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THE EUROPEAN JOURNAL

The Journal of the European Foundation



Senator Gordon Smith
A Message to Britain and Europe

Following his recent European tour, the Chairman of the US Senate Foreign Relations Committee writes on the United States' increasing concerns for the UK and Europe

also featuring Caspar W. Weinberger US Defence Secretary, 1980–1987

And: What do Europe's Business Leaders Think

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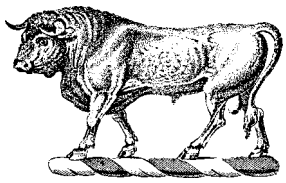
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European Government now – World Government next

The *New York Times* reported recently that the FBI has warned several senior US officials not to travel to certain countries, including countries in Europe, in case they are arrested. If this applies to the United States, then why not to Britain? And what is the basis of the supposed 'crimes' and international arrest warrants that are in the pipeline?

The whole business of the creation of selective international criminal jurisdiction is out of hand. No one would want genuine criminals to escape justice, but just what is a 'political crime'? (A question I put when attending the Helsinki meeting of the national parliamentarians from EU-wide Select Committees.) Such definitions are open to a wide variety of interpretation and abuse.

We already know, as the *European Journa*l revealed first some years ago, that the EU is embarked on the creation of a comprehensive EU legal system based on the jurisdiction of the Court of Justice which would undermine our own legal system and procedures. All of this is being deepened by the development of the European Court of Human Rights and the incorporation of its Convention into English law. Now there is the European Charter of Fundamental Rights, which is being vigorously promoted during the run-up to the Intergovernmental Conference due to be concluded in Nice in December. I raised the whole matter in the European Select Committee with the Minister for Europe, Keith Vaz, and he insisted that the proposed Charter would be no more than a "showcase". I argued that this was not the intention in Europe and, in particular, in Germany. Now we find that Lord Goldsmith, the Prime Minister's negotiator at the meetings of the EU on the Fundamental Charter, is saying that it is not a matter of 'political objectives' but a matter of 'rights'. Furthermore, there is intense pressure for the whole Charter to be made binding through a European Treaty obligation under the Intergovernmental Conference – as the European Parliament Committee on the issue, like European Parliament itself, have now demanded.

The object is clear. First, under Maastricht they create the chapter on Justice and Home Affairs and leave the question of EU citizens' rights to be incorporated later; then they amplify this under Amsterdam and Nice. Piece by piece they create a new constitution and legal system for Europe, Europol being only the beginning, with a European public prosecutor and one judicial system overriding that of all member states.

As John Bolton (Senior Vice President of the American Enterprise Institute and a member of the Advisory Board of the European Foundation) and Professor Jeremy Rabkin of Cornell University demonstrated at a recent conference in Washington, the issue of Global Governance is now to be taken very seriously and EU policy is already eroding not only the sovereignty of member states, but also that of non member states such as the USA. My own observations on these trends will be published in the next *European Journal* as well as on our website, www.europeanfoundation.org.

In the words of Romano Prodi in his so-called Five Year Plan of the 9th of February, Europe will lead the world because "its model of integration, working successfully on a continental scale, is an opening from which ideas on global governance can and should be drawn".

The incubus of EU-wide rights and the accelerating accumulation of so-called universal rights within global governance are complementary and invasive. It is not merely being discussed – it is being developed and consolidated. The Statute for an International Criminal Court was agreed at a Conference in Rome on 17 July 1998. The Queen's Speech on 17 November last year announced that it would be legislated in Westminster this session. The Bill has not yet been introduced, but it is all part of the general framework of developing EU and international jurisdiction that I have here outlined (the House of Commons Library published a Research Paper on this issue on 10 April).

The International Criminal Court would only have jurisdiction where the accused's state of nationality or the state where the crime took place is a party to the Treaty – unless one of those states, though not a party, gives its consent to prosecution in a particular case. In other words, those states with the worst human rights records will be excluded (by their own non-participation) and countries such as the UK would be included.

What a Mad, Mad, Mad, Mad World.

We know that we have made no discoveries, and we believe that no discoveries are to be made, in morality, nor in the idea of liberty, nor many of the great principles of government which were understood long before we were born In England we have not been drawn and trussed in order that we may be filled like stuffed birds with chaff and rags and paltry blurred shreds of paper about the rights of man. (Edmund Burke, Reflections on the Revolution in France.)

Bill Cash, April 2000

Misinterpreting 'Europe'

by Riaz Ravat

Advocates of European integration point to the content and [mis] interpretation of Churchill's famous speech at the University of Zurich in 1946. Here he raised the notion of a 'United States of Europe'. Federalists trumpeted the speech as a key breakthrough and a guarantee that a Britain under a Conservative government would be at the vanguard of such an arrangement.

On the surface, Churchill and the Conservatives in opposition were very pro-European. In March 1948, an early day motion signed by over 60 Tory MP's, declared for the desire to "… create … a political union … with a constitution for a democratic federation of Europe with defined powers with respect to … external affairs, defence, currency, customs, planning and production, trade, power and transport" (Onslow 1997 p. 34). Because of Labour's cautious attitude towards Europe, Churchill took on a more precise pro-European line of attack to hit Labour with. In short, the Conservatives were being opportunist in opposition.

The principles guiding the British position on European integration, can be traced back to the very speech which was supposed to have favoured Britain inside a United States of Europe. One very important variable can be extracted, that being the overwhelming reluctance to subordinate to any supranational authority.

The Zurich speech has been overshadowed by the 'United States of Europe' remark. However, in the same speech Churchill added that "Great Britain, the British Commonwealth of Nations, mighty America, and I trust Soviet Russia … must be friends and sponsors of the new Europe and must champion its right to live and shine." This indicates a hands-on role for Britain in European integration but not hands-in. Churchill once told his cabinet that "I have never thought that Britain should become an integral part of a European federation."

The most unequivocal statement which explicitly draws the line on British participation in a European polity was by Eden in October 1951. "We are ready to play an active part in all plans for integration on an intergovernmental basis: defence considerations, our Commonwealth connections and the sterling area inhibit us from subordinating ourselves to any European supranational authority … we have encouraged those countries who feel able to go ahead with such plans, and have assured them of our good-will…" (Bullen ed. 1986 pp742–44).

The ECSC formerly the Schuman Plan, came into existence in 1952. It was a supranational body whereby all partners would have an equal say and decisions would be taken on a majority weighting. The plan was drawn up by French Foreign Secretary Robert Schuman with the aid of the head of French reconstruction, Jean Monnet. The six participating states[1] would pool their coal and steel resources and the architects of the plans main concern was to use this framework to tie Germany into and make it dependent upon her European neighbours.

The Zurich speech has been overshadowed by the 'United States of Europe' remark

The French were very secretive about this plan and on June 1st 1950, they issued a 24-hour ultimatum to Britain about whether she wished to join. The shortage of detail, supranational elements and economic implications prevented Labour from joining in the preliminary talks. The Tories had to face this issue head on once in office.

The ECSC was certainly the first attempt at federalising Europe. It was a clear example of economic and political supranationalism. Schuman reiterated this as the pooling of the resources was the "first step in the federation of Europe". GermanChancellor Konrad Adenauer echoed this in June 1950, "the purpose of the French proposal is to create a European federation. On this I am in total agreement."

The European Defence Community (EDC) 1952 proposed a European Army under unified command under the auspices of a European Defence Minister. On the 28th June at the NATO Rome Summit, Eden declared that "Great Britain could never join the EDC." This was reinforced by his speech at the University of Columbia on the 28th November 1951 (of the EDC) "This is something which we know, in our bones, we cannot do." In December 1953, a British delegation met Monnet to discuss plans for an "eventual and organic relationship between the Britain and the ECSC" (Young, J 1988 p.120). However, full membership wasn't sought because British industrial capacity outstripped that of her European counterparts. Hence joining the ECSC would have been disadvantageous to Britain economically.

The EDC's collapse and the subsequent creation of the WEU gave Britain exactly what she wanted. An intergovernmental framework, connections with Europe and credibility and leadership as a result. However, Britain never fully connected with the EDC because of its supranational elements. Defence is the founding pillar of the nation state, there are tremendous sensitivities linked to the armed forces. If Britain refused to join the ECSC, then it was highly unlikely to join the EDC. Britain was still a world power with global strategic military commitments around the world. She couldn't afford to set up shop with Europe because of the inflexibilities of such an accommodation. Bureaucratic opposition was still apparent but this time included the Ministry Of Defence and the Chiefs of Staff. Although General Montgomery urged Churchill to join the EDC he was not representing the views of the forces as a whole.

An argument which ran throughout the 1951–55 period was the pragmatism of the British, asking 'whether it will work?' The ECSC and the EDC were questioned for their theoretical and operational capabilities. Questions were asked such as how would the six communicate? Who would supply the weapons? How could you pull together separate individual interests with those of Europe as a whole? especially as France still had colonial interests. Churchill called the EDC a "sludgy amalgam".

Public opinion was also a key variable. It was difficult for both Labour and the Conservatives to justify deeper European integration to the electorate. "The public attitude was a hangover from the war, after the strain of war, most people were so thankful to be at peace. Foreign adventures were not on the agenda, nor did they like the

idea of being tied up with the French and the Germans." (Onslow 1997 p.92) After a bloody conflict, grand designs were not desired, instead the domestic agenda of social reform took precedence.

The 'pro-Europeans' in the Conservative Party never occupied any Cabinet portfolios which were directly relevant to Europe. Maxwell-Fyfe was Home Secretary, Macmillan at Housing, Eccles at Works, Sandys at Supply. A crucial fault was their inability to speak with one voice. Macmillan wanted Britain to engage in Europe because he feared German domination if Britain abdicated responsibilities, whereas Sandys was more of a United Europe idealist. However, like their pro-European counterparts in the Conservative party today, they were unable to pinpoint how far they would go on the European road.

The composition of the Tory Party like today[2], also weighed in heavily on the Eurosceptic side. The three wings being the pro-Europeans, Sceptics and Anti-Europeans. The last two being the most influential. The majority of Conservatives echoed Eden's view that the whole European thing was "insubstantial". Churchill was 77 years old when he took office and his energies were devoted to a détente with the USSR, his last great task. The vacuum was filled in by Eden and the Foreign Office.

Despite the make up of the party in the House and far from taking little interest in European integration when in office, the party of the defence of the realm and the nation state, did connect the UK with the continent albeit conditionally. In opposition the power oriented Tory political machine criticised Labour over Europe simply because they were not in power. However, the Tories never promised a federal Europe or steps in that direction therefore they can't be attacked for misleading European federalists. From the very top, Churchill and Eden made speeches outlining their limits. Pro-integrationist writers have a tendency to wrap up their criticisms of Britain's frosty relations with Europe by linking it with tinges of xenophobia and arrogance. These are intellectually feeble lines of argument which seem to ignore the fact that the tried, tested and trusted British institutions which had provided stable and responsible government didn't need to be questioned after the war. It wasn't the failures of the British political system which caused the bloodiest conflict in history. So Churchill and the Conservatives showed interest and goodwill towards European integration when in office but they were firmly of the belief that Britain should not subordinate herself to a supranational authority, this was largely attributed to her experience of the war.

The Battle of Britain exemplified Britain's different experiences of the war in contrast to her European partners. Whereas continental Europe was conquered and occupied by the Nazis, British resolve and determination held out and she emerged from the conflict victorious and as the only credible European state to do so. This reinforced the view of the "island built by nature for herself against infection and hand of war".[3] The bloodiest conflict in history left British political institutions intact. The record of not being invaded by a foreign power for over 1000 years was maintained. The remarkable British political system with its unwritten constitution further consolidated the belief in "British exceptionalism".

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[1] France, Germany, Italy and the Benelux states.

[2] see Baker, D. et al (1995) 'The Blue Map of Europe: Conservative Backbencher attitudes to European Integration' *Political Quarterly* vol.66 no.2 and Baker, D. (1994) 'What Tory MP's think about Europe' *Parliamentary Brief* vol.3 no.3

[3] Shakespeare, W. Richard II Act II scene I

… news in brief

From poop deck to pooped party

For the last few months, the party which Helmut Kohl led has been in crisis following the revelation that he financed it with secret donations placed in illegal bank accounts. Now his own party has been cancelled as a result – his 70th birthday party, that is. He was to have celebrated his 70th birthday on 3rd April with a gala which was to be held at the Schauspielhaus (a theatre) in Berlin. However, the CDU party leadership decided to cancel it. Hundreds of people had been invited – former US President George Bush, Mikhail Gorbachev among others. No German leader has gone from being adored to being in disgrace than when Bismarck was sacked, an event famously caricatured in the Punch cartoon entitled "Dropping the pilot". Mr Kohl complained to *Die Welt* that he was finding it rather a shock to go from being "a historic personality" to "a non-person". He has tried to save his image recently by raising DM 6 million (£ 2 million) to top up the CDU's coffers but even here false notes have been sounded. According to one law professor, Kohl raised the money purely to avoid criminal prosecution: German law permits prosecution for breach of confidence only if there has been financial loss. If Kohl rectifies the loss, therefore, he cannot be charged. [*Le Monde*, 4th April 2000; *Die Welt*, 3rd April 2000]

More financial irregularities in EU

A damning report has been published by a German MEP about the inadequacy of Commission reform under the aegis of Neil Kinnock. Gabriele Stauner, the *rapporteur* for the Budget Committee, has said that little nor nothing has changed in Europe and thatthe new Commission is just like the old. The Committee has approved her report and issued a series of ultimata to the Commission. If certain reforms are not carried out by the middle of May, then the Committee will not approve the budget for 1998, thereby heaping ignominy on the heads of the new Commissioners. [*Süddeutsche Zeitung*, 24th March 2000]. Now, however, it is the turn of the Parliament itself to have the spotlight turned on it. An auditor has discovered numerous irregularities within the finances of the European Parliament itself. The irregularities include things like diverting DM 500,000 (£170,000) from the interpreters' budget to the MEPs canteen, in order to keep prices down there for the parliamentarians; the disappearance of some 12,000 pieces of equipment from offices, including computers; and the overall fact that one in ten of the entries in the Parliament's accounts is faulty. Payments worth over one million marks (£300,000) are made without being signed for, even though this is naturally against all regulations. [*Die Welt*, 5th April 2000]

A Message to Britain and Europe

by Senator Gordon Smith

This article follows Senator Smith's recent visit to the United Kingdom and Europe.



All Americans are united with respect to the choices of a free people, the peoples of Britain and the peoples of Europe. Americans have always worked for, bled for, hoped for a Europe that is prosperous, peaceful and free. Now Britain is on the threshold of choices with respect to Europe which may indelibly shape and change Europe and our alliance with its nations.

The recent remarks of leaders on both sides of the Atlantic have given me pause for thought and lead me to urge maximum caution and care. Our leaders speak of the inevitability of Britain's adoption of the euro in order to be 'part of Europe'. Surely this overstates the case.

To date President Clinton seems to be the sole American spokesman on the matter. I will tell you, though, that it is a matter of increasing debate in the cloakrooms of the United States Senate and while he is a disciple of British conversion, he will soon be leaving office and he in no way represents the unanimous American position regarding the British concession to the still unsettled mandates of the Maastricht Treaty, namely the single European currency.

Indeed it is no stretch to say that Americans are equally as wary of Britain ceding power to Brussels as Britons themselves.

I personally am particularly concerned that the drive toward monetary union is first about politics and not about economics. Its ends seem to be about achieving a super socialist state, and not about preserving democratic free enterprise.

To date Britain's dance with the European Union has been an awkward one. As a student of Britain's history, I believe that this is inevitable and predictable. Britain's development in politics, religion and culture has always been distinct from that of the continent. Being a step apart, Britain has always looked with caution, sometimes even with hostility, on concentrations of power on the continent. On occasion Britain even has stood alone.

But through the smoke of yesterday's prideful and painful events this much is clear: through cautious appraisals of consolidated continental power Britain has always better served the greater interests of Europe and thereby of the whole world.

It is that caution that paints the Maastricht proselytes of today in such stark relief. So many Herculean pitches and promises, so many exaggerated questions like: "Does Britain want to be part of Europe?"

Lest anyone forget, the European Union is not Europe – *it is a part of Europe.* There are over fifty nations in Europe, only sixteen of which are in the EU. Countries like Poland, Hungary and the Czech Republic – which proudly joined NATO two years ago – have not lost their standing in the continent.

'Britain in Europe' is a misnomer which signifies a standardized Europe, not necessarily a free one.

Those, however, who dare make the distinction are quickly disparaged in some quarters.

At last year's Labour Conference, Mr Blair had these words for the sceptical: "[The] forces of conservatism chain us to an outdated view of our people's potential. The old air of superiority based on past glory must give way to the ambition to succeed."

But what exactly must give way, and to succeed at what? This is where the Maastricht myth makers go to work. Their myths, however, are not self-validating – they must first erase the invariable success of the Pound Sterling. This is not an easy task. The Euro, not the Pound has steadily lost value against the dollar since its inception and for nearly seventy percent of Britons, **this** accomplishment **is** self-validating.

These myth makers have the burden of proving, of providing and producing a bountiful Europe without the Pound. Many economists report that the Bank of England is making this a difficult task. They point to

many factors which do not mesh with the professed words of 'Britain in Europe'. Yet, there is another need for caution which rests in deeper waters.

'Giving in to Brussels' is more than theoretical economics. Monetary policy, taxation, and spending are vital areas of national sovereignty. Interest rates and the issuance of currency affect the well-being and security of a people just as much as foreign policy. To this extent, the practical competence and constitutional underpinnings of the European Central Bank should be reconsidered.

Again it is becoming clear that the reason for some to reconcile Britain with Europe is political, not economic. As monetary union has already overridden the drive for enterprise and free trade it is now a springboard for different endeavours.

At a joint conference with the Italian President last fall, Prime Minister Blair noted that "we are all trying to search for … a renewal of the European social model". On this occasion Mr D'Alema conceded that this new order is in the tradition of the Italian Left and the New European socialists.

Is there such a creature as a single European social model? In 1993, it was a universal welfare policy that caused Britain to opt *out* of Maastricht's Social Chapter. Such socialist proposals are breaches of constitutional power in Britain. They may also become the bedrock of the European Union.

The drive toward monetary union also has spilled over into the politics of European security. Often what makes good politics on the Continent, however, makes for poor European policy. This is especially true of the forging of a European Union into an alternative military alliance to oppose the United States.

Anti-Americanism is not a stranger to European politics. Britain's entrance into the European Economic Community was vetoed twice by the French perception of the UK as the 'Trojan horse' for the United States. The desire for heightened intra-European capabilities is not in itself a concern. What *is* concerning lies in the restfulness of anti-Americanism with current approaches to a European security identity.

The so-called French 'action plan' is coupled with a belief that NATO and the United States are barriers to be overcome. While addressing the United Nations General Assembly last fall, President Chirac stated: "We should not delude ourselves. The Europeans did not convey [in Kosovo] the impression they were fully in control of the fate of their own continent."

To repair this dependence anxiety, President Chirac and Prime Minister Blair proposed an EU Rapid-Reaction Force, consisting of upwards of sixty thousand troops. While I strongly support greater definition of Europe's defence identity, I would hate to see it done at the cost of the Atlantic Alliance.

While I strongly support greater definition of Europe's defence identity, I would hate to see it done at the cost of the Atlantic Alliance

The perception of a European military dependence on the United States is difficult to avoid. An imbalance exists, but it does not exist because of NATO. It is born out of an ever-declining European defence budget. NATO is not designed to create disparities. Rather, its purpose and its success rest on collective strength and shared responsibilities.

This is why I am fearful that devising new military institutions separate from the Atlantic Alliance will prove fateful. After the EU's Cologne Summit last year, I sponsored a resolution which expresses the sense of the Senate on NATO and the European Union. In it, the Senate emphasizes that a vibrant European defence identity need not be at the expense of anterior alliances or NATO. Rather, the existing framework should be incorporated to facilitate the emergence of a stronger pillar within the Alliance for Europe.

Unnecessary duplication of existing capabilities will demonstrate contempt for the progress of Euro-Atlantic burden-sharing and equity. By shifting resources from NATO to more confined factions, nations left in the middle may be estranged. Recent NATO members such as Poland and Hungary now depend on greater, not less, inclusion from their immediate neighbours. The same applies to neutral European nations like Sweden and Finland.

The United States' acceptance of a diminishing role for itself in Europe may be accelerated by European military manoeuvres outside of the Atlantic Alliance. Margaret Thatcher once said: "The lesson of this century is that Europe will only be peaceful if the Americans are on this continent."

I continue to give credence to that proposition even while many more increasingly no longer do. If you value an American presence in the Atlantic Alliance still, never forget the vital British role as the lynchpin in that Alliance. Historically, the United Kingdom has been pivotal in quelling isolationist tendencies in the United States, but now we seem contentedly to be coasting towards a serious rift. Without greater assurance from Britain now, American withdrawal from the interests of European security may be a self-fulfilling prophecy.

That takes me now to a brief discussion of foreign affairs in US domestic politics. I am a Republican. I am also glad that the isolationist and protectionist candidacy of Reform Party candidate Pat Buchanan has departed my party for another. But everywhere he goes in the United States he asks the question, "Why should 260 million Americans be asked to defend 350 million rich Europeans from 140 million impoverished Russians?" I say that his voice finds resonance in both the Republican and Democrat parties and not just in the growing ranks of independents and reformist voters.

My fear for the alliance is that co-operative deeds will soon be replaced by grandiose words – that somehow talking about defence is an adequate substitute for defence. I fear that such talk will cause future American leaders to 'thank you very much' and then go home. This would create an enormous security vacuum, and I do not know who would fill that vacuum. But I can say that the flagrant anti-Americanism of some continental leaders fuels the suspicion that the European Union's real motive is to build a European force separate from NATO in order to counter US influence and to check American power.

Could there be a worse outcome for Britain, for Europe, if it were to substitute talk of strength for adding to strength and thereby ignite American isolationism? I cannot imagine one.

Senator Smith is Chairman of the Senate Foreign Relations Committee. His remarks are based upon an address to the Congress for Democracy.

How Europe Undermines NATO

by Caspar W. Weinberger

For far too long there has been an assumption in the foreign policy apparatus of the Clinton Administration, and among many foreign policy specialists, that the European Union is a good thing for America; that we should encourage the "ever closer Union" that is the goal of those Europeans supporting an increasingly sovereign European Union, and ever diminishing national sovereignties for each of the European Union members.

Recently, particularly since the war in Kosovo, there has been a growing demand by the European Union for their own military and a common defence and foreign policy all autonomously governed by majority votes of the member nations. This could mean that if Britain ever became a full-fledged member, the troops, ships and planes she contributed to the European military force would be completely out of her control.

Britain's Labour Government has been heading steadily in that direction. With the agreement in 1998 at St Malo that the EU must have a capacity for autonomous action backed up by a credible EU force, the next step was the appointment of Spanish Socialist, Mr Solana, formerly Secretary General of NATO, to head the EU's foreign and security policy.

The French, with their basically anti-American policy, are delighted with this because it has the potential to weaken and divide NATO. Mr Blair's Government (scarcely the United Kingdom any more after all his devolution moves) like the idea that it would enable them to take Britain, whose people still seem strongly opposed to being part of the European single currency, further into the EU – even if, as expected, British voters in the coming referendum decisively defeat the idea of giving up the pound sterling in favour of the ever weakening euro.

> We must have no truck with this incipient introspective European superstate

None of this pressure to expand the sovereignty of the EU will be to America's advantage. The Clinton Administration has always blindly supported the idea of a European common foreign and defence policy. They seem to have almost deliberately ignored the fact that this is demonstrably bound to weaken NATO – one of our strongest and best defensive alliances.

A Europe that in and since Kosovo has been "wildly unenthusiastic about backing their rhetoric (about creating a strong European defence union) with their money", as John Bolton of the American Enterprise Institute put it, is not likely to pay the cost of either a separate defence unit or the annual costs of NATO.

Yet the UK's government, with support from Mr Clinton, keeps encouraging the idea of a common defence and foreign policy and a European defence unit, even though this would mean at the very best the dilution of their already too thin national defence forces.

Sir Oliver Wright, former UK Ambassador to the US, got it precisely right when he wrote that: "It would be madness for Britain even to think of distancing itself from the US: we have nuclear and intelligence relationships there which are literally vital to our national survival… Above all, public opinion must know that the [Labour[government [in the UK] is seeking to outflank the people's veto on the pound by taking a route to the 'heart of Europe' which plays fast and loose with the nation's defences." France in particular and some other EU countries are anxious to dissolve the Anglo-American relationship, and thus weaken NATO.

It is quite apparent that, while many countries have some anti-American feelings, these countries are extremely unlikely to support the fiscal and other efforts needed to acquire a defence capability that would enable them to defend themselves without the support of NATO and the US's support of NATO.

We in the US of course need a strong NATO supported by all its members because we could not survive long in a world in which Europe had been overrun. That is why it is so inconceivable that the US supports the continued attempts to increase the strength and separate sovereignty of the European Union which can only work to NATO's disadvantage.

Caspar W. Weinberger was US Defense Secretary 1980–1987.

… news in brief

EU proposes on-line tax

Ever desirous of inventing new ways of stripping citizens of their money, the European Commission has noticed that VAT is not paid when software programmes or music are downloaded on-line but that it charged when the same products are sold as a CD in a shop. Naturally, it has proposed to close this loophole. It has proposed that providers register in one EU country and pay VAT there. This notably fails to deal with US companies, however. Equally, suppliers are not to know which country their customers are from and therefore it is impossible for VAT to be charged on the basis of customer data either. The most sensible step, according to one economist, is to leave matters as they are, however "irrational" it may be from the EU harmoniser's point of view. At any rate, the Commission's reaction shows (a) how the old tax-and-spend spirit is alive and well in Europe and (b) what nonsense was talked at Lisbon about giving tax breaks for e-commerce start-ups in Europe. Far from there being joined up government in Europe, the left hand does not know what the right hand is doing. Meanwhile, neither hand understands that the dynamism of e-commerce in the US, which Europe says it wants to imitate (Tony Blair going as far as to claim that Europe will create 20 million jobs this way), could not exist without the general framework of (relatively) low taxes across the board and, above all, free labour markets, which the US enjoys. [*Handelsblatt*, 3rd April 2000]

US unblocks $500 million for Russian trade

One week after the election of Vladimir Putin, the US State Department has allowed a trade guarantee of $500 million to enable the US-based Export-Import Bank of the Russian OAO Tyumen Oil concern to buy equipment from various US suppliers. The State Department spokesman insisted that the purchase was based on purely business considerations, not political ones. [*Handelsblatt*, 3rd April 2000]

A Republican President – Good for Britain?

by Edna Heird

The race for the White House is creating the kind of commotion that has been lacking in American politics since the age of Kennedy and Nixon. Turnout for the primary elections increased to record levels. People were getting involved, changing their party affiliations and even officially registering with a party for the first time. This was all because of the names in the hat for 2000. Every special interest group from the Christian Coalition to car dealership political action committees to organised labour groups like the Teamsters and the United Steel Workers of America, who have not been a mighty American political force since the days of Jimmy Hoffa are now getting involved and throwing muscle behind a candidate. Could the first presidential race of the new millennium provide a long overdue revitalisation of American politics?

Last year brought a wave of "Independent" and "Reformed" party cries ranging from political figures like Jessie Ventura – a former professional wrestler turned governor in Minnesota – to whispered bids coming from the likes of Donald Trump who could turn out to be a new version of Ross Perot. Donald Trump aside, most of the excitement in US politics lies in this year's candidates for the White House – specifically the enthusiasm generated by the Republican Primary race. The two figures, George W. Bush and former candidate John McCain managed to attract much attention from the media and revive politics as a subject of dinner party conversation. But what, if anything, does this excitement mean for Europe? Considering the hyped attention surrounding the Republican race, and the fact that Democratic front-runner Al Gore is swamped not only with Clinton administration sludge, but a sticky environmental mess he created in his book from 1993, *Earth in the Balance*, the forecast for Republicans in 2001 looks bright. When the sun shines across the Atlantic for Republicans, it may not be exactly tropical in Great Britain for Conservatives – but one thing is certain, the two parties are like grade-school friends. One only has to glance to Reagan and Thatcher to see that the Republicans and Conservatives are, as the American adage goes, two peas in a pod. They have shared this pod on a broad range of key issues like Britain housing US missiles in 1980, the US support of Britain during the Falklands in 1982, the policy on South Africa and the air strikes against Libya in 1986, not to mention the Gulf War Crisis in the nineties.

> …a Republican in the White House would not support the ideological jargon devised by Clinton and Blair.

What does a potential Republican future for the United States mean for the future of the EU? In his own words, the Republican candidate has expressed his support for democracy in Europe – exactly what a federal Europe would fundamentally undermine. So, a Republican in the White House could provide the boost needed to dissolve the notion of a United States of Europe with a single currency, common defence policy, *Corpus Juris* judicial system etc.. Fusing governments together to forge a centralised bureaucratic governmental powerhouse goes against the grain of the Grand Old Party philosophy of decentralising government in America to return more power to the states. The Republican Party campaigns on a States Rights platform.

Republican presidential candidate George W. Bush says in a recent foreign policy speech, "An American president should work with our strong democratic allies in Europe and Asia to extend the peace. He should promote a fully democratic Western Hemisphere, bound together by free trade." Clearly the goals of an integrated Europe collide against the 'democratic allies' and 'free-trade' theme of his speech when referenced against issues like the French beef ban and the EU 'banana war'. Eurosceptics should take pride in the fact that polls indicate that America is keeping with the popular Swing Theory. They moved to the left with Clinton and now that Bush seems to be holding a lead on Gore in opinion rankings, they seem to be swinging back to 'common sense Conservatism'. The Clinton Administration has left a mark on American foreign affairs and the excitement being generated by Republican candidates signifies a new future for the United Kingdom, Europe, and America.

Another reason why a Republican president would oppose further European Integration for Britain comes out of the Democratic Leadership Council meeting held last April. In this meeting, Blair and Clinton, along with four other Western European leaders discussed the 'Third Way' approach to politics. At the DLC, Clinton smiled and retorted, "I am not sure I would have you here, Massimo, if I were running for re-election" when speaking of Italian Prime Minister Massimo D'Alema. D'Alema's own Democratic Party of the Left was the Italian Communist Party before it changed its name. Clinton's weariness of European leaders could be positive for the Eurosceptic cause because that little moment captured the difficulties of Blair's Third Way. Clearly, a Republican in the White House would not support the ideological jargon devised by Clinton and Blair. The current GOP candidate openly admits that it is in America's best interest to keep communism out of Europe. When the EU Franco-German motor flirts with extending itself from Portugal through Russia and on to the Pacific under a system that starts with a single currency and ends with a central government, it could be viewed as a farce representation of Democracy by a potential Republican president.

Most Americans who subscribe to 'common sense Conservatism' would view a federal Europe as a strange cartoon adventure with the French caricatures holding hands with Germans and Italians while Russians sing the chorus in the background. All of the historical nations of Europe would be chanting the European anthem and waving the same blue starred flag in this strange farcical animated adventure series. Would an American president recline in the Oval Office and watch the show or change the program schedule? Judging from speeches and history, if further European Integration would hurt American interests, a Republican president would not hesitate to change the program schedule entirely.

Edna Heird is US Affairs Analyst for the European Foundation.

Advertisement

The UK Must Reject EMU, Not Opt Out

by John Tate

The United Kingdom's 'opt-out' from Economic and Monetary Union (EMU) applies only to stage three of the project and not, as is commonly supposed, to the project as a whole.

Stage three of EMU covers the Single Currency; stage two covers the economic rules accompanying the Single Currency; whilst stage one provides for the existence of EMU itself.

Under Chapter Four, Article 116 (*née* Article 109e) of the Consolidated Version of the Treaty establishing the European Community, the UK remains party to stage two of EMU – the pertinent section of which states that:

[…] each Member State shall: adopt […] multiannual programmes intended to ensure the lasting convergence necessary for the achievement of economic and monetary union, in particular with regard to price stability and sound public finances[.]

A further economic rule accompanying EMU concerns general deficit control under the terms of the Stability and Growth Pact (SGP) resolved under the Amsterdam Treaty. The UK has an opt-out from the SGP, but it is not a complete one. The pertinent section of the SGP in this regard is footnote one, which states that:

[…] this obligation [to avoid excessive general government deficits] does not apply to the United Kingdom unless it moves to the third stage; the obligation under Article 109e (4) [now Article 116] of the Treaty establishing the European Community to endeavour to avoid excessive deficits shall continue to apply to the United Kingdom.

Thus, whilst the UK is exempt from the SGP (the SGP applying only to those Member States entering the third, Single Currency stage of EMU†), it remains party to the Pact's core element: the requirement under Article 116 "to avoid excessive general government deficits".

It is, therefore, incorrect to state that the UK has opted out of EMU *tout court*, for we remain party to stages one and two of the project including Article 116. Put another way, the UK has opted out only of complete Economic and Monetary Union. It is clearer conceptually to describe the UK as having opted into rather than out of EMU – having, as the UK does, the option to enter the third (Single Currency) stage as soon as it meets the economic requirements relating to the project.

Remaining party to, but not a full member of EMU is for the UK far from "having one's cake and eating it". Remaining party to stages one and two of the project keeps the UK subject to vague economic rules, whilst staying out of stage three bars the Chancellor from the body set up to oversee the Single Currency that those rules exist to strengthen: the euro-11.

Described by its chief architect, Dominique Strauss Khan, as constituting "economic government for Europe", the euro-11 has begun meeting more regularly, taking minutes, and having Commission institutions report to it directly. The group is now perhaps the most important (that is, efficacious) body of the European Union.

Were the UK not party to any stage of EMU, then the current bar upon our Chancellor even observing euro-11 meetings would be offset by his freedom from the (considerable) EMU and EMU-related *aquis*. Free of EMU, the Chancellor could steer an economic path irrespective of 'convergence criteria', deficit controls, and changeover plans accompanying a currency that the UK is, after all, ill-suited economically – let alone politically – to adopt.

Remaining party to stages one and two of EMU also keeps alive the hope amongst certain investors and politicians, foreign and domestic, that the UK will one-day adopt the Single Currency, thereby skewing long-term assessments of UK macro-economic policy and, crucially, assessments of our long-term economic stability. Rather than accepting present circumstances and, in particular, the pound sterling as an ever-present reality, the pressure from such parties will remain to push the UK 'over the edge' into the third (Single Currency) stage of EMU.

Were the UK not subject to any element of EMU, any such persuasion would dissipate as interested parties, particularly investors, returned to making more UK-specific assessments of future economic policy. Distancing in treaty terms the possibility of the UK adopting the Single Currency would reflect the real and seemingly permanent economic difficulties of our doing so.

For all of these reasons, the UK needs not a pseudo-opt-out from Economic and Monetary Union, but rather to negotiate its way out of the project entirely.

† The chief function of the SGP is to fine Member States should they incur a general budget deficit greater than 3% of gross domestic product.

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RESEARCH ROUNDUP

Budgeting Maastricht

For the first time, the Budget includes a section devoted to explaining the accounting procedures forced upon HM Treasury under the Maastricht Treaty. Included in the March Budget was a seemingly innocuous but highly significant paragraph on page 198, section C25, setting out how "the Maastricht Treaty and stability and growth pact [*sic*] provided reference values for general government net borrowing […] and general gross debt."

Poll Data

The majority of respondents to an ICM Research survey asking "[d]o you think that Britain should replace the Pound [*sic*] with the Single Currency" have again said 'No'. The survey, released on the 4 April and the fourth in a biannual series, showed that 28% of respondents answered 'Yes' and 62% answered 'No'.

Breakdown of Responses by Voting Intention

	'No'	'Yes'
Labour:	51%	42%
Liberal Democrat:	59%	31%
Conservative:	75%	17%

ICM Research interviewed a random sample of over-eighteen-year-olds by telephone between 17 and 18 March.

Balance of Trade

Data released by the Office for National Statistics (ONS) in March show that in 1999 the UK did 49.4% of her total foreign trade with the EU, up by 0.8% from 48.6% in 1998. The figure is significantly less than the 60% often claimed by the Prime Minister and the Britain in Europe group, though the Chancellor did choose to cite the 48.6% figure (for 1998) in his March Budget.

One caveat to the ONS data is that it does not take account of re-exports (goods traded through rather than with the EU), yet re-exports are not as significant as one might suspect. Though large volumes of goods are exported from the UK *via* the EU and, in particular, *via* the large seaports of the Netherlands, most such goods are recorded as trade with the various countries for which they are ultimately destined, rather than with the EU. Some limited misreporting may still occur, of course.

The ONS data also show that EU countries received by value 58% of all UK industrial goods exported in 1999 ('industrial goods' exclude raw materials, agricultural goods, and service sector trade). The UK incurred a trading deficit in industrial goods with the EU of £6.2 billion, and £26.6 billion with the world as a whole.

Direct Action

A reader of the *Journal* from the Isle of Skye has pointed out that, with an option to have the EU flag placed upon UK number plates, all upstanding Eurosceptics should make sure that they opt to include it.

The reader went on to say that, having got the EU flag on one's number plate, one should then cross it with red tape – indicating to all one's view on European integration. Clever people, the Sgiathanachs.

European Foundation Webcasts

The European Foundation is pleased to announce the launch of its new Webcasting venture, delivering Foundation audio material *via* the Internet. European Foundation Webcasts are accessible by visiting "www.europeanfoundation.org".

Whilst the quantity of audio material currently located upon the site is limited, the project will soon move out of the pilot stage to include Webcasts by all senior figures at or related to the Foundation, including major speeches and events.

The Webcast currently upon the site is an interview with the Chairman of the European Foundation, Bill Cash MP, on the subject of how he came to believe that the UK must renegotiate its relationship with the Europe Union.

Should you experience technical difficulties in either downloading or playing Foundation Webcasts, please contact John Tate using the contact details below.

Euro-Parliament's EPP President Turns Hard-left

The President of the European Parliament, Nicole Fontaine, used her keynote speech in Lisbon on 24 March to set out a hard-left view of the problems facing the European Union. As a member of the centre-right European People's Party (EPP), to which the UK Conservative Party are in the European Parliament affiliated, Fontaine's speech highlighted the gulf between the Conservative and EPP delegations.

Speaking to heads of government and state, President Fontaine argued that "[Europeans'] expectations are extremely high, for these reasons:
1) [because of] unemployment […];
2) the across-the-board return to economic growth […]; and [because]
3) they are scandalised by untrammelled capitalism, whose relocations, social dumping, ruthless exploitation of the disparities between the social and fiscal legislation of the Member States and remorseless pursuit of profit at the expense of working men and women have a direct and traumatic impact on their lives, both as communities and as individuals."

President Fontaine went on to declare that "on the very sensitive issue of mergers, [the Parliament] is asking you, first of all, to impose a ban on any mergers that do not comply with binding European legislation on prior notification and consultation of workers and secondly, to ensure that, before such mergers can take place, a serious assessment of their social impact is carried out so that the necessary accompanying social measures can be taken in time[.]"

Fontaine's speech was given in her official capacity on behalf of the entire European Parliament. By using it to attack "untrammelled capitalism", however, she has undermined any notion that the President of the European Parliament should, like the Speaker of the House of Commons, be impartial.

Continuing on the theme of mergers, Fontaine claimed that:

"[u]nregulated mergers, based merely on dominant capitalist concerns, have a devastating effect on the Union's social cohesion. That face [*sic*] of the European Union is unacceptable to men and women who wake up one morning to discover that the company they work for has changed hands and that they are at the mercy of their employer's economic strategy options. The effect on the lives of those people, their families and their entire region is traumatic and, let's face it, inhuman."

Such a leftwing speech by a prominent EPP member is embarrassing for the head of the Conservative delegation in Strasbourg, Edward McMillan-Scott, given his party's decision to continue its affiliation with the EPP.

In defending the Conservative-EPP alliance, McMillan-Scott presents for European consumption a toned-down version of Conservative policy on Europe which attracts criticism from his fellow Tories.

'European Internet Foundation' Launched

Channel Business, a computer trade magazine, has reported that over 50 members of the European Parliament from across the political spectrum have inaugurated a non-partisan organisation in Brussels called the European Internet Foundation (EIF), www.EIFonline.org.

Initial backing for the EIF came from some 20 European IT companies and totals over £200,000. Amongst the EIF's political backers is the head of the Conservative delegation to the European Parliament, Edward McMillan-Scott. McMillan-Scott is identified on the organisation's Web site as a member of the European People's Party (EPP); only on closer inspection does the site identify him as a Conservative.

The EIF receives both the support and involvement of the European Commission, and lists amongst its activities an ongoing programme of live debates, briefings, and special projects in co-operation with its Associate Members. The EIF promises not to take a position on specific issues, but to encourage 'e-democracy'.

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Dissecting the European Dream

Part One: Background to a Tragedy

by Stuart Jackson

1. Tragedy Pre-war Style

'I am a camera', wrote Christopher Isherwood, adopting the phrase as the title of his famous novel set in 1930s Berlin. He observed the colourful characters who surrounded him; and in so doing, captured the essence of the European tragedy that would soon engulf them.

2. Lamont *vs* Clarke : A Seaside Epic

More than sixty years later, another camera in another country turned its clinical gaze on a drama of a different kind. This time the camera in question was a television camera.

The year, 1998; the place, Bournemouth; the occasion, a Conservative Party Conference fringe meeting; the subject, the euro. Lord Lamont and Kenneth Clarke, former Chancellors of the Exchequer both and friends for decades, were locked in a celebrated debate.

Argument raged. Passions raged. Conflict raged. The heat was palpable and was transmitted on the instant to the nation at large. Friendship was stretched to its limit, if not beyond. Was it fanciful to sense that this seaside clash of giants was representative of something much larger; evidence in microcosm of a latent discord that magnified to the scale of a continent might again unleash tragedy on Europe?

3. Competition And Conflict

There is a distinction between competition and conflict. Antagonism between competitors is compatible with a community of interest between them. Competition takes place through the medium of institutions, notably the market and parliament, that are valuable to both sides.

When conditions of conflict prevail, the common interest shared by the rivals can diminish to vanishing point. The aim is not to gain market share or attract votes, but to eliminate or destroy the opponent. In extreme cases, conflict can lead to civil war, which is not a social process but the breakdown of it.

A routine example from the media world makes the point. Suppose that John Redwood and Giles Radice are paired in the television studio. If the subject is, say, health or education or transport, the spirit of the dispute is one of competition. Now substitute the euro as the topic under discussion. Immediately the debate moves several steps nearer to conflict.

4. Sources of Conflict

There has been much public discourse on three overlapping and interlocking themes; globalisation; internationalism and Europhilia. Therein lie the seeds of the conflict referred to.

a) Globalisation Globalisation is about links and exchanges on an international level. It is aided by the electronic media, in particular television, and by the growth of information technology. International trade expands, buttressed by mobility of capital. This process is sometimes said to result in the death of distance. Its effects are held to erode nationhood, if not to render it redundant. This view is widely held among journalists and academics, who combine to pronounce that globalisation is unstoppable.

b) Internationalism The concept of internationalism can take either of two forms. Whether you subscribe to one or the other depends on what view you take of international law.

In its origins, international law was concerned with such practical and mundane matters as international postal deliveries, telecommunications, reciprocal obligations across borders, shipping and by extension air travel.

To this day, the USA remains cool about the United Nations and other international organisations that could limit the powers of the Senate. While respectful of international law and interested in drafting international conventions, the USA is reluctant to submit to the authority of any supranational body.

American attitudes can be traced back to the eighteenth century. There is a distrust of authority and of people who want to change the conventions. The Declaration of Independence was unsentimental and wary. It emphasised the need for checks and balances. It stipulated that government must be founded on consent. Standardisation and harmonisation have no appeal to the American mind.

The contrary view sees supranational authorities as having greater legitimacy than national authorities. The European Union is comfortable with international organisations. To the European mind, the situation whereby the European Court of Justice has supremacy in England over the English courts seems both natural and desirable. In England, this state of affairs is resented.

On the matter of human rights, the American approach is to assert: we are looking after our human rights and we wish you the best of luck in looking after yours. This type of thinking is foreign in every sense to a policy of intervention.

c) Europhilia Europhilia (ie support for a concept known as the European ideal) can best be viewed as a sub-species of internationalism, with a semi-nationalistic or continental twist. Germany and France, abetted by their lesser allies, seem determined to create a European superstate. The semi-nationalistic or continental twist comes into it through an implied affirmation that things European are superior to things African, things Asian, things Oceanic and above all to things American. In addition, there is more than a hint that things Western European are superior to things Eastern European.

5. The UK: A Reluctant Bride

The drive toward European integration, and all that goes with it, is elitist, not populist, in inspiration. Metrication is a case in point. A component of the European dream, metrication is unpopular in the UK. It was unpopular, too, in the USA, but there a populist revolt overturned the proposal. In this country, we have a more deferential tradition : mulishly we acquiesced.

If populism had held sway here, the UK might never have gone into the European Union at all; or once in, might have stood apart from European ideology. As it was, the leading figures in the main parties allied themselves with the political class on the continent. The UK was propelled deceitfully into the EU, then known as the Common Market.

Haughtily, defiantly and in disregard of the popular will, the perpetrators of UK entry held aloft for all the world to see a banner upon which was emblazoned the legend: towards an ever closer union. Thus did the guardians of the state betray the objects they had been expressly entrusted to defend. The ground had been prepared for the ensuing tragedy.

A market researcher by profession, Stuart Jackson has been a frequent contributor to the Journal.

EU Membership: A Cost-Benefit Analysis

***John Tate** conducts a cost-benefit analysis on UK membership of the European Union by examining present contributions* versus *potential tariffs.*

Analysts of the relative financial costs and benefits of the United Kingdom remaining within the European Union often contrast two variables: (i) the UK's net financial contributions to the EU, and (ii) the average tariff on industrial goods imported by the EU. The aim of such analysts is to examine whether the UK would be better off financially outside of the EU and subject to trade tariffs, or inside the EU and paying contributions to the Community Budget.

My aim here is to re-examine and improve upon such analysis, pointing out the complications of the variables involved and arriving at a tentative conclusion.

Figure One: **Likely Consequences for UK Exporters of EU Withdrawal**

Export Category	**Likely Implication**
Industrial goods	#1 Made subject to tariffs the average level of which is currently 3.6%. #2 Possible negative effect upon access to some non-EU markets in the absence of collective trade negotiation.
Agricultural goods & raw materials	#1 Made subject to quota and tariff regime cost of which unknown. #2 Possible negative effect upon access to some non-EU markets in the absence of collective trade negotiation.
Services	Few tariff/quota implications, though less UK influence to secure the privatisation and/or deregulation of the EU service sector, with negative consequences for market penetration by UK companies.

Complications

(i) Estimating the net financial contribution of the UK to the EU is not (as examined in last month's Research Unit Briefing) a simple matter. As a rough guide, one may use the Office for National Statistics' (ONS) *Pink Book,* which shows that in 1998 the UK's net financial contribution to the EU was £5.2 billion. The White Paper *European Community Finance* puts the figure at £4.6 billion, and forecasts a contribution of £2.5 billion for 1999. Data in the White Paper pertain only to items on the Community Budget, however, whereas ONS data cover contributions to and credits from the EU *in toto*.

(ii) The average tariff on trade in industrial goods (an average of the tariffs agreed during the Uruguay Round of trade negotiations, 1986–94) is an even less precise figure than that for UK contributions to the EU, and excludes all agricultural, raw material, and service sector exports. The omission of service sector exports is not very significant since services tend not to be subject to tariffs. The omission of agricultural and raw material products is a more serious matter, for tariffs on these products have few parameters and, outside of free trade blocs such as the Single Market, vary widely. Agricultural trade may also be (and usually is) restricted by quota systems.

It is important too to recognise that there is no single, maximum permissible tariff – even upon industrial goods entering the EU – only an array of varying tariffs applicable to various different goods and classes of good. Trade weighted data released under the General Agreement on Tariffs and Trade (GATT) and the World Trade Organisation (WTO) shows that the average tariff on trade with the EU is 3.6%, but all such figures are necessarily approximate.

Contrasting UK contributions to the EU with the average tariff is, then, to deal in two very approximate statistics. The latter in particular is little more than a surrogate statistic, with which one may do no better than 'guestimate' the tariffs on our total exports were we to withdraw from the EU.

Further, whilst the prospect of a 3.6% tariff may seem a minor burden upon exporters, there are a significant number of companies who would switch suppliers for a far smaller percentage saving. Indeed, exporters often receive orders only by being less than 1% cheaper than their rivals, let alone 3.6%.

Flawed though they are, these two variables – contributions and the average tariff – are two of the best available to those wishing to conduct crude financial analyses on EU membership. What follows is just such a crude analysis.

Comparison

Statistics released by the ONS in March 2000 show that in 1999 the UK's balance of trade was as shown in Figure Two:

The data show that of all UK goods exported in 1999, European Union countries received 58% of them by value (this figure compares with 49.4% for total foreign trade, including goods and services). At an average of 3.6%, then, an EU tariff upon UK goods exported in 1999 would have amounted to £3,489 million (£3.5 billion), notwithstanding retaliatory tariffs. This figure compares with a net contribution by the UK to the EU in 1998, according to the *Pink Book*, of £5.2 billion (1999 figures are not released until September). UK goods exports to the EU in 1998 amounted to £95,726 million (£95.7 billion), of which 3.6% is £3,446 million (£3.4 billion).

Figure Two: **UK Balance of Trade 1999**
(Industrial Goods, Millions)

Total UK exports	£165,204
Total imports	£191,815
Total Trade Deficit	£26,611
UK exports to EU	£96,913
UK imports from EU	£103,115
EU Trade Deficit	£6,202

Thus, had the EU imposed an average 3.6% tariff upon UK industrial exports in 1998, the cost – even before ameliorating factors such as retaliatory tariffs – would have been £1.8 billion less than the UK's £5.2 billion contribution to the EU in that year. £1.8 billion represents £31.58 per person in the UK, based on a population of 57 million. Further, this calculation assumes that UK exporters pay all such tariffs when, in fact, part or all may be paid by the importers.

Figure Three: **Exports and net contributions to the European Union in millions, 1995–1999.**

Year	Goods Exports[1]	Net Contribution[2]	3.6% Tariff[3]	Contribution Minus Tariff
1995	£89,684	£4,774	£3,229	£1,545
1996	£95,965	£3,122	£3,455	£333
1997	£95,908	£2,733	£3,453	-£720
1998	£95,726	£5,189	£3,441	£1,748
(1999	£96,913	£2,486[4]	£3,449	-£963)

1 Data for industrial goods exports only, released by the Office for National Statistics (London: March 2000).
2 Balance on current transfers relating to European Union institutions, from the Office for National Statistics' Pink Book*, p.70. Data excludes payments to the European Development Fund (EDF) to the countries in Africa, the Caribbean, and the Pacific (EDF funding for financial years 1996–7 to 2001–2 is as follows: 1996–97, £151m; 1997–98, £137m; 1998–99, 213m; 1999–2000, 214m; 2000–01, 97m; 2001–02, 219m).*
3 Figure shown is 3.6% of total industrial goods exported to the countries of the European Union in given year.
4 ONS data for 1999 is unavailable until September 2000. The figure in brackets is that forecast in the White Paper, European Community Finance*, published in June 1999.*

To render this average tariff *versus* contribution comparison intelligible, however, one must examine multiple-year figures, as ashown in Figure Three.

The data show that had a 3.6% tariff applied to UK industrial goods exported to the EU between 1995 and 1998, it would have amounted to £13,578 million (£13.6 billion). This figure is £2,240 million (£2.2 billion) less than the UK's net contribution to the EU over the same period of £15,818 million (£15.1 billion). £2,240 million is equivalent to £39.30 per person in the UK. Other than 1999[4], 1997 was the only year examined in which the UK contributed less to the EU than the amount of the average potential tariff.

Many factors prevent one from citing this £2,240 million figure as the amount that the UK would have saved by being outside of the EU between 1995 and 1998 (see epilogue). At most, the finding suggests that the financial costs of membership are not obviously outweighed by either extant financial gains (hence the UK's positive contribution figures in most years) or even the unilateral imposition of a 3.6% tariff by the EU.

This analysis does not suggest that it is in the financial interest of the UK to leave the Single Market. Rather, it points at the rôle of Community programmes such as the Common Agricultural Policy in keeping UK contributions comparatively high. To the limited extent that this crude analysis can support a prescription, that prescription is to renegotiate UK membership so as to render the undoubted financial benefits of Single Market membership greater than the losses incurred through the Community Budget.

Epilogue

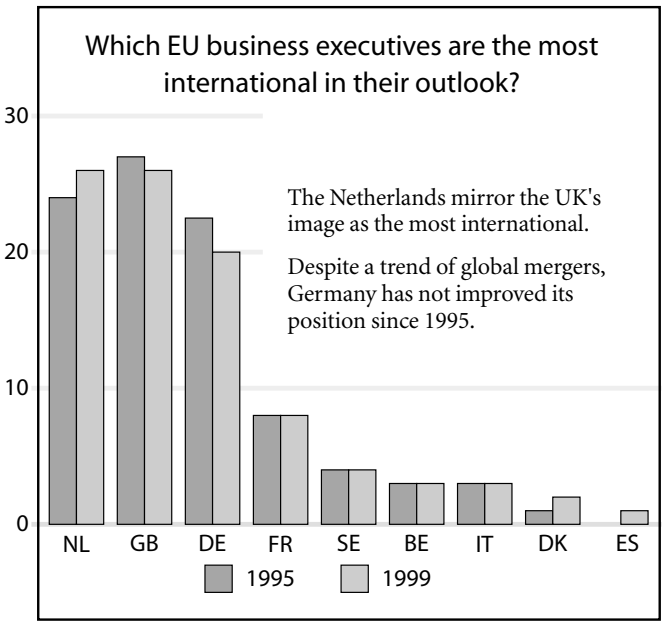
Excluding political considerations, factors complicating this analysis include, but are not confined to (a) the possible deviation of the actual EU tariff from the current average tariff; (b) the tariff that the EU would choose to place upon the UK's agricultural and raw material exports; (c) whether and to what extent, due to the existence of a tariff, the volume of trade between the UK and the EU would fall; (d) whether and to what extent, outside of the EU, UK exporters would be successful in gaining new non-EU orders; and (e) the possibility of the UK joining or becoming affiliated to the North American Free Trade Agreement.

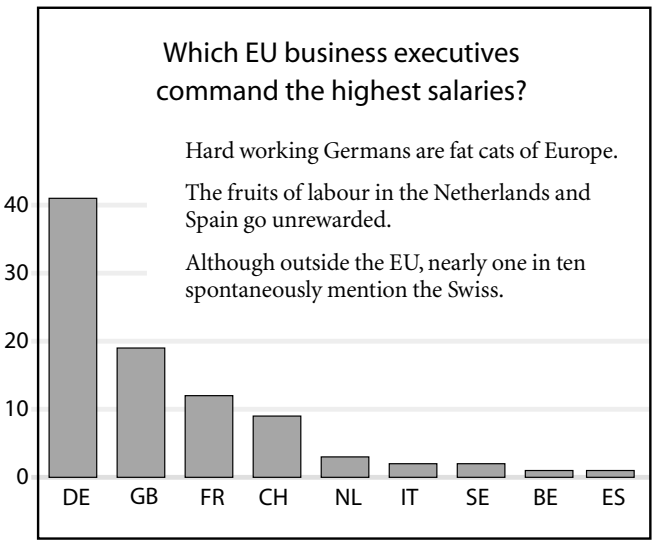
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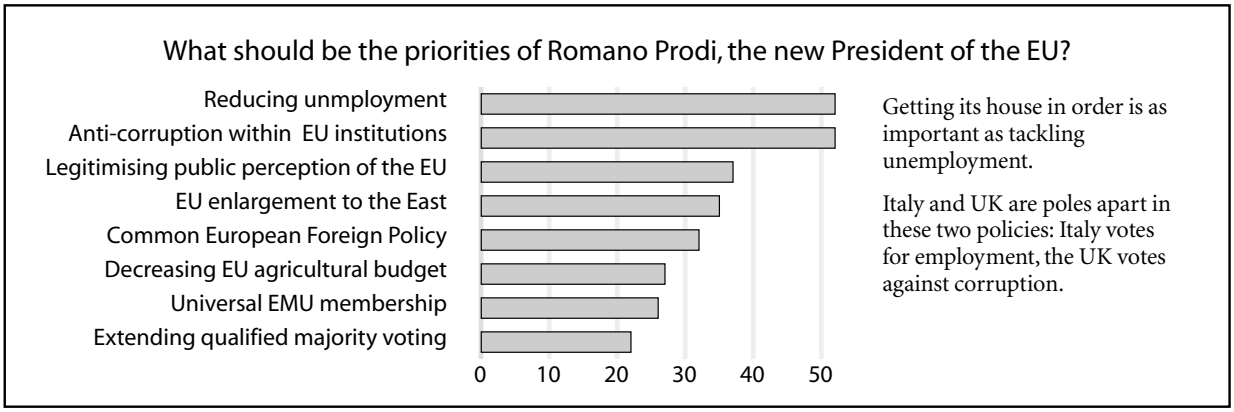
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Sovereign Britain
at 7.15 pm on Friday, 12th May 2000 at Nottingham Trent University,
Law Facility Building, Chaucer Street (off Clarendon Street), Nottingham

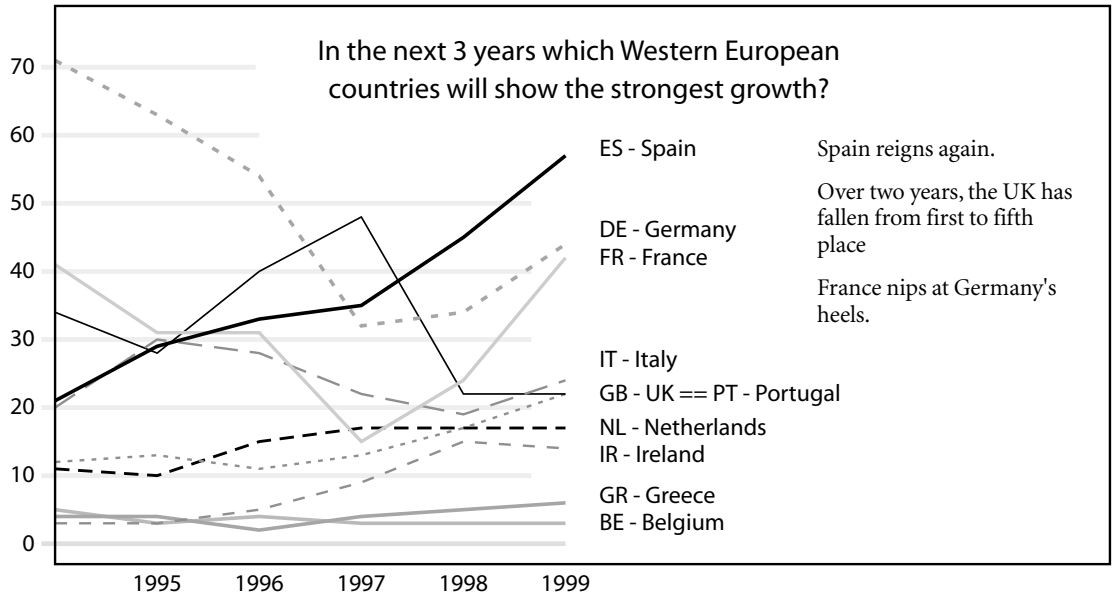
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What Europe's Business Leaders Think

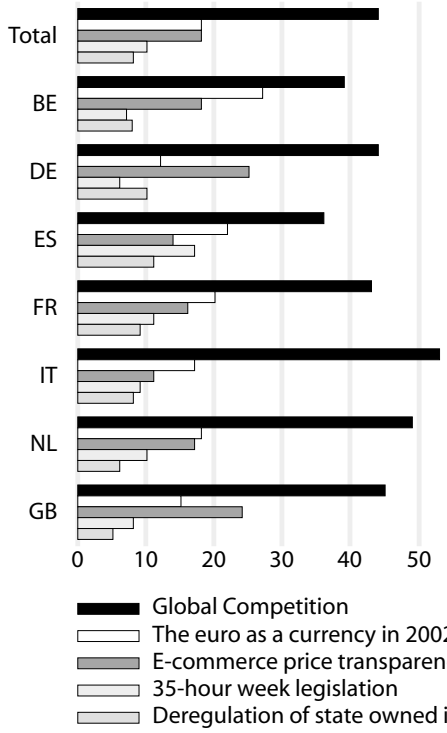








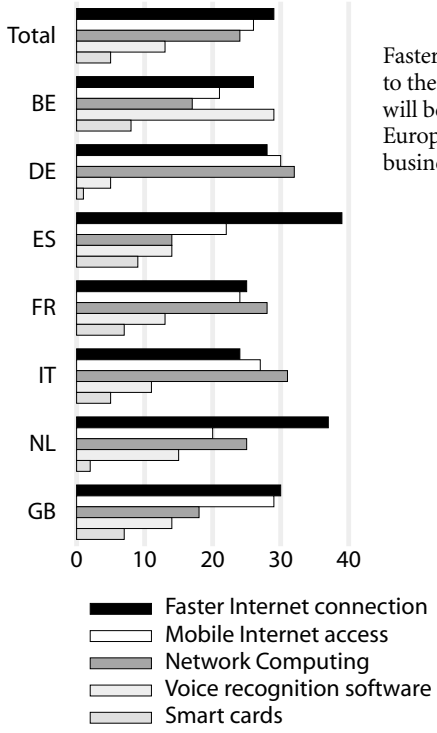
In the next 5 years which will have the most influence on your company's pricing strategy?



Global competition has the greatest impact on pricing.

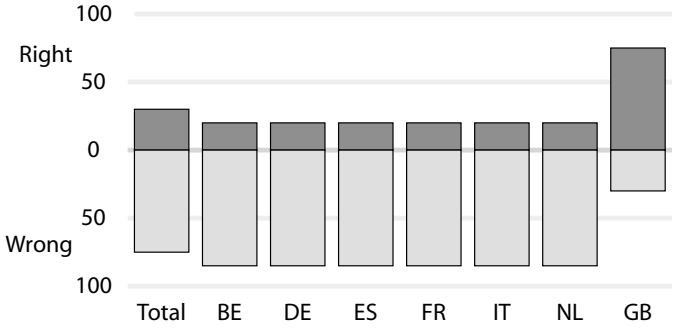
Dealing in euros and trading in e-commerce will have a pricing effect.

Which is the most promising new technology for business as we enter the next century?



Faster connection to the internet will be crucial for European businesses.

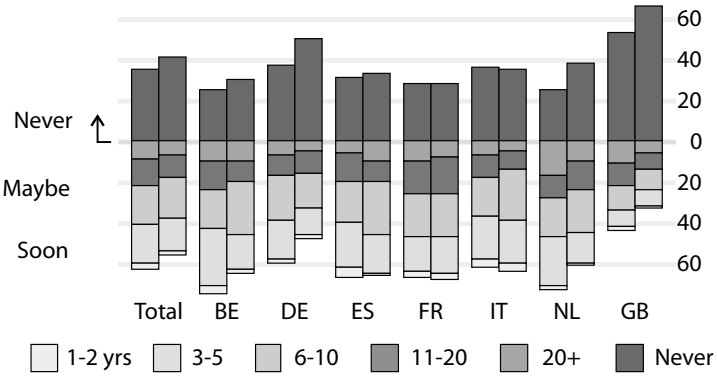
From a UK business perspective
do you think the UK was right to withold its membership to EMU?



Three-quarters of UK business leaders have no regrets.

The rest of Europe is convinced that British business will suffer.

When, if at all, do you think the euro will displace the US dollar as the most important reserve currency?



Euro dominance diminishes as German and Dutch support dwindles.

UK continues euro trashing.

Left columns 1998
Right 1999

This data is taken from *UPS Business Monitor.* The survey was undertaken for UPS by TNS Harris. The data is also available on the internet on UPS's site www.ebm.ups.com.

The European Union and NAFTA

This article is based on a speech by Michael Fabrican in the House of Commons on Wednesday, 29th March 2000

Two significant events have taken place in the past couple of weeks. First the Institute of Directors, which is not known for its Euro-scepticism, published a detailed report entitled, "EU Membership, What's the Bottom Line?" Graham Leach from the IoD's economics department conducted a detailed cost-benefit analysis of our EU membership. Incidentally, I am asking the Government to do just that in my Analysis of Costs and Benefits (European Union Membership) Bill, which is on the Order Paper.

The IoD analysis is deeply disturbing. Despite all the advantages, including the single European market, the inward investment that we have enjoyed from Japan, Korea and elsewhere, the influence that we have exercised in Brussels – or not – and most recently in Lisbon, our EU membership is still, it would seem, a net drain on British resources. According to the study, the net cost of EU membership to each family in Britain is at least £1,000 a year, perhaps double that. That money could be spent on pensions, schools and the health service in Staffordshire as well as in the rest of the UK. Sadly, the Government are in no position to disagree because they have not conducted their own analysis. Perhaps they fear the answer.

First, may I challenge the Government and the Minister in particular to enact the provisions of my Bill? There should be no no-go areas for knowledge and free debate. The second event in the past two weeks has been the visit of the International Trade Commission from Washington DC at the behest of the United States Senate Finance Committee. It is conducting its own cost-benefit analysis into the advantages of the UK joining NAFTA. The visit is significant, although not because it will lead anywhere in the short term; it will not. Sadly, a Senate committee can no more dictate to the White House than a Commons Select Committee can dictate policy to Downing street.

However, this inquiry demonstrates that there has been a sea change in attitude in the United States regarding economic relations with Britain. For years, the United States showed no interest in such ties with Britain. Harold Wilson's sensible overtures in that direction, from 20 or 30 years ago, were rebuffed. However, as the song goes, "The times they are a'changin'". Technology and changed practices have seen to that. It is now cheaper to phone anywhere in the United States than France. It is cheaper to send a container of coal, or anything, to New Jersey than to Nuremberg. We share the same commercial and civil law. We share the same language, the same heritage and the same way of doing business. As I am sure the Minister will confirm, that already leads to huge mutual investment in each other's countries. I shall say more about that later.

There could be more mutual trade for our mutual benefit. Growing voices in Washington DC and beyond see the potential benefits of Britain joining NAFTA. That would create a bigger market with an even bigger gross domestic product than the European Union.

In the darkest days of the war, before Pearl harbour, Winston Churchill said that the United Kingdom and the United States will have to be somewhat mixed up together in some of their affairs formutual and general advantage. For my own part, looking out across the future, I do not view the process with any misgivings. I could not stop it if I wished; no one can stop it. Like the Mississippi, it just keeps rolling.

How appropriate that Churchill, the product of an Anglo–American alliance should have foreseen another so fruitful. So firm was his belief in "the special relationship" as he christened it, that he vowed that with Europe and the Commonwealth it should remain one of the "three interlocking circles" with which future British foreign policy should be concerned.

As Churchill foresaw, the broad strategic interests of the United States and the United Kingdom continue to run together. Those interests lie in the preservation and promotion of peace, democracy and free trade. Our two nations are inextricably bound in the effort to secure those interests. Over the years, there has been co-operation in the North Atlantic Treaty Organisation, the World Trade Organisation and other forums to secure those ends. It has not been easy, however. The growing pressure in continental Europe towards greater harmony of purpose, or federalism, is straining those ties at political, military and economic levels. The United States and the United Kingdom share enormous mutual interests for the benefit of us all, but they are being jeopardised.

In trade terms, the United States and the United Kingdom share, and are continually replenishing, a colossal mutual investment. In 1997, as in most other years, the United States received the largest share of total foreign direct investment – more than 30 per cent – not from Japan but from the United Kingdom. The total UK investment in that year amounted to some $18.3 billion; in north America as a whole, our net direct investment in the past decade has been double our investment in the European Union and that huge investment is reciprocal. Indeed, more United States outward investment goes to the United Kingdom than to any other country. In the past decade, net direct investment in the United Kingdom by United States and Canadian firms was one and a half times that of net direct investment from the European Union. In 1998, United States capital outflow to the United Kingdom was $35 billion compared with $75 billion to the rest of Europe combined. What is left of our overseas territories received an additional $5 billion in that year, more than Portugal and Spain combined.

The importance of our trade with the United States should not detract from the importance of our European markets; by the same token, we must not exaggerate or over-privilege our trade with Europe at the expense of that with the United States.…

Some vested political interests claim that European markets account for 60 per cent of our foreign trade, but the Office for National Statistics pink book reveals that the true figure is a shade over 48 per cent, and even that, valuable as it is, can hide almost as much as it reveals. For example, a substantial portion of our trade with Europe takes the form of goods, such as motor cars, which are exported immediately, often to the United States. Those substantial re-exports constitute trade through, rather than with, Europe. That should not be used to exaggerate our economic reliance on a continent with which the United Kingdom has a massive trading deficit.

The telecommunications revolution and computing – especially the rise of the internet – have closed the gap between the UK and US economies to the point that it is vanishing altogether. Dominated by a common language, the internet represents the death of distance once predicted by the makers of jet airplanes and express trains. The cheapest international call thatone may make from the United Kingdom is now not to Ireland, Germany or France but to the United States. A tunnel may traverse the short distance to Calais, but a new cyber tunnel across the Atlantic affords far speedier access to the United States.

Anglo–American relations are as fused in the defence of democracy as they are in trade and technology. Thrown together in two world wars, the United Kingdom and the United States went on to form an alliance against communist expansion, which came into practical effect during the Malayan and Korean campaigns. Between 1975 and 1989, our two nations stood alone among major western countries in devoting more than 4 per cent of gross domestic product to defence and exerting financial pressure on the Kremlin that eventually brought Gorbachev to the negotiating table and the Cold War to an end.

A firm mutual belief in confronting one's enemies characterised Anglo–American defence relations throughout the 1980s and 1990s. I shall give a brief history lesson to illustrate the reciprocity that marked Anglo–American defence relations between 1980 and 1985. In January 1980, the Conservative Government rightly announced support for 160 US nuclear missiles to be stationed in the UK to counter the threat from SS20 missiles deployed by the Soviet Union. In 1981, Britain declared its wholehearted support for President Reagan's plan to set up a rapid deployment force to be dispatched to trouble spots throughout the world. That force was the forerunner of today's rapid reaction forces.

In 1981, the United States sold the United Kingdom second-generation Trident missiles at a considerable discount, I am happy to say. The US also provided crucial assistance to our Falklands campaign in 1982. In 1983, we contributed military support to a US peacekeeping force that prevented Syria engaging in the Lebanon conflict. Such an engagement would have been disastrous. The well-revived Anglo–American relationship then went on to manifest itself in a host of different areas in the second half of the 1980s.

So much for the past, the cold war is no more and defence expenditure – although still higher in the UK and US than in continental Europe – has been slashed. What of the present? When a poll for *The Economist* in November 1999 asked who was the UK's most reliable ally in a crisis, 59 per cent of respondents cited the United States, despite the ending of the cold war. Only 16 per cent of respondents paid Europe that compliment. Similarly, when respondents in American social attitude surveys are asked who is their most reliable ally they reply, year after year, that the honour of that status goes to the UK, above even Canada.

Let me make it clear that renegotiation is not a code for withdrawal; it is a code for common sense economics.

Regrettably and unnecessarily, the special relationship between the United Kingdom and United States – so long the linchpin of world security – is coming under strain from growing European integration. In trade and defence, the mutual interests underpinning the Atlantic alliance have been ill served by EU policies targeted, sometimes unashamedly, at challenging or frustrating the United States.

The repeated attempts of former EU Commissioner Sir Leon Brittan to secure a free trade agreement between EU and NAFTA countries collapsed as a result of French fears about US dumping. Sadly, many politicians in Paris are hostile to such a deal ever being concluded. Rather than link with a genuine free trade area, such as NAFTA or pressing for free trade agreements through worldwide bodies such as the WTO, the European Union has chosen to secure bilateral trade deals between itself and smaller economies. By creating a patchwork of varying trade deals throughout the world, the EU seeks not so much free trade as favourable terms with parties too weak on their own to resist its protectionist demands.

Even the United Kingdom has suffered from the protectionist instincts of some EU countries. As recently as 16 March, manufacturers of milk chocolate in the UK, including the well-known brand of Cadbury's in the west midlands, learnt the good news that its product is to be allowed into certain European markets for the first time in 30 years. Hurrah for British chocolate!

What about defence? European nations have been making drastic cuts in expenditure at exactly thesame time as they seek to create, as the President of the European Commission Romano Prodi has made clear, a fully-fledged European army. According to President Chirac:

"The object of the European defence identity is to contain the United States."

That is some quote – quite extraordinary. Speaking in Paris in December, Chancellor Schröder echoed President Chirac's comment, stating:

"Whining about US dominance is not good enough. We have to act."

Such anti-American rhetoric may go down well with continental audiences but it certainly does not reflect British interests.

Indeed, there is a fundamental mismatch between the Anglo–American emphasis on free trade and active defence and the continental tradition of military equivocation and economic protectionism.

However, an historic opportunity now exists to narrow the gap between our treaty commitments to the EU and our cultural and historic commitments to the United States. The opportunity to narrow this gap is being created not in London, and certainly – of course – not in Brussels, but in Washington DC and elsewhere in north America. I repeat that I am not convinced that the US Senate Finance Committee will lead to our joining NAFTA; indeed, this is not possible without a change being made to the treaty of Rome. However, there is a nexus of events and circumstances that we would be foolish and irresponsible to ignore.

If the IoD and other economists are right, and there is no net benefit – indeed, a cost – to our membership of the EU, we must renegotiate our terms of membership. We owe that to our farmers, fishermen and pensioners and to the wealth creators in our society. Expansion in the EU to absorb the

eastern European states, which I welcome, will worsen the cost-benefit outcome for Britain unless we renegotiate our treaty obligations to the EU. Such renegotiation is therefore urgent, and should include therepatriation of Britain's right to enter into its own individual bilateral treaties with other nations.

Let me make it clear that renegotiation is not a code for withdrawal; it is a code for common sense economics. I remind the wishy-washy folk in the Foreign Office – I hope that the Minister is not one of them – who say that renegotiation is impossible that Mrs Thatcher knew that in Europe, as elsewhere in life, he who pays the piper calls the tune. Britain is a major contributor to the EU budget.

The current position is unsustainable. The future without renegotiation will be impossible. I am not driven by anti-European feelings – I speak French and German and have friends in those countries. I understand the reasons why Europe, which has endured two European wars in the past century, causing border changes and huge migration, wants to move towards political integration. That is natural, but what is right for continental Europe is not right for Britain. Even my French friends refer to *'les Anglo–Saxons'*, automatically linking Britain with the United States, Canada, Australia and New Zealand. They instinctively understand what is logical and right.

Britain's membership of NAFTA, while staying in a looser, freer EU, is both logical and right. My purpose is not to argue for any specific option under investigation by the United States Senate. I call upon the Government and the Opposition to prepare and reflect upon specific proposals to move the special relationship forward for the benefit of all our people and to shield it from anti-American pressure.

Although Anglo–American relations may, as Churchill put it, roll on like the Mississippi, even that great river has several forks in its path. If the United Kingdom's membership of the EU is not to constitute such a fork, we must act now for all our sakes. We must actively investigate how to strengthen that relationship, the success of which is vital to this country and, as history records, the world.

Michael Fabricant is Conservative MP for Lichfield.

€ EUROWATCH

It has been unfortunate for the euro that it was launched into an exceptional period of sustained and high growth by the US economy. In the fourth quarter of 1999, GDP grew at an amazing 6.9% compared with 2.2% for the euro-11 countries. The outlook for the Eurozone economies is nevertheless encouraging. GDP is forecast to grow by 3.2% in 2000 while inflation is forecast to remain below the target 2%, despite higher energy prices and import costs. European equities have recently experienced a strong revival indicating market optimism on Europe's longer term economic prospects.

None of this, however, has proved sufficient to reverse the euro's steady downward slide against the dollar. Large capital outflows from the Eurozone continue to undermine the single currency. Over the course of 1999, a total €147 of direct foreign investment has flowed out of Europe. Indirect capital flows, those relating to shares and investments, have been far greater. Recently, Japanese institutions have been closing out their euro positions in order to realise capital losses for their financial year end on March 31st. The massive inflow of over €100 billion as a result of the Vodaphone/Mannesmann merger earlier this year partly offset this.

All of this makes it difficult for the ECB to know how to respond. It is charged with the responsibility only of maintaining monetary and inflation rate targets but, for the first time, Europe's Central Bank is showing signs of concern over the euro's weakness. The Bank's base rate increase in November from 2.5% back to its original 3% was justified on the grounds that M3 was growing too strongly but the further rise to 3.25% in February was viewed as an attempt to support the euro. The ECB officially has no targets for the exchange rate but the fact that the increase was implemented a week after the euro had fallen below parity with the dollar suggests that this was a reaction to the currency's weakness. It would be difficult to define a target given that the euro is an artificial currency created at an arbitrary rate. In the six months before its introduction, the Deutschmark had risen quite strongly in the anticipation that the euro would be a strong currency. Its subsequent weakness may be, in part, due to a correction of DM having been overbought. There is no doubt, though, that a rate above parity with the dollar is a psychological target.

Sterling too has been weak against the dollar. Only the yen has been stronger but mainly because of technical reasons to do with Japanese institutions repatriating funds ahead of their financial year end. Yet the euro has fallen even against sterling.

The euro seems to be in a no-win situation. All economic news seems to favour the dollar. Strong US growth gives a boost to the stock market and strengthens the dollar. The prospect of the Fed raising interest rates to check overheating in the economy also strengthens the dollar. In contrast, a rise in euro interest rates is viewed as threatening the growth of the Eurozone economy. In any case, interest rate differentials will continue to favour the dollar over the euro.

The booming high tech sector is largely responsible for driving along the rest of the US economy and the momentum is so strong that it may continue to power it for the rest of this year. Europe has a long way to catch up.

Lynette Swift

Advertisement

Rover, The Euro, and What If …?

by Andrew Lilico

BMW claims that a significant factor in the breaking up of Rover was the change in the level of the pound against the euro since its take-over of that company. BMW alleges that Rover could have been profitable at a DM/£ exchange rate of DM2.40, rather the present rate of around DM3.20. Advocates of Economic and Monetary Union claim that this situation is an exegetic of the UK 'losing out' through not being a member of the euro. Let us consider this claim.

First, let us consider whether the case of Rover is truly one of manufacturing industry losing out through the 'high value of the pound'. Second, we shall imagine that the pound had be replaced by the euro at around DM2.40, and see whether such a conversion rate would really have left us better off than we are today.

When in the early 1990s Rover was relatively successful, its most important single market was the UK. The effect a high DM/£ rate has on sales in the UK ought to be to make them more profitable, since it reduces import prices and hence reduces the cost of imported raw materials and components. Thus, if we are to take BMW's claim seriously, it cannot concern extant markets at the time of the take-over in 1994. Rather, BMW must have been anticipating creating new export markets for Rover cars. Yet, are car exports really being damaged by the DM/£ exchange rate? It is difficult to take this claim seriously, given that 1998 and 1999 were the best ever years for car exports from the UK, with more than 1,000,000 cars exported for the first time in 1998.

Ultimately, BMW's argument is that the UK should have had a DM2.40 exchange rate so that an inefficient German-owned car company based in Birmingham could make profits and thereby maintain jobs in Birmingham rather than in, say, Swindon (where car manufacture is progressing apace). It may not be immediately obvious to some people just what is wrong with this claim, so let us examine it in more detail.

What difference does it make if the exchange rate is "low" (e.g. few DM to the £ – say 2.40) rather than "high" (e.g. more DM to the £ – say 3.20)? One effect is that it makes exports more profitable (if costs stay the same), because it means that for the same DM price in Germany the exporter gets more pounds. Thus, if an exporter is selling the same number of cars at the same price then he will be making more pounds profit.

However, it is also true that his import prices will rise, because if he is importing something from Germany (such as components to make cars) then the Germans will want a higher price now just to make the same profit (for the same reason that the British exports are now more profitable). This factor may not be the most important source of rising manufacturing costs (and hence reduced profits) for him. His workers will now find that if he pays them the same wages as with the higher pound, they will not be able to buy so many goods. Some of the goods they buy will be imports (some 20–25% of goods are imported into the UK, of which about half are from Euroland). Like the car manufacturer himself, his workers will find that the imported goods they buy will have become more expensive. Thus for the same pound in wages, workers will have become poorer in real terms and are therefore likely to demand higher wages now, to preserve their standard of living. These higher wageswill raise the exporter costs and thus reduce his profits still further. In general, in the medium-term, most if not all of the value of increased profits because of devaluation will be lost to exporters through higher inflation.

At the time of the devaluation in 1967 Prime Minister Wilson said that it would not affect the value of the 'pound in your pocket'. This claim was not true in 1967, and is even less true today. Effectively, those who want us to have an exchange rate of DM2.40 rather than the current DM3.20 are asking us all to take a hefty pay cut – reducing our purchasing power over foreign goods by 25%. Put simply, consumers would become poorer so that certain exporters could become richer – accept lower wages so that an inefficient German-owned car producer can make profits.

Alternatively, of course, we could all be richer and have our cars made in Swindon rather than in Birmingham.

Advocates of EMU may of course reply that the argument it is not as simple as my outline of it – and they would be right. Joining the euro when the exchange rate was DM2.40 is not the same as devaluing today to DM2.40 and joining. Let us therefore imagine that the UK had been going to enter the euro in 1999 at DM2.40, ever since 1994. Where would we be today?

Counterfactual analysis is a complicated matter, of course – worthy of more rigorous analysis than I able to afford it here. It is extremely difficult to say how the world would have been different but for a given event. One fact, however, is readily apparent. According to Eurostat, the statistical arm of the European Commission, the UK economy in 1999 (at 1348bn euros) overtook the French economy (at 1347bn euros) for the first time in thirty years to become the world's fourth largest economy. If the UK had joined the euro at DM2.40 this certainly would not have happened.

From 1996 on the euro currencies have depreciated considerably. Initially, analysts suspected that this depreciation was due to investors feared the failure on the euro project and were taking refuge in the dollar or, if they wished to maintain an EU base, in pound sterling. Explaining depreciation is always difficult, yet given that the euro continued to fall even after its otherwise successful launch, this established analysis now seems suspect.

Had the UK joined the euro, it is conceivable that the euro would not have fallen as much as it did. It seems equally likely, however, that the euro would have been considered an even riskier project since the UK would have represented a significant counter-cyclical element in the eurozone which might have undermined the European Central Bank's capacity to set interest rates for the zone as a whole. Nonetheless, by definition the UK would not have had the relatively strong pound we have had since 1996. What would have been the consequences of this set of circumstances?

During 1997, interest rates in the UK rose, before starting to fall back again in 1998. A major factor in this period was the strength of the pound. Since the pound was strong, inflationary pressures in the economy were subdued, because import prices were kept low and hence competition was kept fierce. Had it not been for the dampening effect of the strong pound, UK interest rates between 1996 and the end of 1998 would almost certainly have been markedly higher than they were – or else inflation would have been higher. Despite widespread talk of lower interest rates, the consequence of

lower rates in this period would have been higher interest rates, something it is difficult to imagine the manufacturers welcoming.

Then, at the end of 1998, the euro would have been born and interest rates would suddenly have moved to the European average – in our case meaning a significant reduction in rates, as happened in Ireland. One consequence of this would have been that the high interest rate period would have been followed by a high inflation rate period through 1999/2000, as we had interest rates considerably below our domestic needs. A good example of this effect is Ireland, where consumer price inflation, which was 1.5% between Jan 1998 and Jan 1999, and which was expected to be at about 2–2.5% during 1999, was actually 4.0% between Jan 1999 and Jan 2000. The UK experience would presumably have been similar, with inflation accelerating, wage costs rising, import prices rising as the euro depreciated against the dollar – moving the UK away from a position relative to the dollar which had been quite stable for over ten years – and much of the inflationary credibility built up over the past twenty years being eliminated at a stroke. Would manufacturers have welcomed a 6% inflation rate, for example?

Possibly the Government would have taken action over fiscal or incomes policy to counter the inflation, since monetary policy would be beyond its control. Taxes have already risen, in discretionary terms, by some £13bn this Parliament. Perhaps another £13bn, or some 6p–7p on the rate of income tax, would have had an impact on inflation. Alternatively, perhaps the government would have cut even further its expenditure on health and education. Or maybe we would have had a public sector pay freeze (no rises for teacher or nurses). (Lest someone complain that this is scare-

mongering, it is worth pointing out that these were exactly the sort of things that happened in eurozone countries during the qualifying period.) The question of which of these policies advocates of the early adoption of the euro would have supported remains, of course, unanswered.

Growth, which would have been stifled by higher interest rates between 1996 and 1998, would take off in an uncontrolled manner in 1999 and 2000 – leading to capacity shortages. Unemployment would have risen throughout 1994–98 instead of falling, before falling back rapidly during 1999. Advocates of EMU exhibit great concern for Rover workers in Birmingham. What would these advocates have said to the hundreds of thousands of workers across the country who would have been without jobs for years because of the higher interest rates consequent on euro membership?

if economic mismanagement is responsible for the over-valuing of the pound then that mismanagement is being conducted in Euroland

Outside of the euro, the UK economy has been flourishing for years, and managed even the hiccup of the Asian crisis without contracting. The UK has achieved this success operating a monetary policy designed for domestic needs, to control inflation and manage the economic cycle. As a standard result of macroeconomic theory, it is impossible both to sustain a fixed exchange rate and to operate a domestic monetary policy. We have only been able to use our monetary policy to meet our domestic needs because we have had a floating exchange rate – we have allowed the pound to find its own level in the international currency markets.

When a price is set by the money markets – as the price of the pound is – it is neither 'too high' nor 'too low'; rather 'it is what it is'. Like the stock market, of course, it can be over- or under-valued in the sense that the price is above or below some long-term trend or some underlying fundamental value. In the case of a currency, the two most important measures of whether a currency is over-valued are the balance of trade condition (whether our exports are as large as our imports) and the purchasing power parity condition (roughly, whether a Big Mac costs more in the UK or abroad).

By both of these measures the pound is currently slightly over-valued. We are running a trade deficit (although exports are rising quite fast, imports are rising even faster), and goods are more expensive now in the UK than in Euroland. These facts should not be a source of concern unless we have bought lots of pounds. All it means is that we should expect the pound to fall against the euro some time soon – or else we should expect Euroland inflation to rise so that Euroland goods prices rise to UK equivalent levels, or Euroland growth to be lower than UK growth for many years to come.

Another other, related point is that the value of the pound reflects UK interest rates – which might well be higher than necessary and hence an important factor in the current modest over-valuing of the pound. Possibly, the Government should be running a larger budget surplus at this stage of the economic cycle, leading to fewer bonds, higher bond prices, and hence lower interest rates and a lower value of the pound. It is also possible that the Bank of England is over-estimating the degree of inflationary pressure in the economy by under-estimating the new long-term sustainable growth rate of the economy – leading to higher than necessary interest rates and a stronger pound.

More probably, though, if economic mismanagement is responsible for the over-valuing of the pound then that mismanagement is being conducted in Euroland. Our 'problem' is not so much a 'high' pound (the pound has been quite stable against the dollar for years) as a 'low' euro. Euroland economies are still failing to address many of their structural problems -- particularly the rigidities in their labour markets.

In sum, then, the pound is perhaps slightly higher than it would have been were economic policy optimal. However, the fact is that exporters never call for a rise in the value of the pound. It is difficult to see why they would be content even if the pound fell to DM1.00. Exporters lobby for what is in their interest – but that is not the same as what is in everybody else's interest. The rest of us are better off as the world's fourth largest economy; with controlled growth; our monetary policy directed towards our needs rather than someone else's; low inflation; a currency which finds its own value through free exchange; and our cars made by efficient car producers in Swindon.

Andrew Lilico is a tutor in economics at the University College London.

Chunnel Vision

Atención!

by Dr Lee Rotherham

Only the arm flash betrayed the soldier's nationality as he eyed the visitor approach his sentry box. Red-yellow-red: Spanish then, and not out of place guarding the entrance to some military establishment in Burgos or Barcelona.

This, however, was neither. The building he was protecting was owned by the French Government. The city, at the heart of which he stood, lay almost within walking distance of the German frontier. His side-arm, had he been an officer, would have been of Belgian make: he had to shoulder instead a French-made rifle.

Is this the future of the European armed forces? For in this central Strasbourg location lay the HQ of the infamous Eurocorps.

Your correspondent was fortunate indeed: a morning briefing from the Belgian Press Officer (a chirpy Major) on how this embryonic army of Europe fits together, and then time to scoot off into the countryside (further from the Rhine, but let's not read too much into that) to a new location, more salutes and an interview with the Commanding Officer himself, Lt. General Ortuño.

I spare you the fine details. Hopefully, Daniel Hannan, MEP, *Telegraph* writer and fellow invitee, will produce his own insight and for a wider audience – though not necessarily more distinguished – than these pages will reach.

An outline, then, Eurocorps exists as a skeletal organisation. In a Euroworld where armed forces too often exist on paper rather than in the field, it comprises divisions 'promised' by its constituent states. Luxembourg, which would see total conscription of every man, woman, child and pet gerbil to make up such a force, simply supplies a reconnaissance company. One recalls the MASH episode where the lost Luxemburger gets patched up and returned to his colleagues, to great national joy. Let's face it, when your top commander is only a Colonel, you tend to spot casualties more. But apparently it's a professional unit, so thanks, Grand Duke.

The only other dedicated unit outside of the Command and Control elements is the body people tend to think of when they think 'Euroarmy'. It's the Franco-German Brigade, tucked away in Mullheim inside Germany proper. This is the force which sent panzers down the Champs Elysées under Mitterrand – who said the Left was PC? Orders are given bilingually, and everyone's kit is standardised; only the Eurocorps HQ compares in this practice, though there even if everyone carries German machine guns, the standard operational language tends towards English. All the other units, the vast majority of manpower, are drawn from the national armies depending on what squaddies are available, all using national equipment. Of course, NATO standard patterns apply, so most of it is interchangeable.

Its commander is a competent choice. Presently, due to staff rotation, it is a Spaniard, perhaps the first such to hold serious rank in France since the crushing of the tercios at Rocoi in the seventeenth century. After the farcical state of the Spanish armed forces under Franco, this is some comeback. Any nation which until recently still flew Messerschmitts and equips its National Guard with Dick Turpin hats could not be taken too seriously. But General Ortuño fits the Eurocorps bill. Extremely diplomatic – capable in the European mode of talking much but saying little, schooled in the NATO tradition and conscious of the lack of political will to bankroll his forces to meet the specs if the Americans don't chip in, his skills will be tested as the unit deploys its HQ in Kosovo. And by supplying so many senior personnel, from countries which currently supply so many ground troops, Eurocorps effectively takes over the running of that theatre. Which means, incidentally, that British troops fall under its control.

So what do we conclude from our foray to this Quartier Général?

Eurocorps today is no threat.

Eh? Come off it, I hear you say, what about the damage to NATO, the formation of a body of Eurotroops to aloofly fight Europe's battles…

No, Eurocorps is not a threat, today. Its senior personnel come from NATO backgrounds; its contributory units are not totally dedicated but may be refused by member states if they choose to assign them elsewhere or not at all. It operates in exactly the same way that the UK now applies its empty shell of a 'dedicated UN force'. Our UN contribution apparently includes a couple of North Sea ferries. No one knows if Sea Link is too chuffed, or is even aware that Robin Cook has offered them. This is just a vague promise of maximum levels of possible commitment if we want to become involved. These days, it's like promising a friend a loan of somewhere up to fifty thousand quid in five years time if your bank balance can handle it.

The first real threat is the Franco–German brigade as the model for future co-operation, the pooling of military loyalty, the esprit de corps taking away the spirit of Horseguards.

It is also the threat of politicians looking at Eurocorps and saying, "We have the tools; go and perform the task", and ignoring the need for US military resources. In other words, putting men's lives on the altar of European 'independence'.

It is the threat of gazing at the Franco–German brigade and seeing a case for supplying all potential component troops with identical kit, meaning that parts of our defence industries shut down and specialise, destroying our ability to produce tanks or warships on our own.

The threat is not General Ortuño, or his competent team. It is the politicians who will push them to achieve the impossible.

I get the impression that the General understands this, even if he was too diplomatic to say. After a previous posting in Italy with Eurofor, Eurocorp's lesser known Mediterranean cousin, one senses someone who has been learning the ropes when it comes to the ambitions of ministers raising bright flags while playing with paper tigers.

Yet the context remains worrying. The Labour Government have been playing the same game, pushing an ethical foreign policy while reducing Her Majesty's Armed Forces further past the extraordinary point where we have less armour than Eurocorps itself. So Blair's interests in expanding on 'bolt on' European defence agencies, especially the European Peacemaking Corps, is a real menace.

But Blair should beware. Paper tigers burn.

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.

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