number of incidents in the past two years lead to the unmistakable conclusion that the EU wants to meddle more in its member states' affairs and be even less concerned with genuine democratic governance.

In early 2000, the EU took the unprecedented step of declaring that 14 EU governments were prepared to sever official government contact with the 15th, Austria. The EU also threatened to withdraw support for Austrian candidates nominated for positions in international organisations and refused to have meetings with Austrian ambassadors except regarding technical matters. The reason – for having the gall to form a governing coalition that includes the conservative Austrian People's Party (OVP) and the populist Freedom Party led by Jorg Haider. Ironically, Belgian Prime Minister Guy Verhofstadt, in calling for sanctions against Austria, wrote of the need to preserve the *"democratic values"* and *"common civilisation"* of the EU's member states.[2] Though Haider supports some toxic political views – he is vehemently anti-immigrant and more than a touch xenophobic – the Freedom Party has considerable support in Austria. To say that the Freedom party did not deserve a place in the Austrian government was to deny the democratic will of the Austrian people. For the EU to brazenly attempt to strong-arm Austria illustrates the contempt felt by EU officials for the sovereignty of its members. Worse, it demonstrates an underlying lack of faith in democracy. The EU admitted as much when, after nine months of embarrassingly petty snubs and slights of Austria's government ministers (meetings with Austrian ministers were cancelled, ambassadors were turned away from receptions[3]), the penalties were quietly withdrawn. Nor did the EU sanctions result in the Freedom Party's welcome electoral decline. Mr Haider's defeat in the state elections in Vienna last March, with his share of the vote falling from 27% to 20%, instead illustrates that democracy still flourishes in Austria. Indeed, most commentators put the Freedom Party's decline down to the fact that it had to defend its record inside government; polling consistently showed that this, and not the EU's ham-fisted efforts to isolate Austria, lead to the party's electoral setback.[4] The EU clearly did itself no favors by violating its principles in the process of 'defending' them.

Likewise, last year the European Commission criticised Ireland's budget plans for 2001, urging it to adopt less expansionary economic policies. According to the EU, these plans did not meet the broad economic policy guideline agreed to by the European Council in June 2000 in Feira in Portugal. Specifically, the EU finance ministers' reasoning was that they feared this 'pro-cyclical budget policy' would lead to an overheating of the Irish economy causing a further rise in inflation, which would ultimately have a negative effect on the whole euro area.[5] This marked the first time the Commission used its powers to intervene in a member state's fiscal affairs. As Ireland's Deputy Prime Minister Mary Harney put it: *"It is amazing that our EU partners would want to punish the most successful economy in Europe… They really ought to be thinking of ways to emulate our approach, not to stifle it."* Thus far, Ireland has been a model country in the eurozone. While mainland Europe struggled economically throughout most of the 1990s, Ireland (between 1995–2001) attracted nearly half of all new US investment in Western Europe. Ireland is sitting on the EU's largest budget surplus and its second lowest debt to GDP ratio. In such circumstances, Finance Minister Charlie McCreevy argued that it would have been unrealistic to tighten fiscal policy as the EU demanded, especially since individual Irish tax rates were still on average higher than their EU partners'. The bottom line is that yet again the EU egregiously interfered in the domestic matters of a member state – just another illustration of the EU's endemic authoritarian tendencies.

Finally, Europe's row over the political shift in Italy earlier this year is a more recent case in point. Many European leaders voiced their concerns when Italy's Foreign Minister, Renato Ruggiero, resigned in protest after several of his colleagues made disparaging comments about Europe's common currency. Economic Minister Guilio Tremonti and Defence Minister Antonio Martino, both members of the Forza Italia party, gave the euro a distinctly lukewarm reception. Another cabinet minister, Umberto Bossi, said he *"could not care less about the euro"*.[6] Following Ruggiero's resignation, Prime Minister Silvio Berlusconi said he was taking over the Foreign Affairs portfolio himself and would use the next six months to revamp the Foreign Ministry and all of Italian foreign policy. In the wake of this shocking news, France's Finance Minister, Laurent Fabius, scolded the Berlusconi government, grandly insisting that there is a *"need for a clarification at the level of the heads of government… I think there needs to be a confirmation of the European commitment."*[7] Berlusconi initially tried to reassure European leaders of Italy's continued solidarity with EU principals. However, the Prime Minister drastically changed his rhetoric in a key January 2002 policy speech before parliament in Rome saying that he would not allow anyone else to impose their vision of Europe on Italy. *"No one, I repeat no one should treat us as though we had only limited sovereignty."*[8] He said he would not tolerate being placed under surveillance by other European governments. While describing himself as an *"euro-enthusiast"*, Mr Berlusconi insisted he was also an *"euro-realist"*. According to Berlusconi, though *"European integration is under way … the nature, the dimension, the procedure and the constitutional profile of this cycle of integration is not a book that has*

Jump to Contents

*already been written. And it's not a manual of prescription and dogmas which have to be applied without discussion.*"[9] Rightly so. If the EU is to evolve into a genuine democratic entity, it must be more willing to roll with the punches of its members. Not every euro-realist (or dare we say every eurosceptic) should be treated as a democratic outcast. Perhaps it is Brussels, and not those who hold principled disagreements with the present direction of the EU, who need to take the time to reread Jefferson.

A primary reason for the EU's bossiness in each of these cases is the lack of democratic underpinnings for the entire European project. As Larry Siedentop asks of the current European leadership: "*where are our Madisons?*" The founders of the United States, whatever their preference for a strong or weak central government, couched their arguments in the language of personal freedom. It is hard to imagine any of the current leaders in Europe using similar language to bolster their vision of the EU's future. As the *Financial Times* commentator Martin Wolf notes, the EU is currently largely unaccountable – having an unelected commission with a monopoly of legislative initiative; a supreme court that takes promotion of further integration as its supreme reason for existing; a remote, polyglot parliament; and a Council of Ministers acting as part executive, part legislature, but always meeting in secret. There is not a democratic deficit in Europe; there is a canyon that exists between the rulers and the ruled.

Thus, it is not surprising that the basic institutions and policies of the EU are unloved by the European populace. A poll taken in December 2000 in the five largest EU countries asked if European central power should be increased at the further expense of national sovereignties. Only 37% thought this should be the case, with 52% disagreeing.[10] A poll in seven countries that adopted the euro, the policy at the forefront of further integration, showed that, on average, 41% are happy to have adopted the single currency while 52% are dissatisfied.[11] Perhaps the EU's suspicion of democracy flows from the fact that most Europeans do not agree with their elites about the present course of the European experiment.

These two charges – that the EU harbors contempt for a Europe of discrete nations and relies too heavily on elitist decision-making – have often been cited as the Achilles' heel of the entire European experiment in supranational integration. A fundamental faith in the electorate must rest at the heart of a democratic system, a faith that in each of these cases the EU did not possess. If the eurozone countries want to introduce a greater and more profound connection between the Brussels ruling elite and the people of Europe, they should stop with grand political pronouncements solely designed to promote ever-further integration. Instead, on issues relating to democracy, they should take a long, hard look in the mirror.

1 "In Search Of Good Europeans," *The Economist*, 26 January 2002.
2 Brian M. Carney, "Politics of Fear: Democracy and Demagoguery", *Wall Street Journal,* 28 March 2001.
3 Patrick Rahir, "Austria's embrace of far right alarms Europe," *Agence France-Presse,* December 2000.
4 "Vienna says no to Haider: A blow to Austria's Jorg Haider: The far-right Freedom Party of Jorg Haider took a beating in the city's election", *The Economist*, 31 March 2001.
5 "Ecofin: Ireland Reprimanded", *Dresdner Bank Trends*, 18 June 2001.
6 "Berlusconi calms cabinet euro row", *BBC News*, 4 January 2002.
7 "Berlusconi says Italy backs EU", *BBC News*, 8 January 2002.
8 Melinda Henneberger, "Berlusconi Says Italy Won't Take Europe's Orders", *New York Times,* 15 January 2002.
9 Denis Barnett, "Rome Will bow to no-one says Berlusconi," *Agence France-Presse*, 14 January 2002.
10 William Pfaff, "Europe's Unification Debate Needs the Sound of Fresh Voices," *International Herald Tribune*, 11 January 2001.
11 "Growing opposition to euro in Britain and on the Continent," *no-euro.com*, 12–18 Jan. 2001.

*Dr John C. Hulsman is the Research Fellow for European Affairs at The Davis Institute for International Studies at The Heritage Foundation in Washington, DC. Ms Sudabeh Koochekzadeh is the Special Assistant to the Deputy Director of the Davis Institute.*

## *… news in brief*

**France "losing its European leading role"**

According to a commentator, Britain has decisively overtaken France as the leading European military power. "It may be a brutal awakening," writes Arnaud de la Grange, "but the Americans had more need of Uzbakhistan than of France in their Afghan war." He says that the country has been marginalized militarily and that now only the British count for anything in the war against terrorism. "For the United States, the United Kingdom has become the only credible partner, while the French have been dropped by their old rivals, the Americans." The commentator goes on to say that when Tony Blair called for a European defence force at St Malo in 1988, everyone was surprised because they were used to London's Atlanticism. "But the British Prime Minister had simply realised that he could take the military leadership of Europe."

Whereas ten years ago, France spent more on her armed forces than Britain, the position has now been reversed, as British spending has increased by more than 10% in 3 years. The British have always had a professional army, he goes on, and their decision to depend on the USA in nuclear matters has at least saved them some money. [Arnaud de la Grange, *Le Figaro*, 5th February 2002]

**Germany officially enters recession**

The Federal Office of Statistics in Wiesbaden has said that Germany was technically in recession during the second half of 2001. Without giving the precise figure, the office has said that German GDP "shrank slightly" in the last quarter of last year, after having shrunk by 0.1% in the third quarter: according to the standard definition, a country is in recession if the economy shrinks in two quarters in succession. The total figure for 2001 is a growth rate of 0.6%, in other words far below the 3% growth rate registered in 2000.

This figure means that Germany is the weakest economy in euro zone and they are the worst figures since the German economy shrank by 1.1% in 1993. It is also below the official government estimate of 0.75% growth for 2001. Now, economists are saying that only the United States can help Germany out of recession because any pick-up in the German economy will depend on increasing exports to America. According to the German press, the official government prediction of 1.25% growth for 2002 is now also being revised downwards to 0.75%. The Chancellor, Gerhard Schröder, said that unemployment would rise in January and in February. It was already running at 3,963,000 in December. [Philippe Ricard, *Le Monde*, 18th January 2002; *Die Welt*, 17th January 2002]

# Who will be First to Leave the Eurozone?

*by Struan Stevenson, MEP*

The conventional wisdom in many British boardrooms is that staying out of the eurozone is bad for us. According to the euro-enthusiasts, our 'failure' to abolish the pound will only serve to make life harder for the corporate sector in what is bound anyway to be a tricky twelve months, with recession possible in the United States and the United Kingdom, and already under way in some European countries. In any case conventional wisdom said that the euro would be strong and it has fallen in each year since it was launched.

So, the conventional wisdom has been wrong. Britain, with its relatively open, liberal business-friendly environment created by Tory Governments, and with a sound monetary system under the independent Bank of England, continues to perform well on any international comparison of advanced economies.

Of course, the strength of sterling is not absolute – for instance, the pound has weakened against the US dollar. The problem lies not in the strength of the pound but in the weakness of the euro, which has been so persistent because it has so many causes.

The basic one, as with any falling currency, is that more people want to sell it than to buy it. This can be a short-term movement, sparked off by some bad news, but for a basically sound currency that sort of fluctuation will soon be corrected. The astonishing thing about the euro is that it has continued to drop lower and lower even when there has been good news. This points to a long-term problem.

The big difficulty for the euro lies not in 'speculation', as some would call it. It lies not in the eurozone's current account, the sum of daily transactions in the single currency. It lies instead in the capital account, in decisions about investment which affect the EU's entire future, and where there has been a steady outflow from the eurozone.

What this means in practical terms is quite simple. It means companies will not invest in the sclerotic economies of the eurozone, with their excessive burden of taxation and regulation. That includes companies which belong to the eurozone and which have their headquarters in it.

That includes, above all, German companies. Germany is now in a phase of net disinvestment, as her own companies move their production to freer economies, to Central or Eastern Europe for simpler manufacturing processes or to the US and Britain for more complex ones.

For example, part of the old British car industry has become German by ownership. When such cross-border mergers and aquisitions take place, companies have to use financial resources other than the euro to acquire new assets. They sell euros to buy pounds or dollars, or indeed zlotys. Such transactions on a large enough scale will depress the single currency.

It is not just German companies that have been playing this game. Spanish companies have been doing so too, especially Spain's banks and other financial institutions. One country where they have been putting their money is Argentina.

Woe betide those who let their political hearts rule their economic heads. Now that the Argentine economy has more or less collapsed, those Spanish banks find themselves in trouble. They stand to lose a lot of money, just like everybody else in Argentina or involved in Argentina. Their reserve base will contract, and with it the credit they can offer – not only in Argentina, but also inside Spain.

This is just the situation dreaded by everyone who joined in constructing the European single currency. It is the notorious asymmetric shock. This referes to a major economic crisis which affects only one or a small subsgroup of the members of the eurozone.

If Spain still had an independent monetary policy, the appropriate action now would be to reduce interest rates and extend credit in the monetary systems to offset the effect of Argentine losses. That option, however, is no longer possible. The European Central Bank alone sets interest rates, and one rate applies over the whole eurozone. I think I can assure you that the ECB will do nothing to ease the Spanish squeeze.

In that case, the burden must fall on Spain alone, on Spanish borrowers, Spanish companies, Spanish incomes and Spanish jobs. Spain will lurch into recession just as other countries start to recover from theirs. At the moment, it is impossible to forecast how far the recession might go. But it could conceivably go so far that the Spanish Government has to consider leaving the euro in order to deal with the nation's problems. Should that happen, the eurozone will start to fall apart.

If one country decides to leave, why should others not follow? After all, the euro is bad not only for the Spanish economy. It is bad also for the German and Italian economies.

Both entered the euro at too high a rate. In the German case, this was because of political commitment to the single currency by the former Chancellor, Helmut Kohl. He was willing to pay a price for his goal of European unity and to go in with an overvalued Deutschmark so as to encourage more reluctant participants. He has certainly paid the price – or rather the four million Germans now out of work have paid it.

In the Italian case, it was the Germans that forced the Government in Rome to take the lira into the euro at a higher rate than it wished, because they feared competition from a cheaper and more versatile economy. It was always doubtful whether Italy could in fact stand the stress of the single currency. This was a virility test to prove the country remained an equal partner with the other original founding member states. The Italians had to pay a price to pass the test and, again, they are certainly paying through the nose, with 10 per cent of their workforce now unemployed. And they have lost the many advantages they ought to have enjoyed from Italian flair and Italian ingenuity.

From the Italian case there is also an object lesson for Britain. Europhiles always talk as though, should the time come, we could simply choose the rate at which sterling would enter the euro. The decision on the rate would be even more important than any decision on membership itself.

If we went in at too low a rate, we would have inflationary strains and asset price bubbles like the Irish and the Finns. If we went in at too high a rate, then we could face permanent deflationary pressure taking all the fizz out of what is at present the most

Jump to Contents

buoyant large economy in Europe. Nobody can doubt that who remembers Britain's membership of the Exchange Rate Mechanism and the terrible recession of 1991–2.

Obviously the answer is to choose the right rate. But it would not be up to us to choose it for ourselves. Even if there were such a thing as 'the right rate' it would have to be the subject of agreement between us and the existing members of the eurozone. Some of them are our fiercest trading rivals. They can see how much more successful we are, and they will have the opportunity to destroy our competitive advantage. If you want to come in, they will say to Tony Blair, there is a price to pay. We will then face the same consequences as the Germans and Italians.

Still, in my view the day when such a decision might have to be taken is receding rather than coming closer. Before Blair ever gets round to doing something about his yearning to enter the euro, the eurozone will start to break up. Now that the German people and the Italian people have experienced for themselves what a single currency means, they are turning to politicians less enamoured of European unity and who have deeper reservations about the price their own voters are having to pay.

In Germany, the Christian Democrats have just chosen the Bavarian leader, Edmund Stoiber, as their candidate to challenge Chancellor Gerhard Schröder at the general election later this year. The campaign will be fought on jobs and wages: *"It's the economy, Dummkopf,"* you might say. Among German voters, the euro has always been unpopular. Had there been a referendum on the single surrecny, Germany would never have entered. If Stoiber wins, we will hear a much more eurosceptic tone from the Chancellery in Berlin.

We are already hearing it from from the Italian Prime Minister, Silvio Berlusconi. He sees the future for his country not in the sclerotic policies of Europe, but in the liberal economic model of the British and Americans. He sees also that the euro may be an obstacle to his programme. He has already got rid of his europhile Foreign Minister. He is worrying fellow European leaders with his plain wish at least to hold back on further integration. I believe Berlusconi would be bold and ambitious enough to pull out of the euro if he believed it to be in Italy's interests. Just look at the reaction of his Minister for Devolution, Umberto Bossi, who said in a recent speech *"I don't give a toss about the euro."* Italy's Finance Minister, Giulio Tremonti, when asked to list the advantages of being in the eurozone said *"I will leave that task to monkeys, faith healers, medicine men, witch doctors and bankers."*

I believe Berlusconi would be bold and ambitious enough to pull out of the euro if he believed it to be in Italy's interests

Even José María Aznar, Spain's Prime Minister, came to Strasbourg recently to outline his plans for the Spanish presidency of the EU. He warned us that unless Europe could create another 40 million jobs in the next ten years we would be plunged into a catastrophic recession. He attacked the burden of regulation and red tape which is strangling European business and industry. He added that only a lighter regulatory touch and lower taxes would create the kind of business environment in which economies can grow.

So time is on the side of the eurosceptics. Strains have already appeared in the eurozone and will only get worse. Instead of tackling the sensible task of making their economies more open and flexible, European leaders chase the will o'the wisp of political union through monetary union. One way or another, this project will fail.

In failing it will do damage all round. I need hardly say how much tougher it has become for British companies to penetrate European markets because of the weak euro. But so far our companies have been coping well, and prophecies of doom have proved false.

The reason seems obvious: outputs may be dearer for the consumers, but inputs are cheaper for the producers. To buy cheap and sell dear has been the essence of business acumen through the ages. With our history as a trading nation, it comes as no surprise that we have not given up in the face of economic problems but found ways to exploit them to our profit.

Even so, if this situation continues over a long period, we seem bound to lose some of our competitive advantage. The beauty of our present position is that sterling's exchange rate ccould then fall, thus restoring our advantage. If we were locked into the euro, the same effect could only be brought about through loss of jobs, incomes and productive capacity. That is the difference between staying out and going in – between having choices about our own economic future and losing control of it. Sovereignty often seems an airy concept, but here we can put real meaning on it.

The so-called 'European Project' is being driven by a political elite who have become past masters at denying in public that they wish to build a federal superstate, while working tirelessly in private to do just that. They know that the single currency cannot survive without a single, harmonised system of taxation. That is why Laurent Fabius, the French Finance Minister, admitted recently that British taxes would have to rise once we join the eurozone. He knows that Europe is facing economic stagnation. He knows that Europe has experienced a clear and massive decline in productivity growth in recent years due to expanding welfare commitments and rising social security costs. Combine this with the demographic time-bomb which will see only around a third of the population of Germany, France and Italy working and paying taxes to meet the soaring costs of health, education and pensions for the other two thirds, and you begin to get the picture. They need British taxes to dig them out of their economic hole.

If the British people are asked in a referendum to replace the pound with the euro, they will, if they vote 'Yes', be burying our nation in a region of policy failure and stagnating living standards set to suffer drastic economic decline in the 21st century. Let us keep the pound.

*Struan Stevenson is a Conservative member of the European parliament for Scotland. He is President of the Fisheries Committee in the European parliament.*

Advertisement for
the Freedom Association
Spring 2002 Conference
at St Stephen's Club, London SW1

# BOOK REVIEWS

## Notes from the Borderland

Edited by **Larry O'Hara**, Issue IV, 2001, ISBN 0-9537434-2-X, 32 pp., £3.00

*Reviewed by Marc Glendening*

If you talk of state initiated conspiracies people at parties start to look at you with a certain concern in their eyes and then make excuses about needing to re-charge their glasses, powder their noses, or employ some other escape strategy. Some people involved in politics are psychologically prone to seeing spooks under the bed and bugs in their cornflakes bowls. And many of us will ourselves to believe in conspiracy theories because they are fun.

That having been acknowledged, we should also not dogmatically dismiss claims that the way in which the British state operates is changing in terms of how far it will go to wage dirty tricks campaigns against groups that challenge government on issues considered fundamental to the interests of the ruling political elite. Clearly there is something more than a little creepy and alarming about the way the current government operates. Ministers and Millbank have consistently spun the line that those opposing it are 'racists' and 'xenophobes'. It was claimed by government sources that the Countryside Alliance and the fuel protesters were heavily infiltrated by fascists. Very recently, an elderly woman whose family complained to the press about her hospital treatment was also branded, you guessed it, *"a racist"* and supposedly confidential medical details were made publicly available.

Larry O'Hara and David Pegg, two left-wing investigative journalists, claim to have evidence that there has been a drive on the part of the security agencies and an 'anti-fascist' publication, *Searchlight*, (which, by its own admission, has close associations to the intelligence services), to smear and disrupt the eurosceptical movement.

The authors cite many examples to corroborate their thesis. One interesting piece of evidence produced is a 'research proposal' by *Searchlight* editor Nick Lowles to the European Movement offering to identify links between eurosceptic groups and racist movements and to then assist in a *"drip flow of information"* to friendly media outlets. In an interesting and possibly telling phrase, the proposal promises that *"This research will be a unique insight into the anti-European network in Britain. Utilising sources inside these organisations, the European Movement will be furnished with information not otherwise easily accessible."*

> There is something more than a little creepy and alarming about the way the current government operates

*Searchlight* and their associates have been so disturbed by the way in which EU-sceptics from across the political spectrum have been getting together that they ran a special feature in their December 2000 issue on the Democracy Movement and warned left-wingers to have nothing to do with us. This followed a march and rally we had organised featuring Labour, Scottish National Party, Green, and Marxist speakers and participants, as well as those from the centre-right. The authors accepted that we were not 'fascists' but still went on to attack us for being 'right wing'. So, here we have a magazine that says its sole *raison d'être* is to expose fascism (a laudable aim), says it is neutral on the EU issue, but which then devotes a lot of time and energy to attacking an organisation that, by its own admission, falls outside of its own specialist remit. Very bizarre. As *Notes From the Borderland* (NFB) reveals, *Searchlight's* pretence of indifference on this issue was also exposed as nonsense when members of its staff spoke at a recent EU financed conference of left-wing MEPs on the issue of how to combat euro-scepticism and right-wing nationalism.

Another important story covered is the way in which MI5 helped to manufacture massively bad publicity for the Referendum Party in the run up to the 1997 general election. This was done by sending an agent, Andy Carmichael, into the National Democrats (formerely the National Front), who then, in turn, infiltrated the RP. Having got himself appointed a regional agent for Jimmy Goldsmith's party, Carmichael then outed himself to the media as a 'fascist' with terrible (and entirely predictable) resulting publicity. Following the election, MI5 then claimed, in an article that appeared months later in the *Sunday Times*, to have ordered their agent to do this in order to help save the RP from electoral sabotage by fascists. Not hugely convincing.

O'Hara and Pegg also detail the way in which those fascists that are anti-EU – some, like the Mosleyite League of St George are, of course, pro-EMU and greater union – such as the National Democrats are trying to pick up new members and influence by parasitically associating themselves with the campaign to keep the pound. This, of course, is exactly what New Labour, the European Movement, and the creatures in the shadows want them to continue doing. Any naive eurosceptics who still take the view that 'my enemy's enemy is my friend' should appreciate that this is a disastrous strategical, as well as ethical, error. Fascists and racists, where and when they are uncovered in the anti-EU movement, should be expelled immediately and told to take a running jump. If NFB is to believed, some of them will, in any case, turn out to be state run *agents provocateurs*.

The authors also describe in fascinating detail the way in which the United Kingdom Independence Party has been deliberately disrupted from the outside. These and many other strange spooky stories and characters are followed up by the authors. While not necessarily endorsing everything said, this is essential reading for all those with the interests of the EU-critical cause at heart.

*Marc Glendening is Campaigns Director of the Democracy Movement.* Notes from the Borderland *can be obtained from: Larry O'Hara, BM Box 4769, London WC1N 3XX. Price £3.00 plus 50p postage.*

# The Pro-European Reader

Edited by **Dick Leonard** and **Mark Leonard**,

Palgrave in association with the Foreign Policy Centre, 254pp, 2002, 0-333-97721-1, £16.99

*Reviewed by Russell Lewis*

This volume of excerpts of speeches, articles, and so on, mostly by famous people, is plainly intended to suggest that practically everybody who has ever counted in the politics of the last half-century has favoured European integration. However the whole enterprise is damaged at the outset by its silly introduction. The following shallow comment is typical: "*… very few people want to turn the clock back, whether by dismantling the channel tunnel, cancelling package tours to Spain and Greece, ethnically cleansing our supermarket shelves, losing the three million jobs which depend on the Single Market, or leaving the European Union.*" Ah! So all the desirable things listed, Spanish holidays etc, are somehow bound up with being part of the European Union! But how can that be, since Canadians, Japanese and Saudi Arabians manage to take holidays in Spain without joining the EU? Again, there is that old chestnut: the three million jobs dependent on trade with mainland Europe. Nobody can seriously claim that these would suddenly disappear if we quit the EU. Trade would not cease, not indeed for lack of bigwigs in Brussels who would like to punish us for daring to leave, but because they export more to us than we export to them. So, according to their mercantilist way of thinking, they would be cutting their own throats.

Further on, the introduction goes all gooey about culture and suggests that the everyday case for further integration with the continent is clinched by the spectacle of "*every supermarket in Britain laden with French cheeses, Greek olives, or Danish bacon.*" According to that line of thought the eager guzzling on our high streets of Big Mac hamburgers, Kentucky Fried Chicken fast food, and Pepsi-Cola means that we should become America's fifty-first state.

But what about all these pooh-bahs, dead and alive who have claimed that plunging ever deeper into Europe is the greatest thing since bungee-jumping? Well, now here is a surprise! Top of the list is Winston Churchill on the basis of his famous Zurich speech in September 1946. In that he said: "*We must build a kind of United States of Europe*" True, but this is not as helpful to this book's case as at first appears. For the whole point of the present publication is not to argue for unifying mainland Europe but for Britain being part of it. What is very clear from his speech is that, in Churchill's mind, Britain should be on the outside looking in. As he said then, in referring to the general need for nations to group together, "*We British have our own Commonwealth of Nations*". He concluded: "*In all this urgent work, France and Germany must take the lead together. Great Britain, the British Commonwealth of Nations, Mighty America and I trust Soviet Russia – for then indeed all would be well – must be the friends and sponsors of the New Europe and must champion its right to live and shine.*" So there we have it: instead of Churchill being in favour of our joining Jean Monnet's great scheme, we were to be on the side lines, with luck alongside the United States and the Soviet Union, cheering them on. It is grossly dishonest to parade Churchill as their star witness in favour of Britain's membership.

There is worse to come. Lady Thatcher is put in the witness box with her famous Bruges speech of 1988, though only the opening passages, not the ones for which it is remembered. The quotes here are the polite bits, for this was a gala occasion when she had to start with some preliminary courtesies. She did indeed say: "*Our destiny is in Europe,*" but she also said: "*The European Community is* one *manifestation of that European identity. But it is not the only one.*" Hardly a ringing endorsement! The real message of the speech was what followed and is not quoted in this book: "*We have not successfully rolled back the frontiers of the state in Britain only to see them reimposed at a European level.*"

Throughout this volume there are sniffy editorial asides about how we British missed our chance to join early and mould what eventually became the EU to suit ourselves, all because we were still dreaming of imperial glory. In fact we were much more deft about ditching imperial commitments than, for instance, the French. We made a quick getaway from India – the jewel in the crown: they fought two costly and unsuccessful wars in Vietnam and Algeria. Yet such unreconstructed imperialism did not keep them out of the Community. What eventually jolted us into joining was not imperial disillusion but despair – at our feeble economic performance and the growing sense that union power was making Britain ungovernable. Our economic troubles sprang from too many strikes, the millstone of the nationalised industries, and an overdose of Keynesian deficit spending which inflated prices and made us uncompetitive. More honourably, in addition, we suffered from shouldering a disproportionate share of the common defence burden compared with our European allies. This crucified our engineering industry and therefore our capacity to export. Also one should not forget the Cold War background of the time, which persuaded us that working more closely on the economic front with our European NATO allies would strengthen our common defence against the Soviet threat. All this contributed to the feeling that, if we joined, we would in every sense be more secure and prosperous as the economic dynamism of the continental nations rubbed off on us.

However, the Thatcher reforms and the series of GATT tariff reductions transformed the situation. These plus the more recent reforms, both Tory and Labour, in our system of economic management make not just irrelevant but otiose many of the arguments rehearsed by the europhiles in this book. Today most economists are agreed that the medium-term economic prospects for Britain are relatively cheerful, while those for our continental neighbours, especially regarding growth and unemployment, are rather bleak. Why join the euro and share their grief? The lament, which surfaces frequently in this book – why don't we learn from the wisdom of those eminent pro-Europeans of the past and shed our inhibitions about full-scale integration before it is again too late? – is now laughable.

Not only has the situation changed, but so has the EU; and for the worse. It is instructive that both Thatcher and Major grew more euro-sceptic while in office, let alone after. From the early days there has been a tension in Community Europe between the liberal, free movement, competitive aspects of the Rome Treaty agenda and the regulative, centralising top down urge to uniformity from the Brussels bureaucracy. What irked Mrs Thatcher was the way the bureaucracy kept on winning, usually by cheating. She signed the Single European Act, persuaded that it would provide a fast track to remove the remaining obstacles to the free movement of capital, workers and services and make competition more effective. She was conned. The powers she handed over were used to extend the Commission's interference in welfare and the workplace. She was also concerned about the frosty attitude of Brussels towards the newly-liberated nations of Eastern Europe. These countries, it seemed to her, had just escaped from one centralised bureaucracy only to come face to face with another. Vaclav Havel, the Czech dissident leader, has one of his speeches in 1990 quoted here and is paraded as one of the pro-European heroes. However, in that speech he was in fact calling for a European Confederation, which came to nothing and was a far cry from what the Eurocrats were up to. But in a recent publication (reviewed by Dr Helen Szamuely in the December 2001 issue of the *European Journal*), his former Prime Minister Vaclav Klaus describes the EU unification process as *"not only or not predominantly about opening-up, but at the same time about introducing massive regulations and protection, about introducing uniform laws and policies, about weakening standard democratic processes, which were evolutionarily developed, about increasing bureaucratisation of life."*

It was US policy from the beginning to support European unity, as a speech reproduced here by John F. Kennedy in Washington in 1962 illustrates. As he said: *"Far from resenting the rise of a united Europe, this country welcomes it – a new Europe of equals instead of rivals, instead of the old Europe, torn by national and personal animosities."* Most Americans were pleased to think that a rejuvenated Europe would be modelled on their own polity – a United States of Europe. Henry Kissinger, when US Secretary of State, professed to like the idea that in a crisis he could pick up the telephone and make just one call. What he did not intend was that it should be answered by a French policy-maker whose most frequent response would be 'Non'. (See Irwin Stelzer's article in this issue of the *European Journal*). For Europe has changed since the balmy Kennedy days. The developing EU Common Foreign policy guided by the French has a decidedly anti-American slant. For instance the EU is financing the Arafat dictatorship in Palestine purely because it is at loggerheads with Israel which has American support. The European Rapid Reaction Force has been turned into a means of breaking up NATO. That indeed seems to be all it is capable of, for it hasn't the resources to act independently. It was recently condemned by eleven retired British and French Generals and Admirals as *"a fictitious paper army (that) will only serve to weaken further our national capabilities to the detriment of our own security"*. In trade the EU is becoming increasingly protectionist, restricting imports of bananas from American companies, American genetically-modified foods, TV programmes and music. Such protectionism will very likely increase because of the EU's declining competitiveness owing to high labour costs – it now costs more to make a Mercedes Benz in Germany than in the US. Behind this anti-American stance lies the visceral hostility of much of the French political class, which seeks to use the EU's muscle to challenge what it calls the hegemony of America.

Tony Blair's contribution to this volume – his speech on receiving the Charlemagne prize – is a brave and eloquent attempt to deny what is staring him in the face

The most striking feature of this pro-European collection of documents is how dated it is. There is very little attempt to address the present situation – in which the EU has become over-centralised and the Commission's urge to regulate has run riot – or to show where we go from here. Tony Blair's contribution to this volume – his speech on receiving the Charlemagne prize – is a brave and eloquent attempt to deny what is staring him in the face. In it he says: *"No-one I know wants some overblown United States of Europe"*. Hasn't he noticed what Romano Prodi has been saying, to take only one of many examples. Later he says: *"integrate where necessary, decentralise where possible. Subsidiarity is a vital part of creating the New Europe."* Admirable as a sentiment, but it runs slap into Article C of the Treaty of European Union which obliges the signatories to respect in full the *acquis communautaire* (the accumulated body of policies which have been transferred to the EU). In other words the powers which the EU institutions have they hold. The same refusal to see what is happening and especially to deny that we are heading towards a federal union saturates the piece by Mark Leonard, one of the editors. He sees a future he calls 'Network Europe'. He talks of reinventing EU representation to deliver policy competition, notably in the EU Council, where he thinks the ministers should act more like party leaders and treat their meetings more like a political forum. This is vague to say the least and just how does one get them to change their ways? In any case past experience suggests that policy competition is not very popular in Brussels. Remember the fate of what should have been a landmark decision of the European Court in the *Cassis de Dijon* case – that a product's specifications which are legal in one member country should be automatically acceptable in all the others. The effect of this judgement, if implemented, would have been to spur competition between member countries in minimising controls. The result would have been harmonisation in a downward direction – a momentous contribution to a dynamic competitive market. Alas Brussels managed to quash that. So the paralysis of the European economy through bureaucratic meddling goes on apace.

Finally, none of the europhiles contributing to this volume has much idea how to fill the EU's so-called democratic deficit. The European parliament cannot do so because there is no such thing as a coherent European public opinion for it to reflect. In any case the European ruling elite is not interested in democracy but in jobs for the boys and girls in the party cadres. From its point of view the federal set-up is ideal. As controls multiply, so will the quangos and the jobs they create. Who now recalls the phrase the Soviets used to describe their government? They called it *"democratic centralism"* – government of the people by the unelected few who think they know what is best for them (and best for themselves). The Yugoslav dissident Djilas dubbed them the 'new class'. These are the new Samurai of the kleptocracy (government of thieves) they are busy developing in Brussels today.

*Russell Lewis is a former Director of the European Foundation and is now a Member of its UK Advisory Board.*

# The Eurosceptical Reader 2

Edited by **Martin Holmes**, Palgrave, 2001, ISBN 0-333-97376-2, 296 pp., £18.99

*Reviewed by Tom Teodorczuk*

The emergence of euroscepticism as an intellectual force in British politics was brilliantly depicted in the first volume of *The Eurosceptical Reader.* A gloriously diverse collection of articles and speeches spanning over fifty years, that work became especially popular among those students of politics who prefer reading the speeches of Lady Thatcher and Hugh Gaitskell on Europe to listening to the hackneyed agendas espoused by most of their dons.

Six months after the publication of *The Eurosceptical Reader*, the eurosceptic movement came to the fore, during the 1997 general election. The late Sir James Goldsmith's Referendum Party significantly contributed to the collapse in the Conservative vote, while *The Times* urged its readers to vote for eurosceptic candidates.

*The Eurosceptical Reader 2* hit the shelves little more than six months after another general election. Like its predecessor, it is edited by the former Co-chairman of the Bruges Group, Martin Holmes. But the political climate is markedly different from 1997. As Dr Holmes gloomily records: "*The outcome of the 2001 General Election was an undoubted setback for euroscepticism, given the major defeat of the one major party which enthusiastically opposed the euro.*"

Whilst this may be true, eurosceptics should take heart from the fact that the voter at the last election – providing (s)he made up the 59 per cent of those who chose to exercise their democratic right – did not endorse closer European integration. Instead the voter simply felt June 2001 was not the right time to register an opinion on the single currency.

The American comedian Mort Sahl once described a conservative as *"someone who believes in reform. But not now"*. Likewise, I am convinced that the British people will vote in favour of retaining democratic self-government. But they will only begin to show an interest, if and when the Government sets the date for a referendum on the euro, not now.

*The Eurosceptical Reader 2* – rather ironically, given the prevailing received wisdom that it was an undue emphasis on the euro that significantly contributed to the Conservatives' electoral failure last year – demonstrates how events between 1997 and 2001 heightened public disenchantment with the Government's policy of closer integration into the EU.

As Sir John Coles, the former head of the British Diplomatic Service, writes in his admirably lucid article, *British Influence and the euro*: "*The truth is that the disadvantages of entry are unlikely to change over time. The fundamental issue in any referendum that may be held is likely to remain that of Britain's decision-making powers and our sense of belonging in an EU that is moving remorselessly towards a central government.*"

The Atlantic alliance is primarily based on history, trade and culture. It has nothing to do with the EU. In four decades of diplomatic experience, Sir John Coles records never once having heard an American official link British leverage in Washington with European integration.

Sir Oliver Wright, former British Ambassador to the USA and Germany, and a Member of the European Foundation's UK Advisory Board, also draws on his vast diplomatic experience to lament the "*triumph of political will over economic sense*". He makes an illuminating comparison between the 65 per cent support for the euro in 1999 among 'experts' canvassed by *The Economist* and the 365 economists who in 1981 took out a full page advertisement in *The Times* casting doubt on the Thatcher–Howe economic policy.

Martin Holmes, himself one of the leading experts on the Thatcher economic legacy, has compiled an impressive set of economic arguments against further EU fiscal harmonisation. His own article on British trade and Europe, which first appeared in the *European Journal,* is well worth a read for those who missed it originally. Whether it is analysing Lord Lawson's doomed shadowing of the Deutschmark during the late 1980s, or showing how Britain's trade export patterns increasingly point to a global rather than a European future, Holmes' illuminating and forceful prose is a joy to behold.

Many a pro-EU economic myth is shattered in *The Eurosceptical Reader 2.* For instance, there is the assertion, frequently aired in Government circles, that the UK should sign up to the euro 'when the time is right'. But as Tony Thirlwall explains, the time will never be right. A single currency would prevent national governments from reacting to assymmetric economic shocks. To do this would "*require the use of the very weapons of economic policy that countries joining a single currency surrender: namely the exchange rate, monetary policy and fiscal discretion.*"

The Institute of Directors' Chief Economist, Graeme Leach, comprehensively debunks the myth that Britain's economy is moving more in tandem with that of the EU. The UK's NAIRU (Non-Accelerating Inflation Rate of Unemployment), inflation and monetary policy have actually progressively diverged from those of the EU over the last decade.

In another article originally published in the *European Journal,* Dr Wilhelm Nölling assesses the weak performance of the euro and contrasts it to the glowing predictions made by so many tired and emotional europhiles on 1 January 1999. Dr Nölling's metaphor of the ECB's leadership as a *"swimmer diving into an empty pool"* continues to resonate. In January 2002, just a fortnight after the introduction of the notes and coins that were meant to herald the euro's resurgence, the US dollar closed at a six-month high against the European currency.

The Franco–German enthusiasm for the harmonisation of economic policy during the last five years, much to Labour's discomfort, is astutely chronicled by Christopher Booker, the *Sunday Telegraph* columnist. The Amsterdam and Nice Treaties, the Rapid Reaction Force, as well as the individual visions outlined by key players envisaging a federalist United States of Europe (notably those of Joska Fischer, Romano Prodi and Lionel Jospin) have laid bare the fundamental differences in perception between Britain and its continental 'partners' as to the real purpose of the European project.

Over the last decade, a succession of treaties has dashed any hopes that the European Union might be a loose association of sovereign states engaging in mutually beneficial economic co-operation. John Bercow, MP, Shadow Chief Secretary to the Treasury, in his article *Aiming for the Heart of Europe: A Misguided Venture* reminds us of how the concept of 'subsidiarity' was spun by europhiles, as a supposedly key safeguard to keep centralisation in check. Decisions were to be made at EU level only if this could be shown to achieve more effective results. However, in practice, Bercow writes that subsidiarity proved to be, *"at best an empty gesture and, at worst, a cloak for legislative expansion"*.

In his magisterial paper, Keith Marsden, a Member of the European Foundation's International Advisory Board and a contributor to this issue of the *European Journal*, draws a comparison between euroland and NAFTA. He uses a wealth of statistics to demonstrate how much more successful the North American group has been, and argues for a closer Anglo–American economic relationship.

The subject of closer links with the USA is of such importance that I regret that Martin Holmes did not also include as additional chapters the powerful and pathbreaking contributions of Conrad Black, of the *Telegraph* group, and Dr John C. Hulsman, of the Heritage Foundation. And I would have liked to have seen supplementary editor's notes to the earlier contributions in this book (those originally published in 1998 and 1999) to keep the reader fully up to speed. But overall Dr Martin Holmes has assembled a first-rate collection of arguments for this second volume of *The Eurosceptical Reader*.

*Tom Teodorczuk is the author of* Ultimate Vindication: The Spectator and Europe, 1966–79 *published by the Bruges Group.*

### *… news in brief*

**Petritsch bosses Croats**

The chutzpah of the High Representative for Bosnia & Herzegovina, Wolfgang Petritsch, apparently knows no bounds. The man who used to criticise the late President Tudjman of Croatia for interfering in the internal affairs of Bosnia & Herzegovina has now interfered in Croatia's internal affairs by suggesting that Croatia should have a "House of Peoples" as its upper chamber of parliament, similar to the one in the country which he administers. This has drawn a sharp riposte from Croat expatriates in America whose leader has said that the remarks are highly inappropriate on the 10th anniversary of Croatia's national independence. John Kraljic said that, unlike B&H, Croatia only has one constituent nation (albeit with protection for minorities like Serbs). "Mr Petritsch has supposedly made his stance as one of principle," said Kraljic, "but perhaps before turning to Croatia he should first question why his native Austria does not have a House of Peoples to assure representation for its historically-persecuted Croat and Slovene minorities." [*Foreign Press Bureau*, Zagreb, 17th January 2002]

**France and Italy quarrel**

The Czechs and the Austrians are not the only European partners who cannot stand each other: there is not much love lost between Paris and Rome either. The French culture minister, Catherine Tasca, told the press last week she would not shake Silvio Berlusconi's hand when he comes to a Paris book fair this week.

Berlusconi's office issued a statement in reply saying, "Until a few minutes ago, the president of the Council was unaware of the existence of Madame Tasca. He intends to go on ignoring her in the future." [*Il Giornale*, 20th January 2002]

# CHUNNEL VISION

*by Dr Lee Rotherham*

A hearty welcome to those readers of the *European Journal* who have arrived in Brussels for the first time as national representatives to the Convention on the Future of Europe. Jolly nice to know we have one. To help ease you into your new lifestyle, this writer and expert on the European parliament (EP) social scene has composed a list of his ten most favourite things (Julie Andrews not provided), and items of baleful woe in turn. We hope you enjoy your stay. Please leave the towels.

### Things to Love about the European Parliament

1 **The views:** Touristy types can clamber to the summit of the Strasbourg drum-shaped building and bump into errant Italian MEPs pacing the roof practising their speeches. Or practising hurling themselves off. Gazing East you can enjoy a passable panorama stretching out over the Rhine bridges, which is enough to give French representatives a good few minutes early warning to pack their bags and flee towards Paris. Brussels, on the other hand, is bedecked with a wonderfully-situated fourteenth floor restaurant where the dying embers of sunset rake the city, reminding you why the Low Countries produced so many great painters of old.

Of course, another benefit from depositing your buildings in strategic locations (on a Belgian hill or surrounded by a Strasbourg moat) is that you afford the inhabitants a solid defensible location from rampant mobs. The French site helpfully has removable grills across the entrance like a drawbridge. Good fields of fire, too.

2 **Wondrous names:** Like MEP Bartho Pronk. And the new Mongolian Ambassador, Sodov Onon.

3 **Beautiful ladies:** It is a recognised fact that Southern European MEPs employ positive discrimination in their recruitment of staff. This allows for visitors to observe that Brussels is truly the centre of the universe, a sort of earthly paradise to which all should aspire. At this point, for my own personal safety, I should like to stress that the British Conservative delegation has absolutely no need to use such PC staffing techniques to provide such an exquisite vision of the benefits of living in a Eurosceptic land.

4 **Slippery slidey floors:** These allow you to glide like Fred Astair on a winter's day when dashing for the lifts. Marvellous.

5 **Ben Hur corridors:** Wide enough to march a Napoleonic regiment down. Also handy for wheely chair chariot races and post trolley Mad Max duals. Convenient venues for the celebrated Corridor Party, whose location, like that of the rave, must never be made public to preserve it from the reactionary Establishment.

6 **Eurosceptic staff:** It is easy to spot those who hold the European parliament in the contempt which it deserves. They dress oddly and have a sense of humour. Beware of people in ties who never laugh, for they are federalists who take themselves – and their mission – too seriously.

7 **Free pencils:** Stationary is provided at meetings. You can start an HB collection at the drop of a hat.

8 **Irish bars:** These keep the machinery of pseudo-governance running. They are many and popular. However, HMG has missed a trick by failing to sponsor a Blighty Bar through which to encourage the locals to go un-native.

9 **Water:** Issued in meetings in two types. Sparkling and still. Such decadence.

10 **Sauce béarnaise:** This is not a metaphor; it just tastes nice.

### And Things to Hate

1 **Lift etiquette:** No matter who you are, you will always be addressed by some complete stranger in a lift who says *"Bonjour"*. Typically on leaving and when it is too late to engage in conversation, figure out if you shouldn't have ignored them because they run your committee, or work out if they have planted a bomb in your bag.

2 **Meetings:** Democracy is about talking. But really, even the translators clearly lose interest after thirty seconds. Speakers should be curtailed to one minute each, with an automatic electric current kicking in shortly after. Nothing that the National Grid can't sort out.

3 **Lipton Tea:** They only drink it there because we won't drink it here.

4 **The euro:** The notes seriously look like they are only good for buying small green plastic houses to put on Old Kent Road. The coins make people allergic to nickel come out in spots and fall over – despite the Greens warning everybody about it five years ago. The national versions are already so intermingled that it makes a mockery of minting them, which is the point anyway – sooner or later all euro coins will be identical. The one euro coin at least looks quite pretty, but emails have already circulated about the rude-looking top right hand corner – and I simply refuse to discuss the alternative paper currency pictures sent.

5 **Unspeakable vegetables:** The main EP cafeteria cooks a pretty mean steak. But the general serving area has a tendency of offering tasteless, evil legumes. Described in cuisine French, which nobody can understand *("Erm, I think that is a kind of winged animal like a chicken")*, many of these vegetables are certainly not known to science, and should be left that way.

6 **Toiletry:** Belgian loos are ferociously guarded by a granny, whose sole means of income is to mug the unwary on leaving. Fully half of these establishments are specially designed to expose unfortunate gentlemen to unfortunate ladies as they enter their own little realm. Even the European parliament cannot sort itself out. Each Toilette has two cubicles, but the larger one doesn't have any porcelain in. Rumours abound.

7 **Artwork:** Wall decorations have clearly been designed by the mentally unbalanced. This is entirely in keeping with the locale.

8 **Fedtalk:** The loathely expression of such notions as a *"federation of nation states"*, which is as meaningful as discussing a *"regiment of individuals"* or a *"crowd of loners"*.

9 **People who know best:** Beware of any politician who thinks that the people are dangerous to democracy. As Valéry Giscard d'Estaing said back in September 2000, *"Germany has so far succeeded in preventing the rise of extreme rightwing movements, or in any case of movements that are too representative."* By the latter he obviously includes euroscepticism. Clearly, those who run the state and who are building Europe know best, so hush, little man!

10 **Vertical movement:** Lifts take forever to arrive, then materialise crammed full of loitering members of the public. In the true spirit of European democracy (see above) such types should be banned. Still, at least there's no lift music yet – Ode to Joy remains confined to the telephone system.

*Dr Lee Rotherham is Secretary of Conservatives Against a Federal Europe.*

# 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.

---

## Subscription Rates & Donations

UK: Minimum £25; UK Senior Citizens & Students: £15.00; Europe excl. UK: £29; Rest of World: £33
Rates show will be correct at least until Summer 2001. After this date please check by 'phone/fax/e-mail before subscribing.

**Donations should be made payable to "The European Foundation"; subscriptions to "The European Journal".**

I enclose my annual subscription of £ _______ (minimum £25, Senior Citizens & Students £15.00)
plus postage: UK nil, Europe £4, Outside Europe £8 made payable to The European Journal.

Name (in capitals): ____________________ Title: __________
Address (in capitals): ____________________
____________________
____________________
____________________ Postcode: __________
Tel: __________ Fax: __________ e-mail: __________

Please enclose your cheque made out to "The European Journal" and return this form to:
Subscriptions, The European Foundation, 61 Pall Mall, London SW1Y 5HZ
Telephone: +44 (0) 20 7930 7319 Facsimile: +44 (0) 20 7930 9706 E-mail: euro.foundation@e-f.org.uk