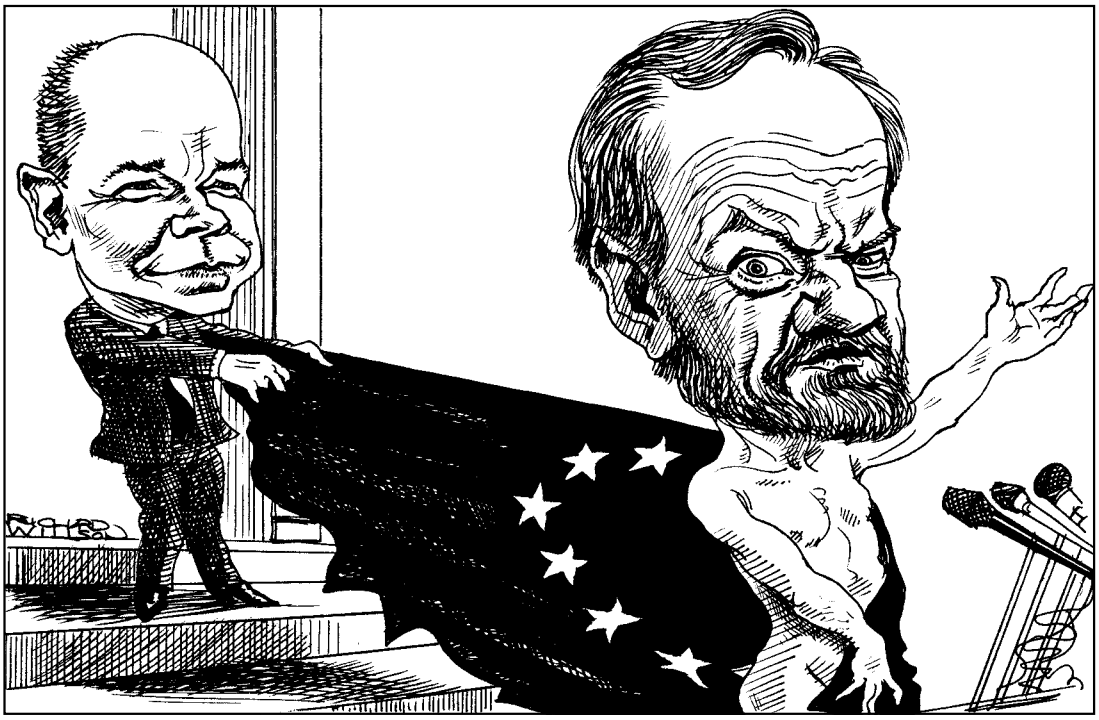
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THE EUROPEAN JOURNAL

The Journal of the European Foundation



Lord Tebbit
Time to Reveal All on Europe
&
Andrew Roberts, Dr Madsen Pirie,
Nirj Deva, MEP, and Sir Trevor Lloyd-Hughes

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

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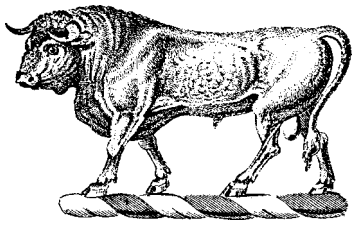
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Hiding in the Euro-brambles

Brer Rabbit simply sat in the brambles and waited. If he waited long enough, he reasoned, he would get what he wanted and the danger would pass. These are the Europhile tactics. With some honourable exceptions (such as those who took part in our debate in the Gibson Hall in July), the name of the game is to decline to reply.

What does replying mean? It is quite simple. It means taking the time and the care to examine our arguments (such as those presented in my pamphlet for the Conservative Party Conference this year, "Britain and Europe – Challenging Questions for Tony Blair, Kenneth Clarke and Michael Heseltine") and, if they can, to demolish them. It is not good enough for those presuming to know what is the right path to follow on the European issue (from whichever side of the argument) to run away from the real debate.

Those who do are betraying the electorate, no doubt in the belief that if, like Brer Rabbit, they hide in the Euro-brambles of propaganda (largely paid for out of taxpayers' money) and behind the complexity of the Treaties and the issues, they will get by and the ratchet of the Treaties – described as "irreversible" with no right of secession – will grind forward remorselessly to the full political union of one country called Europe.

All this makes it essential that we expose the lack of proper debate in the media, particularly where interviewers deliberately omit or fail to ask the real questions or to interview the right people. Indeed, there is a growing tendency by producers on the European issue to bring in "soft" participants who do not engage in the central arguments or for them to substitute the interviewer for the Eurorealist or Europhile protagonists. This seems to be the current response to the thorny but fundamental question, which the European Foundation has frequently posed, which is to challenge the BBC, for example, to treat the European issue as a matter of national public interest rather than as a matter merely of party politics. This is all part of the dumbing down, the anaesthetising of our democratic system.

This in turn makes it imperative for the Eurorealist groups to find common ground on the central issues. Time is not on our side, because the preparations needed to mount a winning campaign in the Referendum are required now – not when it is upon us. Close co-ordination by the No campaigners has always been essential but it must be on a coherent platform. There will be one centrally funded campaign and those who advocate withdrawal will vote 'No' in any event. The sinning margin, however, will come from those who advocate genuine deep-rooted renegotiation of the treaties – not lipservice to the idea itself – rejecting the single currency and its federalist consequences and trappings.

The debate cannot be confined to one issue.

The British electorate will not be persuaded by lipservice – nor should they be. The central campaign therefore will need to be led by those who are seen as credible by the electorate. Otherwise they will soon be exposed by the Europhiles on their record of allowing European integration to go ahead whilst claiming to be putting on the brakes. The Eurofanatic media will have a field day and we will lose the vote.

What therefore is needed now is a close and honest examination of the kind of issues raised in my pamphlet and the unselfish co-operation of leading Eurorealist activists and Eurorealist groups in mapping out a winning strategy based on consultation and conviction – but also on a clear and simple message. This is not yet happening to a sufficient extent. The longer it takes, the greater the likelihood that the 60% lead we now enjoy will dissipate, as it did in 1975.

There is always a way of getting Brer Rabbit to come out of the brambles, but the longer he is allowed to sit it out the more difficult is our task.

Bill Cash, October 1999

Conference Meeting

All subscribers are invited to attend the European Foundation/ Bruges Group Fringe Meeting during the Conservative Party Conference: see page 29. Bill Cash, John Bercow and Roger Helmer will all be putting forward the strong case for keeping the pound and saving democracy –*Ed.*

The Euro – Is it a Mars Bar or a Ford Edsel?

Stuart Jackson *analyses how, under the guise of being positive, the euro's sponsors have yielded to the temptation of falling in love with their own product.*

1. A Statistical View

The euro is a new product. The history of new products records that successes are rare. Failure is the norm. Statistically speaking, the euro is much more likely to fail than to succeed.

Of course, you never can tell, which is why it is advisable to keep an open mind; open but sceptical, because the weight of evidence concerning all things new leans heavily towards doubt.

2. Defining Success and Failure

In attempting to monitor the progress of the euro, we encounter an unusual difficulty. Europhiles are reluctant to define the boundaries that divide success and failure. It all depends on which way the wind is blowing that morning, they seem to tell us.

A weak and falling euro, a strong and rising euro, a fluctuating euro, a stable euro: each of these disparate conditions, it appears, is a variant of success. So what would failure look like?

It is as if the euro's advocates had stood the well known Groucho Marx lyric on its head. "Whatever it is, whatever it does, I'm against it" has been converted into "Whatever it is, whatever it does, we are for it".

Thus if one of the participating countries left EMU (and Italy must be a prime candidate for that distinction), its departure would be presented as a symptom of success for the project as a whole, as would its subsequent re-entry were such an event to occur. Banished because unworthy; welcomed back, like the prodigal son, because reformed.

This is not economics. It is not even politics. It is religion.

3. Reasons for Innovation

Change is the imperative that drives innovation forward. Technology changes, the competitive environment changes and consumer tastes change. It is a case of innovate or die. The future of an industrial enterprise rests on its new product programme. For the most part this is invisible to the eye of the external observer.

A word of caution is in order here. If a new product programme falters, the maxim innovate or die can turn into innovate and die. For some companies the best advise is: stick to your knitting. For others it can be: expand by acquisition. Some outfits, particularly if they are bureaucratic in style, are unsuited to the challenges of innovation. Perhaps the European Union is an instance of this rigidity.

4. The Secret of Success in Innovation

Successful new products depend on a clear and demonstrable superiority over existing products. Colour television quickly displaced black and white because, once viewers had been exposed to colour, they found black and white an unacceptable substitute. Washing up liquids, fluoride toothpastes and easy-care fabrics ousted their competitors for similar reasons.

To believe that the euro comes into the same category requires a conviction that sterling, the French franc and the German mark are derelict currencies fit only for abolition. Such a conviction is hard to sustain. If we are to understand the motives of the euro's supporters, we must continue our search.

5. Innovation is Harder than it Looks

An inspection of products currently on sale can give a false impression. The supermarket shelves are dominated by such famous brands as Mars Bars, Kellogg's Corn Flakes, Coca-Cola, Marlboro cigarettes and Ambrosia Creamed Rice; big money-makers all, going way back into the distant past. Surely this demonstrates that the difficulties of product development can be exaggerated?

It does no such thing. What, by definition, a supermarket tour cannot reveal are the almost infinite number of ideas that did not survive initial scrutiny, the endless array of prototypes that were rejected in consumer trials and the thousands upon thousands of products that were withdrawn after unsatisfactory results in test markets. The successful brands on display are very few by comparison with the vast number that failed or were screened out.

6. Dead but not Forgotten: The Case of the Ford Edsel

Failures are soon erased from the mind. Even the companies directly involved forget them before long. A notable exception to this memory loss is the Ford Edsel, launched in the USA more than thirty-five years ago.

Frequently referred to even to this day, it is an emblem in the world of marketing for spectacular failure. In its own sphere its notoriety matches that of the Titanic. Fervently admired by its designers, the Ford Edsel was unappreciated and largely unbought by the consumers at whom it was aimed.

7. Never Fall in Love with the Product

Therein lies the problem. If you fall in love with your own product, your judgement will be impaired. Disaster may ensue. Beauty, the poet tells us, is in the eye of the beholder. Likewise the attributes of a product, bad as well as good, reside in the perceptions of the consumer, not in the specifications of the manufacturer.

Self-ratings mislead. It fell to the mirror to inform the queen that Snow White, not she, was the fairest in the land; a violation of Gore Vidal's advice that to gaze into a looking glass whose habits of reflection are less than flattering is to invite unease.

8. Marketing is Marketing, Production Production

Industrial companies have discovered that marketing and production should be separated geographically as well as functionally. Locate them on the same site and you soon discover that the production manager is dabbling in the advertising and, worse, that the marketing manager is starting to take an unhealthy interest in the chemistry of the product formulation.

The job of the marketing manager is to concentrate his attention on the product's consumers, not the product as such. If he thinks of the product at all, it should be of its effects, not of its constituent elements.

9. The Euro is an Unsuitable Object of Adoration

As with commercial products, so with the euro. Lord Jenkins has clearly fallen in love with it. As its co-inventor, he can be forgiven a touch of narcissism. Even so, it is a bad sign.

Falling in love is nature's instrument for perpetuating the species. It sets the process of innovation in motion. Later the resulting progeny is subjected to the more detached evaluation of friends, teachers and employers; or in the commercial setting of purchasers and consumers. The emotional attachment of the progenitors does not come into the reckoning. Only performance does.

10. The Euro is Receiving too much Adoration in Some Quarters

At the Grand European Debate in the City on 15 July 1999, Giles Radice MP and John Monks, General Secretary of the TUC, exhibited an uncritical approach to the euro. Ask not what the euro can do for you, they seemed to assert, ask rather what you can do for the euro.

The mere fact of its having come into existence (or an existence of sorts) was for them the final proof of the euro's success. Could product orientation go further? Could consumer orientation be more blatantly disregarded? It was as if Henry Ford, William Lever and David Ogilvy had never lived.

11. The Big Story

To answer the question contained in the title, the euro is far more likely to be a Ford Edsel than a Mars Bar; more likely, that is, to fail than to succeed.

Bear in mind too that failure is not the only hazard. Success would pose a threat all of its own; a threat to sovereignty, self-government and the British constitution.

But that is another story. Perhaps it is the real story; a story of secrets, intrigue and undisclosed motives.

A market researcher by profession and a previous contributor to the Journal *on the subject of the euro, Stuart Jackson has specialised in developing and evaluating new products.*

… news in brief

Pasqua and Villiers put on show of unity

The two leaders of the new *Rassemblement pour la France et pour l'indépendance de l'Europe*, Charles Pasqua and Philippe de Villiers, who beat the establishment Gaullists in the European elections, have struggled to put aside their differences and present a united front for the future of their party. They are divided by mutual personal animosity and by differing opinions on whether to be a right-wing party or an all-party group. The new party is to hold its inaugural congress in Paris on 20th and 21st November. [*Le Figaro*, 7th September 1999] The new party has also formed an alliance within the European Parliament. The British Conservatives having refused to leave the pro-federalist European people's party (whose party charter commits the group to 'a United States of Europe') the French break-away Gaullists have got in bed with some Irish and Portuguese MEPs and with the Italian *Alleanza nazionale*. The French were a little surprise when the Italians turned up to the first meeting wearing euro badges in their lapels and boasting of their support for the Amsterdam treaty. They should have known that, in his determination to become respectable, Gianfranco Fini has become more Catholic than the Pope in political terms and has embraced pro-Europeanism with a passion.

Interest rate hike in Europe evoked in Germany

The possibility that the European Central Bank might raise interest rates has been evoked in Germany. Economists at Deutsche Bank believe that "a new monetary cycle has started in the world" (they are referring to the anticipated rate rise in the USA) and that the only uncertainty lies in the date. The bank's economists believe that the ECB could raise rates by one percentage point during the course of next year. Indeed "a first step in that direction cannot be ruled out this year." Yet growth predictions for Germany remain at 3% for 2000 while inflation is expected to rise to 2%. [*Le Monde*, 11th August 1999]

Europas Schicksalskampf im Osten

The Hungarian Foreign Minister, János Martonyi, has said that the present German government is doing just as much for Eastern enlargement as its predecessor. "Joschka is fighting (*kämpft*) for Hungary," in a familiar reference to the German Foreign Minister, Joschka Fischer. He added, "He is a man who keeps his word" (which may be news to Mr Fischer's previous three wives). Mr Martonyi has obviously learned the first lesson of the good European: be nice to the Germans. He insisted that the admission of Hungary to the EU was "in Germany's fundamental interests." Mr Martonyi also said that Hungary would take "a very active role" in promoting the Stability Pact for South-Eastern Europe. The role is likely to be very active indeed, since Hungary has announced that it wants to dismantle Serbia even further by giving "personal autonomy" to the 300,000 or so Hungarians who live in Northern Serbia. [*Handelsblatt*, 9th September 1999]

German unemployment remains above 4 million

As if all this good news were not enough, the number of people out of work in Germany in July has remained stubbornly fixed at 4.03 million, the same figure as in June. Indeed, the total number has risen when seasonal factors are taken into account. The seasonally adjusted figure had dipped below 4 million in May and June; the highest figure this year was in February, at 4.47 million out of work. [*Der Spiegel*, 6th Sept. 1999]

Lafontaine strikes again

Oskar Lafontaine, the former German Finance Minister, is publishing a book in the autumn in which he will attack the economic policies of Gerhard Schröder and his government as "neo-liberal". He will also give a comprehensive criticism of the Third Way/*Neue Mitte* paper presented by Tony Blair and the German Chancellor (and drawn up by Bodo Hombach) in June. Lafontaine will accuse the government of making spending cuts at the expense of pensioners, the unemployed and workers. The Defence and Foreign Ministers are to be attacked for their role in the war against Yugoslavia. Lafontaine will also accuse Schröder of breaking his promise to take important economic decisions only in consultation with him. [*Frankfurter Allgemeine Zeitung*, 10th Aug. 1999]

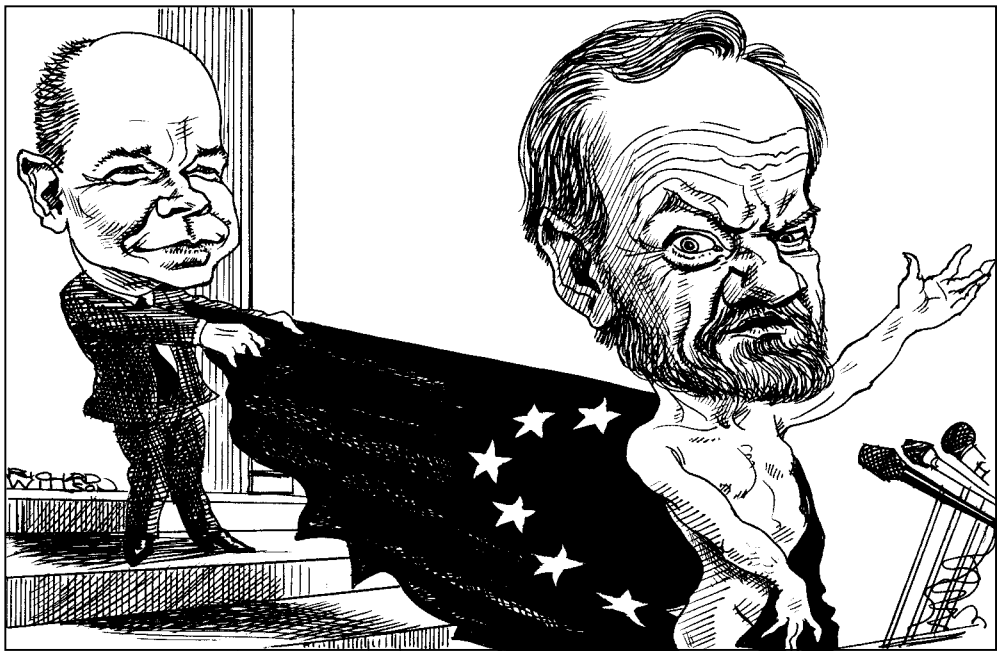
The leak comes amidst a row which has broken out within the SPD about the Blairist policies which Chancellor Schröder wants to embrace. Many reject the new path which Schröder says he wants to take, others are saying he should be even more radical and free-market. The leader of the SPD parliamentary party, for instance, has said that the SPD should completely drop the notion of redistributive taxation. Others have said that any attempt to imitate New Labour should be wholeheartedly rejected. [*Handelsblatt*, 10th August 1999]

Brussels fights Brussels

Having initially said it would disobey European requirements on dioxin testing, the Belgian government has fallen into line and said that it cannot ignore the dictates of Brussels. It continues, however, to question the standards imposed on it. The result is likely to be a typical Belgian compromise: although the government has said it will comply with the requirements, it probably will not do so in reality. Belgium's disobedience follows hard on the heels of Germany's refusal to lift the ban on British beef imports and thus represents a further unravelling of the oldest single market in Europe, that in agricultural produce. [*Le Monde*, 10th & 11th August 1999]

Time to Reveal All on Europe

by Lord Tebbit



The Treasury is mightily pleased with its Chancellor. The Chancellor is mightily pleased with the economy and himself. Not only is he happy to take the credit due to him for giving the Bank of England responsibility for setting interest rates to hit his inflation target, but he is happier still to take the credit for the Thatcher reforms that are driving forward the United Kingdom economy. Trades union law reform, relief from the burden of nationalised industries, deregulation, reduction and simplification of taxation are long term, slow-burn measures now fuelling the healthiest economy we have seen for decades. The Chancellor's more complicated and higher tax structure and increased regulation, especially in labour relations, are regressive measures that will bite only slowly – certainly too slowly to negate the Thatcher reforms before the next election, so it is all smiles at the Treasury.

Every silver lining has a cloud. Somewhere there is a discontinuity in Government economic policy. If we are doing so well, then why are we doomed to disaster unless we enter Monetary Union? If the Bank of England is managing interest rates so well in the interests of our economy, why should we be better off if the European Central Bank managed our interest rates without any more regard for us than for Spain or Italy?

Perhaps Mr Brown is shrewd enough to believe that in the run up to the election the Government – and he in particular – would be wise to take credit for economic competence rather than to give economic power to Europe.

That may well be the explanation for Foreign Secretary Cook's much heralded but extraordinarily thin speech in Japan lauding the euro but making a very weak case for Britain to join Euroland.

Mr Cook spoke of the success of Japanese investment in Britain, with rather more enthusiasm than his party showed when the tide of investment began to flow so strongly in the early 1980s. When in 1981 I signed the deal bringing Nissan to Britain there was no talk of the euro, nor much about Britain's EEC membership. It was faith in the Thatcherite reforms, low tax, deregulation, a floating currency, plentiful labour and a growing motorway network which attracted Nissan.

The Foreign Secretary told his Japanese hosts that Britain has guaranteed access to the European market. Quite so, but that access is not only guaranteed by the Treaty of Rome regardless of whether Britain enters EMU, it is guaranteed by the World Trade Organisation, even if Britain left the European Union. Action to obstruct British exports to Euroland would be met by action to obstruct European exports to us in a tit-for-tat trade war as harmful to Euroland as to Britain.

Mr Cook's claim that the European economy is recovering because of the success of the euro must have caused some polite amusement among the Japanese. What recovery we have seen has stemmed from that traditionally British recovery plan – a sharp devaluation. The good as gold Deutschmark is no more. The euro is now boosting German exports as German industrial costs rise. After all the threats made against us that we would be punished for seeking advantages by devaluing the pound against the euro, it is a bit rich to hear a British Minister praising the "success" of the euro in devaluing against the pound, dollar and, as his hosts were well aware, the yen too.

Nor would the Japanese have been impressed by Mr Cook's claim that our economy is dependent upon the sclerotic, slow growing European economy. The Foreign Secretary was probably misleading himself as well as the Japanese, but the fact is that only about 43 per cent of our exports go to the European Union. That is certainly less than 20 per cent of our total Gross Domestic Product, probably nearer 10 per cent when the statistical distortion caused by re-exports is taken into account. So 90 per cent of our economy is entirely unaffected by the euro or trade with Euroland.

Japanese businessmen and economists would also have been surprised that the Foreign Secretary should make so much of the huge amount of international borrowings in euros in the first half of 1999. They know, even if Mr Cook does not, that it is better to borrow in a currency likely to sink in value than one likely to rise. To borrow at the low short term interest rates needed to stimulate the recessionary economies of France and Germany is, of course, attractive, but the Japanese are wise enough to look at the longer term too. They will be aware, even if his officials had not told the Foreign Secretary, that the markets expect long term British interest rates to fall below those of Euroland over the next four or five years.

Mr Cook was right to emphasise that it is in our interest that the euro is a success. The Europeans are our customers and we would not benefit from a Euroland in economic difficulties. To claim, however, that the euro is responsible for France creating more jobs than the United States is wildly misleading. French unemployment remains at 11.2 per cent even after a good deal of massaging the figures. Many of the jobs are in the public sector, an economic liability not an asset, whereas in America more new real jobs have been created over the medium term than in the whole of Euroland.

In short, if Mr Cook's blast in favour of the euro was drafted in the Treasury, it looks more like a hospital pass than an opportunity for the Foreign Secretary to score in the euro debate. Knowing of the affection between the two men and Mr Cook's skin-deep understanding of the economic issue, it must be the Chancellor, not the Foreign Secretary, who comes out on top in this particularly idiotic sideshow to the real debate.

Rt Hon. Lord Tebbit, CH, is a former Conservative Cabinet Minister.

… news in brief

New Commissioner calls for Euro-tax

As I was going down the stair
I met a man who wasn't there.
He wasn't there again today.
Oh! How I wish he'd go away.

Whenever tax harmonisation is mentioned, British pro-Europeans insist that it is not on the agenda. Funny, then, that two Commissioners have said it is. The new budget commissar, the German Michaele Schreyer, has called for an EU tax to be levied. Although a majority of EU states claims to be against the proposal, she made it during the hearings being conducted by the European Parliament of the new commissars. She called for a debate to be launched on the way that the EU manages its own resources. "We need to replace the present financial system," she said.

Frau Schreyer's appointment to the budget portfolio of the Commission is one of the focal points for Germany's new power within the Commission. Germany, after all, has been determined to reform the EU budget for years, since she resents being such a large net contributor. While the German government may not be formally supporting the idea – the German Finance Ministry issued a statement saying firmly that a euro-tax was not on the agenda – it is difficult to see Germany opposing it strongly in the long run. After all, a euro-tax would solve the problem of Germany's excessive contributions, even if the spending until 2006 has been fixed. [*Die Welt*, 8th September 1999]

New tax commissioner confirms harmonisation

As if this were not enough, the new European Commissioner with responsibility for tax policy, Frits Bolkestein, has also confirmed that he will continue the policy of his predecessor, Mario Monti, and that he supports the harmonisation of VAT and other taxes on consumption. In the hearings before the European Parliament, he said he would pursue Mr Monti's tax packet with equal vigour. Criticising the slow pace at which the single market is being implemented, the 67 year-old Dutchman said he wanted to ensure that Europe's capital markets became completely integrated. He also called for the creation of a European food authority, as Romano Prodi, Franz Fischler (the Agriculture Commissar) and David Byrne (Commissar for consumer affairs) have also done. In the Netherlands, Mr Bolksetein counts as a eurosceptic since he has on occasions criticised the European Union. This, naturally, made him very suspect in the eyes of his MEP interrogators. [*Handelsblatt*, 7th September 1999] Although Mr Bolkestein's past statements include such things as questioning the alleged legitimacy of the European Parliament and being against majority voting, he has also said, "I associate Euroscepticism with people like Michael Portillo and Charles Pasqua. I have nothing in common with these people's ideas on Europe." [*Libération*, 7th September 1999]

Schröder makes sovereignty position clear

In a long article on foreign policy, the German Chancellor has made the constitutional position on monetary union clear. "Europe is now affected by the actions of a new supranational sovereignty – starting with monetary union " He also claimed that the attacks on Yugoslavia over Kosovo had represented a "founding act" towards the creation of "a Europe of people" because it had put an end to the massacres in Kosovo. [*Le Monde*, 7th September 1999] Whatever one might think about the current state of affairs in the province, Mr Schröder seems to have forgotten that, before the war broke out, his own Foreign Ministry advised German courts hearing asylum applications during the first three months of this year that there was no ethnic persecution of Albanians but only a counter-insurgency operation conducted by the Yugoslav forces against the KLA. On this basis, applications for asylum from Kosovars were systematically rejected. Mr Schröder also said that the concept of "non-interference in the internal affairs of a sovereign state" could not longer be used as a principle of the international system if it served to protect dictators. He claims that he does not want this to mean that some great powers will decide for themselves when to intervene but is silent on how he seeks to prevent this. The challenge for Europe, he said, was to take more and more responsibility within its partnership with the United States, and the appointment of Nato Secretary-General Javier Solana as the EU foreign policy High Representative was "a first step" in this direction.

German government takes a blow

The ruling Social Democratic Party in Germany has lost its majority in two regional elections, the Saarland and Brandenburg. The SPD lost 5.3% in the Saarland and the Christian Democrats are likely to take power there from the left-winger Reinhard Klimmt. In Brandenburg, the sitting SPD minister-president, Manfred Stolpe may cling on to power if he forms a coalition with the former Communists or with the Christian Democrats but his loss was greater than Klimmt's: the SPD fell by nearly 15% there. The results show how support is haemorrhaging away from Chancellor Schröder's pro-market policies. This is likely to cause severe ructions within the SPD, since opposition to the "New Middle/Third Way" proposed by Schröder and Tony Blair is very stiff indeed. [*Süddeutsche Zeitung*, 6th September 1999]

EU Expansion – a long and winding road?

by Charles R. Whiddington

The 15 member states and the European Commission have agreed in principle on the desirability of expanding the European Union (EU) to include Central and Eastern European countries (CEECs). The aim being increased security, political stability, prosperity and unity for the whole of Europe after decades of separation. The EU is at an important mid-life turning point, and it is not yet known what shape the new Union will take.

The EU enlargement will offer new opportunities for both the EU and the CEEC's industries. However, important precautions need to be taken if enlargement is to be successful. Although general terms for entry are known, the specific terms have not yet been negotiated. Any discussion about eastward expansion of the Union, therefore, remains highly speculative.

Enlargement prospects

'Any European state may apply to become a Member of the Union' (Article 0 of the Maastricht Treaty). That is the only Maastricht Treaty-based condition for a country to be considered for full EU membership. There are also several necessary and tacit economic and political requirements for entry. The potential candidate country must fulfil three basic conditions: it must have a market economy, a democratic political system and accept the *acquis communautaire*. The only possibility for negotiation being the length of the adjustment period and the funds that may be made available to help its implementation.

The ten countries from Central and Eastern Europe (CEE) who have applied for membership of the EU and signed Association Agreements include:

Bulgaria	Lithuania
Czech Republic	Poland
Estonia	Romania
Hungary	Slovak Republic
Latvia	Slovenia

Substantial investments in EU expansion – both in terms of capital and political will – have been made in its success. Although lessons have been learnt from the experience of past accessions, there is a world of difference between the admission of Austria, Finland and Sweden and the accession of the CEECs. The level of development of the CEEC's economies lags behind those of the rest of the EU. In order to fulfil the terms of their Association Agreements, the CEECs have to face major challenges including:

- high unemployment rates
- low per-capita incomes: the ten CEECs lag far behind even the four least favoured member states of the EU (where incomes are at 74% of the Community average)
- heavy bias of most of the CEECs economies towards agriculture and so called sensitive sectors
- inadequacy of transport, telecommunications and energy, infrastructures and networks
- weak administrative capacity

Association Agreements

Association Agreements are the bilateral agreements which were signed with individual the CEECs between 1991 and 1996 as precursors to EU membership. The goal of these agreements was the establishment of a free trade area in manufactured goods between the partners within a maximum of 10 years from the agreements' entry into force. The Agreements cover co-operation in political, economic, trade, cultural and other areas.

In light of the objective of the Association Agreements, (which is clearly to bring those countries up to Community standards) and from the political debate regarding early accession to the Union it seems likely that they have direct effect and include:

- the extension of the concept of a single market within which there would be free movement of goods, services, people and capital
- the incorporation into national law of a substantial part of Community legislation (which is called the "*acquis communautaire*")
- the establishment of the principle of exhaustion of Intellectual Property rights
- the creation of the EFTA Surveillance Authority and the EFTA Court.

Five of the ten CEECs, Hungary, Poland, Estonia, the Czech Republic and Slovenia, have already been identified as more suitable candidates for EU membership. They have made sufficient progress under their Association Agreements for formal EU membership negotiations to commence. Negotiations are currently underway and some of the five may well become members as early as between 2002 and 2005. However, it is unlikely that the first accession will occur much before 2003. The Association Agreement which each CEEC has signed commits it to approximating its laws to the EU within a period of 5 years and this is subject to monitoring by the Commission.

Why join?

The major benefit for the CEECs would be secure access to the huge EU market. This is particularly relevant for goods that are 'sensitive' for the Union (farm products, textiles, steel, chemicals) as the CEECs have a comparative advantage in the production of those goods. Entry would ensure that the EU trade regime would remain open to their exports. The second gain would be the possibility of the migration of labour into the rest of the EU following the specified adjustment period. A third benefit from entry includes access to the structural and other EU funds.

Benefits of expansion

An enlarged internal market should generate substantial new output and employment opportunities. The nomination of candidate countries for EU membership has already fostered improved trade links and meant growing income in CEECs which should hopefully translate into growth of the West European export market. The CEECs will provide new and competitive suppliers in key industrial areas, helping to reduce or contain costs in the rest of Europe and improve the EU's global competitiveness. The need for modernising the public and private sector infrastructure in the CEECs will stimulate investment expenditure. EU expansion will encourage competition in the EU's labour and goods markets and the West-East wage differential could possibly lead to wage moderation and support job creation throughout the EU.

Risks and problem areas

The CEECs are catch-up economies and will need to undergo a great deal of regional and sectoral development to bring them in line with the rest of the EU. Adjustments will be difficult in certain sensitive sectors, but easier where capacities are complementary or not competing, for example in telecommunications, energy supply,

financial services and tourism. The West-East wage differential could lead to mass migrations from East to West, however, the expected massive migrations from Greece, Spain and Portugal, after their accession, never materialised. It is hard to predict which sectors will be the net winners or losers, but a great deal of assistance is likely to be needed to alleviate the regional and social problems in CEEC's upon accession. This has obvious implications for the EU's budget. Exposure to competition could create enormous pressures in the CEECs as the EU's economic centre of gravity shifts eastwards. Any eastwards expansion may necessitate changes in the EU's administrative procedures to accommodate the less developed administration in the CEECs and the need to combrat fraud.

Accession partnerships

The other CEECs where accession negotiations will not commence, will still receive help from the EU to consolidate their political and economic reform and help them put in place the necessary laws and structures for future EU membership. The main priorities are incorporated in the so-called "Accession Partnerships" and include:

administrative and institutional reforms,
economic privatisation,
banking sector reform,
agricultural reform,
protection of intellectual property,
free movement of goods,
financial services reform,
monitoring of state aids,
environmental protection,
and nuclear safety.

Accession Partnerships also cover the priorities in adopting the *acquis* and the financial resources available for that purpose, for each of the CEECs.

Enlargement impact

An enlarged EU will mean increased diversity of economic positions, complicating the co-ordination of EU policies, for example the economic, monetary and exchange rate policies and could even threaten the operation of the Single Market. Apart from the economic impacts of enlargement, the accession of the CEECs will increase the heterogeneity of the agricultural, rural and environmental problems in the Union, all of which will require better targeting of a broader range of policies, perhaps enabling more regional and local influence on policy, while conserving fair competition and promoting cohesion.

The structural issues raised by the prospect of so many new members have been recognised and are significant but have not been tackled. It will not be easy to reform the CAP, Council Voting, Commission appointments and governing languages. Enlargement of the Union to 25 countries would mean 21 languages and the added complications for the supervisory machinery that this would entail. However, all these issues must be solved before accession of any new members as the effects could be far-reaching for the future governability of the EU.

Charles R. Whiddington is a Partner & Head of the Competition Law Group at Field

… news in brief

Swiss foreign minister calls for EU membership

The Foreign Minister of Switzerland has said that his country must abandon its policy of isolation and join both the European Union and the United Nations. Joseph Deiss said it was anachronistic for Switzerland to be the only country in the world, apart from the Vatican and the Pacific island of Tuvalu, not to belong to the UN. Nor was it right that, in a "Europe which is growing together", Switzerland should have to adopt regulations over which it had had no influence. Switzerland's 6 million inhabitants have repeatedly confirmed their refusal to join international institutions. [*Süddeutsche Zeitung*, 6th September 1999]

Swiss industry goes cool on EU

Swiss industry is going cold on Europe. The president of the New Swiss European Movement, Marc Suter, has said, "The bosses of big companies are in the process of abandoning the idea of joining the EU. Certain sectors, like banking and the chemical industry, seem to have abandoned it already." One of the reasons for the cooling is that Swiss industry has concluded, in a series of reports, that although there might be some long-term gains from membership, the pain would last for 10 years before they became visible. Moreover, the bluff of the old pro-European case has been called, because a few years ago the euros were telling Swiss industrialists that they could not survive outside Europe. "But now the Swiss have seen that they can survive outside after all," says Arthur Bolliger, director of a private bank in Zurich. [*L'Hedbo*, Lausanne; quoted in *Courrier International*, 16th–22nd September 1999]

Pot calls kettle black

The former German Chancellor, Helmut Kohl, has attacked the European policies of his predecessor, Gerhard Schröder, calling them "a fiasco". Kohl believes that Schröder has been too demanding within the European Union. He claims his successor has pushed for German interests too vehemently and that he has made demands of other European states as if it was natural that everyone else had to follow Germany. [*Süddeutsche Zeitung*, 11th–12th September 1999]

KLA planted land mines

Whenever land mines are mentioned, they are laid at the Serbs' door. Nato's unexploded cluster bombs are never mentioned at all. But the KLA also planted mines, as its commander-in-chief, Agim Ceku, has admitted. "Our strategy was to chose points where we could control the terrain and to fortify and mine those zones won by the Serbs. The Serbs had to come near us on foot to find out where our positions were. We hid quietly behind our fortifications during the Nato bombing which went on for days. Then we would open fire, chase the Serb soldiers away and thus protect our positions." [Interview in *Koha Ditore*, see *Courrier international*, 29th July – 18th August 1999]

Rajmonda's story

During the Yugoslav war, the TV journalist Nancy Durham made a programme about a young Kosovar Albanian girl whose sister had been murdered by the Serbs and whose only friend was then her Kalashnikov. The programme showed her determined to avenge her sister's death by killing Serbs. Nancy Durham recently returned to Kosovo to find out what had happened to Rajmonda. Imagine her surprise when she discovered the sister alive and well. Rajmonda admits that she lied and that the KLA told her to. Nancy Durham naturally excuses the lie because it is "for the cause": so many Albanians were killed by Serbs that it was justified. But she does not stop to ask how many other lies may have been told by Albanians nor how many innocent people may have lost their lives because of the war, aggravated by Nato and by the kind of propaganda Nancy Durham and so many other journalists so eagerly churned out in support of it. [CBC,

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The ECB: problems and prospects

by Mark Baimbridge, Brian Burkitt and Philip Whyman

The idea that central banks should be independent from political influence has deep historical roots and featured in the discussions leading to the establishment of many 20th century central banks. The historical desire to impose limits upon the government's ability to fund itself through seignorage merges with the orthodox contemporary argument that politicians manipulate monetary policy to win elections. Consequently it is argued that long-term economic efficiency requires the removal of monetary policy from the sphere of democratically accountable politics, and its delegation to an independent central bank with an effectively designed constitution and internal reward system that impose price stability as the overriding policy objective.

Few institutional reforms recommended by economists have gained such rapid, widespread acceptance as the demand to grant central banks independence from political control. Whilst the notion of central bank independence has taken on the character of a panacea, a quick institutional fix, producing desirable macroeconomic results in a wide variety of national contexts. The search for such a beneficial institutional framework has taken shape within the European Union (EU) through the position accorded by the Maastricht Treaty to the European Central Bank (ECB) and the European System of Central Banks (ESCB) at the heart of Economic and Monetary Union (EMU).

Alternative forms of central bank independence are as numerous as the number of 'independent' central banks; consequently we concentrate upon a limited number of blueprints. These are the German Bundesbank, the Federal Reserve of the United States of America and the Reserve Bank of New Zealand, which are often cited as models for an independent Bank of England, whilst they influenced the ECB framework outlined in the Maastricht Treaty.

Until recently, most discussion of central bank independence centred on the German Bundesbank, which was widely regarded as being successful in delivering consistently low inflation, with its objectives defined in statutes which insulate it from governmental interference. Moreover, it was not formally accountable, either to the Federal Government or to the Bundestag, for the discharge of its statutory functions. While it is sometimes argued that its objectives may result in conflict, a hierarchy of goals was established in its statutes where price stability was clearly stated as the priority. In contrast, the United States of America's Federal Reserve maintains its independence 'within' government, secured by itsregular accountability, whilst its objectives are more widely defined than those of the Bundesbank, with no single objective, such as price stability, specifically laid down.

Another model of central bank independence is that instituted by the 1989 Reserve Bank of New Zealand Act, assigning a general responsibility to formulate and implement monetary policy directed to the objective of achieving and maintaining price stability. Whilst a second feature required the Minister of Finance and the Bank's Governor to establish precise and agreed policy targets and to publish these without delay. Such arrangements have been described as devolving operational autonomy because the government retains the power to authorise a departure from the statutory objective of price stability.

An alternative framework for central bank independence is provided by the Maastricht Treaty, where Article states that, "when exercising the powers and carrying out the tasks and duties conferred upon them by this Treaty and the Statute of the ESCB, neither the ECB, nor a national central bank, nor any member of their decision-making bodies shall seek or take instructions from Community institutions or bodies, from any Government of a Member State or from any other body. The Community institutions and bodies and the governments of the Member States undertake to respect this principle and not to seek to influence the members of the decision-making bodies of the ECB and of the national central banks in the performance of their tasks." However, the legal framework, institutional arrangements and emerging operating practices of the ECB are increasingly coming under closer scrutinisation and criticism.

A central issue arising from these alternative models is the extent to which international experience is applicable to either the UK or the EU. Indeed, Eddie George has conceded the problematical aspect of transposing overseas institutions within a different constitutional context. A fundamental difficulty is that the UK is a unitary state, so that its economy and constitutional traditions differ from those of many foreign countries, such as Germany and the USA, whose federal systems of government reinforce the independence of the central bank and its board members. In contrast, Parliament is the focus of Britain's political structure with all legitimate power derived from it. Given that no parliament is capable of binding its successors, it follows that every political decision can be reversed, which appears incompatible with the principle of an independent central bank.

Although the apparent success of the New Zealand model made it a candidate for imitation by Britain, reflected in New Labour's changed relationship to the Bank of England, a number of reasons exist for doubting its relevance. First, the New Zealand reforms were introduced in response to an inflationary crisis; second, its economy is much smaller than the UK and less prone to currency speculation, and third, the reformed arrangements have operated primarily in a period of recession; so that it is too early to evaluate their lasting effectiveness.

Moreover, the UK is almost unique amongst developed economies in the importance attached to variable short-term interest rates, because of its method of financing house purchases and small business operations. Additionally, the British economy is vulnerable to international developments and to associated changes in the external value of sterling. These factors demonstrate that overseas models of central bank independence are less than wholly appropriate to the UK.

The ECB, which started running the monetary policy of the eleven countries adopting the euro on January 1st 1999, is designed it to be the most independent monetary authority in the world. The ECB's architects sought to insulate it completely from political pressures, both at the national government and at the EMU-zone level. By contrast, the US Federal Reserve, for instance, is required to take into account output and employment objectives alongside inflation targets, whilst being subject to fierce, regular scrutiny by

Congressional committees with wide powers of investigation and review.

The operation of the ECB permits no clear accountability to any national nor EMU institution, stipulating that its Council's deliberations remain confidential, although Wim Duisenberg, the ECB's President, suggested that such minutes could be made public after a time lag of sixteen years! The only method of questioning the ECB's policies is through periodic reports to the ineffective European Parliament. Consequently, in an EU structure of decision-making widely acknowledged to be suffering from a 'democratic deficit', the powers handed to an unaccountable ECB will exacerbate the shortcoming.

In Britain, the USA, Canada, Australia and a growing number of smaller countries, monetary policy is used to control both inflation and unemployment by managing aggregate demand. For example, the UK government and the Bank of England's Monetary Policy Committee have recognised (as was implicit in the Chancellor's specific 2.5% inflation target) that moderate inflation may generate growth and a greater number of jobs. By contrast, within Euroland any suggestion that monetary policy could be used to increase living standards and reduce unemployment is a heresy not to be contemplated. Although the ECB's legal responsibility is to maintain price stability that target has not been attained in France and Germany for the past five years, simultaneously the ECB consistently ignores the success of the UK and the USA in achieving low inflation, whilst deploying monetary policy to reduce unemployment. The explanation of this conundrum lies in the ECB's origins and the macroeconomic theory it has adopted.

The ECB argues that the majority of Euroland's historically high unemployment, currently around 17 million, originates from structural deficiencies on the supply side of its member states economies. Consequently, it denies responsibility for increasing aggregate demand to lower unemployment, believing that there is no further room for expansion in the Euro-11 economies. In support of this thesis, another impeccably orthodox economic institution, the OECD, has published estimates for the natural rate of unemployment, below which inflation is believed to accelerate, for all industrialised economies. The estimated weighted average for Euroland is 11%, where the actual average was 10.6% in January 1999. On this reasoning, no scope exists to reduce unemployment without accelerating inflation. Such a view emphasises the grip that the natural rate of unemployment hypothesis exerts over ECB policy makers.



Thus contemporary EMU monetary policy is dominated by the view that inflation inevitably increases once unemployment falls below a critical level. Therefore the focus of monetary policy becomes to ensure, in practise, that unemployment is sufficiently high to reduce price and wage increases. This theory is the clue to ECB strategy. However, if the sole objective of policy is to maintain a constant rate of inflation, wide variations in output and employment may be required. In so far as a potential conflict exists between steady inflation and full employment, the latter should enjoy priority, because the consequences of fluctuation in employment are more serious than those in the rate of inflation. Apart from the human costs of lower income, job insecurity, loss of skills, poorer mental and physical health, and higher crime rates, the industrial cost is enormous, since lost capacity cannot subsequently be made good when demand recovers.

The ECB has consistently said that it would have to see clear signs of deflation before reducing interest rates. However, the attainment of a 2% inflation target has not been achieved by any major economy in recent times; the USA figure over the last decade was 3.3% and that of Germany 2.8%. Therefore an unaccountable institution has assigned itself an exacting inflationary goal, with ramifications for other dimensions of economic policy. Furthermore, the ECB argues that Germany's current troubles are structural not cyclical, but even if correct, embarking upon structural change and realising its results, is a lengthy process. However, distancing itself from democratic demands to emphasise its independence is a crucial tactic for building ECB credibility.

Following World War II, economic policy was directed to the simultaneous attainment of four policy objectives; high levels of employment, stable prices, balance of payments equilibrium and an expanding economy. Within Euroland, responsibility for the second lies solely with the ECB, whilst the other three remain with national governments. An obvious danger is that economic management will become more difficult through the separation of budgetary and monetary policy. It was demonstrated by the shortcomings of the Reagan-Volcker era in the USA and Germany's problems following reunification; in both cases lax fiscal policy resulted in high interest rates. By contrast, with a non-independent central bank, budgetary and monetary management can complement each other, forging a co-ordinated strategy of economic management. Consequently the theoretical possibility of a division between the conduct of budgetary and monetary policy has become a reality within months of the launch of the euro, far more rapidly than even sceptics anticipated. A crevasse has opened up between centre-left governments focusing upon unemployment and the ECB operating from a monetarist perspective.

The euro-11 countries, even without the UK, do not constitute an optimum currency area. Consequently for many years to come, persistent national divergences in growth and unemployment are likely to recur. This nightmare scenario has not taken long to unfold; Wim Duisenberg felt obliged to concede that the economies so painfully corseted together by meeting the convergence criteria are already diverging. Whatever happens in the future, it is plain that one key argument of the eurosceptics is correct; no single interest rate is suitable for the euro-zone. Therefore any action of the ECB will cause trouble for some parts of Euroland, whose economies are destined to diverge over the foreseeable future. Thus, in the last quarter of 1998, Germany's GDP fell by 0.5%, yet Spain's rose by 0.8%, whilst

Ireland's increased by 8.0% over the whole year. Such sharp divergences in economic performance will make the ECB's stewardship a difficult task.

In summary, the creation of an independent central bank in an established national economy, is an enterprise with certain costs and with only dubious prospects of the anti-inflationary benefits so frequently calmed. To transpose such a hazardous undertaking to a supranational framework such as the EU, whose constituent national economies experience varying economic cycles and possess divergent economic structures, is fraught with difficulties.

The decisions taken by the ECB are amongst the most sensitive actions deployed in a modern economy. Determining interest rates influences the growth of living standards, the level of unemployment and the amount that people pay for their credit and their mortgages. The ECB's problems arise from its lack of democratic accountability, its arbitrary objectives, its outdated economic philosophy, and its potential for intermittent conflict with the national governments whose destinies it possesses considerable influence over. Therefore the ECB as currently constituted is an anti-democratic, economically inept institution such that no British government concerned for the efficiency of the UK economy and capacity for self-governance could submit to the ECB's monetary authority. Therefore it is crucial that the British people, if and when consulted, steer clear of this ill-defined, bureaucratic nightmare.

Dr Mark Baimbridge, Dr Brian Burkitt and Dr Philip Whyman are members of the European Economies Research Unit based at the University of Bradford. This article draws upon their recently published Bruges Group Occasional Paper The Bank that rules Europe?: the ECB and central bank independence. *See advert on page 32.*

Pound "will need 23% fall for painless EMU entry"

by Tony Lodge

The value of the pound will have to fall by more than 20% for the UK to make a painless entry into economic and monetary union, according to estimates based on the Treasury's economic model.

Writing in the latest edition of *Economic Review* published by the National Institute of Economic and Social Research, economist Keith Church says that entering EMU with sterling as high as it is would inflict substantial damage on the UK economy.

Church, an economist with Oxford Economic Forecasters, says that once the UK has signed up for the Euro, an overvalued exchange rate can only be corrected by holding inflation lower than elsewhere. But because British companies are traditionally slow to change prices and wages, the end result is likely to be a painful adjustment.

> … the end result is likely to be a painful adjustment'

"Membership of the single currency ensures that any adjustment to equilibrium must occur through relative price movements," Church says. "Achieving this is likely to be costly in terms of jobs and output."

Church goes on to point out that if the UK does decide to join EMU with the fixed exchange rate, overvaluation can only be corrected by holding UK inflation lower than that elsewhere. He concludes with the crucial observation that achieving this is, "likely to be costly in terms of jobs and output given the large amount of nominal and real rigidity that exists in wages and prices in the UK."

Church finally concludes that sterling will have to devalue by 23% for a painless entry to the Euro.

The full text of Keith Church's analysis is available in edition 169 of the *National Institute Economic Review*.

Tony Lodge is Editor of the European Journal

… news in brief

Better relations between the EU and Turkey

EU foreign ministers meeting in Finland have decided to give Turkey a concrete perspective for EU membership at the full summit meeting in December. The German Foreign Minister has been especially keen to admit Turkey along with the Central and East European states. The change in relations has been in large measure due to Greece, which announced that it was lifting its veto on Turkish admission. The earthquakes in Turkey and Greece are said to have led to a deepening of cooperation between the two traditional enemies. The EU is now to unblock aid to Turkey, starting with £ 100 million from the "Meda" fund. (This fund, for the development of the Mediterranean, lay at the centre of corruption allegations in March. The Spanish Commissar responsible for it was one of the five accused of negligence and corruption.) On the other hand, further aid of some 750 million euros (nearly £500 million) continues to be vetoed by Greece. [*Frankfurter Allgemeine Zeitung*, 7th September 1999]

KLA to be 'disarmed' by 18th September

The Kosovo Liberation Army is to be disarmed on 18th September, according to the Secretary-General of Nato and future EU High Representative for Foreign Policy, Javier Solana. The reality, of course, is that in fact the KLA will simply shed a skin and wear a new one – like the "snake" who heads it, Hashim Thaci. KFOR is indeed to create a "multi-ethnic" so-called "Kosovo corps" which will be responsible for "reconstruction" and "civil security". The source of the financing of this corps, which is believed to require some 16 million euros a year, has not yet been decided. [*Le Monde*, 8th September 1999] The new police force is to be created by the OSCE [*Die Welt,* 8th September 1999], the body which engineered the armed revolt against the democratically elected government of Sali Berisha in Albania in 1997, which consolidated the Communist grip on power there after a leading opposition leader was assassinated last year, and which rigged the elections in Bosnia. The head of the OSCE in Albania, Daan Everts, is now the head of the OSCE in Kosovo.

The European Parliament: My First Impressions

by Nirj Deva DL, FRSA, MEP

I was a Conservative Member of Parliament during the 1992–97 Parliament, a time when the House of Commons was the democratic institution that mattered most. Votes were decided on a knife-edge and the threat of a General Election was apparent from day one! It was an exciting period, and a different experience in many ways from being a Member of the European Parliament.

The process of selection is very different. For Westminster elections, a candidate must apply to an individual constituency and be grilled by the local membership, during a series of meetings, on a range of political and personal issues. Members are analysing whether the prospective candidate has the appropriate combination of personal and political attributes to be a successful representative for their communities.

The European Elections, held under the disastrous system of proportional representation, are different. The *personal* aspect is removed altogether from the selection procedure. MEPs do not represent constituencies (or communities of people), but rather *regions*. The Conservative Party had by far the best and most democratic method of selecting candidates for these elections, where each Party member was given a vote. The candidates addressed a selection conference in The Docklands and the membership (2,000 members attended) voted. Candidates were rated on a points basis and I was appointed number six on the South East list of Conservative candidates – out of eleven in total.

In recognition of the fact that the Labour Party had made a huge mistake by introducing a system that reduced accountability and made European representatives more remote, the Conservatives decided to allocate a candidate to an individual area, so each local association felt they had a representative. I was allocated to Berkshire and formed an active campaign team spanning the constituencies across the County.

As a team of candidates across the South East we fought on a single manifesto, and gave 100% support to William Hague. It was such a magnificent feeling to be part of a united Party campaigning on a positive policy of being in Europe, not run by Europe. In other words, we were arguing for free European trade, but were steadfastly against a single European Government.

Even though I felt we had fought a good campaign locally and nationally, I was still nervous about the count! Although Polling Day was on Thursday, we had to wait until Sunday, because counting cannot start until every vote across the EU has been cast. This is in case the emerging results influence another part of the European Union's voting. It was a tense three days!

It is a sterile environment, without the powerful atmosphere of history that grips you in the Houses of Parliament

The count is very different from Westminster elections. In the South East, nine million people were eligible to vote. I toured the various counts in Berkshire, and then drove down to Winchester, the headquarters for counting throughout the South East. All the results from each of the Westminster constituencies were fed into the central computer, and an accounting system allocated seats to the Parties accordingly. The Conservative Party's message had clearly motivated our supporters to vote, and I was duly elected to the European Parliament.

My first day in Brussels could not have contrasted more starkly with my first day in the House of Commons. In the European Parliament, there is no sense of vocation or history. In the House of Commons, I took an oath in front of my colleagues in the Chamber, and swore loyalty to the Crown. In the European Parliament, I was asked for a photograph, issued with a pass, and that was it!

The European Parliament building lends no authority to the institution of the European Union. It is a sterile environment, without the powerful atmosphere of history that grips you in the Houses of Parliament.

The process of Government in the European Parliament is also very different. In the House of Commons, whatever your previous experience, the hierarchical structure of the institution is immediately apparent. In the European Parliament, a genuine attempt is made to give each MEP a role that is related to their experience and interests. How different from the House of Commons, where the opposite often seems to be the case. I was not surprised, therefore, as a new MP in the House of Commons to be appointed to the Scottish Office!

The whipping system in the European Parliament is also not as rigid as it is in the House of Commons. I suppose it is much more difficult to whip former Prime Ministers and Presidents of other European Member States who are now MEPs than back bench MPs! As a member of the EPP/ED group, which gives a centre-right majority to the new Parliament, once issues are settled, we debate them in the Chamber or in Committee. There is therefore a greater ability for new Members to influence policy from the outset. In the House of Commons, a new Member can talk himself hoarse, make the most telling or relevant points yet ultimately the business managers would have decided the outcome of the debate in advance.

As the newly appointed British Spokesman for Overseas Development and Co-operation I hope to be able to influence how EU funds are allocated to help the poorest people in the world. I hope that inefficiencies and delays are resolved and that fraud can be eliminated. I do not want to see increased amounts of money accrued to the budget until the resources that have already been promised are better spent. We must also work towards ensuring that EU funds are spent as national aid on a bilateral basis. Issues of immediate concern include the workings of the WTO in preparation for the Seattle round in November to discuss tariff reductions for the new Millennium.

There is no doubt that we are faced with new challenges across Europe. It is my ambition to help the Conservative Party ensure that the European Union looks outwards, to encourage expansion and to deliver our manifesto commitments to ensure that we are in Europe, not run by Europe; to create a freer, less regulated Europe, a Europe more like Britain- open, accountable, entrepreneurial and tolerant - a new Europe that does less, and does it better.

Nirj Diva is a Conservative MEP for the South East Region.

The EU Should Foster Competition Among Member States

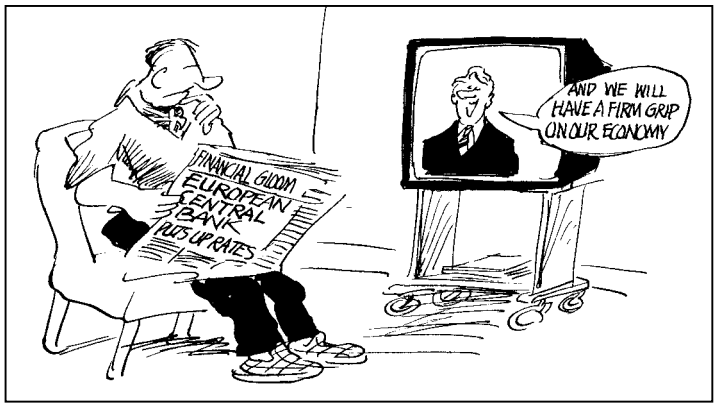
by Keith Marsden

Should competition replace harmonisation as the mantra of European policy makers? The retiring Bundesbank President now believes no. In an interview given a few days before leaving office, Dr Hans Tietmeyer talked of a "competition society" in which a new strain of economic dynamism challenges traditional welfare systems. Europe has not allowed competition to "blossom", he said, "but that must change". "There has to be competition between tax systems just as between social systems among nations." At stake, he said, is the ability of European economies to create jobs and address high unemployment. "Costs of a welfare system are part of the cost of labour, and that influences where firms choose to settle and create jobs." And he rejected any formal political harmonisation of European tax systems. "There must be competition between tax systems, a competition in a way that generally leads to more flexibility."

This belated recognition of the virtues of competition among states as well as firms – in both policies and markets – may surprise many observers of the EU scene. As one of the principal architects of EMU, Dr Tietmeyer helped to forge the prevailing view that EU member states should adopt uniform policies and common standards. The need for policy co-ordination and harmonisation is embedded in EU Treaties in fiscal and social policy fields as well as in economic and monetary policies, which were his particular sphere of influence. Having often argued in favour of policy competition on these pages, I welcome such a distinguished convert. However, Dr Tietmeyer didn't address two barriers that must be overcome before his views become widely accepted and implemented within the EU. First, the deficiencies of current harmonisation strategies are still not generally recognised by national policy makers or the European Commission. Second, EU Treaties will have to be interpreted or amended in ways that allow individual member states to pursue their own policies and accept responsibility for their actions.

Let me try to spell out the main drawbacks of harmonisation.

One size doesn't fit all. The characteristics and performance of EU member states differ widely. GDP growth rates over the past year ranged from 8.7% in Ireland to 0.9% in Italy. Industrial production fell by 2.7% in Belgium and rose by 2.6% in Austria. During the latest three months, consumer prices increased by 4.4% (at an annual rate) in Denmark but fell by 1.5% in the Netherlands, while producer prices dropped by 0.3% in France but jumped 4.5% in Belgium and 4.3% in Germany.



Current unemployment rates vary from 16.1% in Spain to 3.4% in the Netherlands. Business cycles are clearly out of synch. The OECD projects an 'output gap' (measured against the trend growth rate) of plus 3.2% in Ireland and plus 0.8% in the Netherlands in 1999, compared with minus 3.3% in Italy and -1.8% in Germany. A positive output gap suggests that an economy has been growing unsustainably fast, pointing to renewed inflationary pressure; a negative gap is a sign of slack. Given such widely divergent circumstances, countries must retain the flexibility to pursue the monetary, fiscal, employment and social policies appropriate to their needs and political preferences.

Harmonisation discourages experimentation and avoids national responsibility. The search for a EU-wide policy consensus inhibits efforts by individual countries to try new approaches and to solve their own problems. Blame for failure can be more easily transferred to others if agreement is not reached. Some countries continue to deny that the outflow of investment funds and their high unemployment rates are caused by penal tax and social security levies, rigid labour markets and lack of political will to pass unpopular but overdue reforms. Instead, they focus on "unfair" tax competition and "social dumping" by some of their partners. Policy co-ordination too often becomes a protectionist strategy designed to cover up past mistakes by putting all EU members in the same boat and to shelter from the tides of global competition behind common tariff and regulatory barriers.

National success provokes resentment, not emulation. Because of the emphasis put on EU solidarity and conformity, strong economic performers are not congratulated and copied, but criticised for doing things in a different way. Ireland has created an "investment friendly" tax system, with corporate rates of 10% in many sectors, 100% tax relief for exports amounting to just 5% of GDP, and an overall tax/GDP burden of just 35%. These policies have attracted massive inflows of foreign investment and generated a sustained economic boom. Real GDP growth has averaged over 7% annually in Ireland during the 1990s, more than three times the EU average, and topped 9% over the past five years. Instead of following suit, other EU countries now want to spoil the party. The Irish government has been warned by the former EU (Irish) social affairs commissioner, Padraig Flynn, that it might have to use its veto to protect an agreement with Brussels, reached only last year, allowing a 12.5% rate on foreign investment after the year 2003 (when the current 10% rate expires).

Trade-offs and changes in direction are made more difficult. In democratic political systems, concessions often have to be made

in one area in exchange for gains in another and the legislation of one government can be amended by its successor. The EU system, on the other hand, is built around the concept of acquired rights (*acquis communautaire*) set into concrete by directives and regulations that, seemingly, can never be revoked. Unelected commissioners push forward their legislative agendas in their own areas, without the pressures for compromise or accountability encountered in national parliaments. The primordiality of existing *acquis* is one of the biggest obstacles to reform of continental labour markets, which requires some dilution of the rights of a small minority of trade union members to allow the unemployed better access to jobs, and to give entrepreneurs, workers in small firms and the self-employed greater flexibility.

Can greater policy flexibility be accommodated without rewriting EU legislation? The solution might lie in a broader interpretation of the Protocol on Subsidiarity and Proportionality annexed to the Amsterdam Treaty. This Protocol says that the "High Contracting Parties" wished "to ensure that decisions are taken as closely as possible to the citizens of the Union". It states that "subsidiarity is a dynamic concept". It allows Community action to be "restricted or discontinued where it is no longer justified", and says that "The Community shall legislate only to the extent necessary". Furthermore, "Community measures should provide Member States with alternative ways to achieve the objectives of the measures." The Protocol also states that the European Parliament "shall, as an integral part of the overall examination of Commission proposals, consider their consistency with Article 5 of the Treaty" (which sets out the principles of subsidiarity and proportionality).

The wider responsibilities now assigned to the European Parliament under the Amsterdam Treaty could be used to pursue this agenda. Under Article 251, the Parliament can act on equal terms with the Council on legislative matters. With a simple majority of votes, the Parliament can reject or suggest amendments to Commission proposals. If the Parliament rejects a proposal, it will not become law.

Application of this Protocol could radically transform the way the EU does business and permit effective competition among member states. The Parliament could also use its veto over directives proposed by the Commission to prevent further centralisation of decision making. This is a formula for greater freedom and choice, not political gridlock. Members could not complain that they were prevented from taking collective actions they felt to be desirable. The new Title VI allows individual member states to form closer links with others without involving the whole Community. Members could not reasonably object to a wider interpretation of a basic principle (subsidiarity) which they had all endorsed in Amsterdam. I hope that when Dr Tietmeyer settles in to his new post at the University of Halle, he will use his considerable prestige and analytical powers to promote this worthwhile agenda.

Keith Marsden is an economics consultant based in Geneva. He is a regular contributor to the Wall Street Journal Europe *and is a member of the European Advisory Board.*

… news in brief

Racism in Britain and Germany

The British national media have done much to present the British as racist, for instance in claiming that refugees in Dover have been the victims of attack by locals whereas in fact of course the truth is that several local people were very seriously wounded (one of them was nearly killed) in knife attacks by Kosovar Albanians. No doubt the British lager louts are capable of provoking trouble but the comparison with Germany is illuminating. For years, asylum seekers in Germany have been burned to death in arson attacks and this week, two German neo-Nazi youths were arrested for attempting to murder Vietnamese refugees, one of whom is still in a coma as a result of the attack. The youths chased the Vietnamese through a town in Pomerania until they were cornered against a fence. They beat them up and kicked them with heavy boots, leaving them lying on the ground. They were discovered the following morning, one of them with severe head wounds. In the same weekend in Brandenburg an Indian asylum seeker was beaten up by a group of right-wing radical youths at a shooting fair. These attacks have taken place in the Eastern Länder where the percentage of foreigners is tiny (less than 2%) and the lowest in Germany (where the overall percentage is 9%). [*Süddeutsche Zeitung*, 25th August 1999]

Europe's growth stuck in the mud

Robin Cook has travelled to Japan to proclaim the euro a success, arguing that Europe was growing again thanks to the single currency. Sir Leon Brittan made the same claim on the BBC, attacking the Eurosceptics for saying that it was a bad thing that the euro was weak – even though he, too, used the level of the currency as an argument for abolishing the pound when he said that Britain's remaining outside a low value euro zone was bad for British exports. He also made the strange claim that Europe's new growth was thanks to having a low currency: has he not been telling us for years, ever since he called for the pound's entry into the ERM indeed, that the key to economic success was to have a strong currency? But to point out all these contradictions may seem pettifogging when there is little evidence of European growth anyway. An IMF report, which was due to be published on 22nd September but which was placed on the Internet by mistake by the Dutch government, notes that the entire world's growth is rising ("thanks to globalisation") but that the only region not profiting from this upturn is Europe. The IMF sees no reason to revise its growth predictions upwards for Europe (from the present 2.1% for 1999) even though it has revised them upwards for every other main region. Indeed its predictions for growth in 2000 are lower than the last prediction it made in May. The IMF does not rule out a rise in euro interest rates. As Germany's leading financial daily comments, "As so often, the European economy picks up only with great difficulty." And what is the reason for this persistent sluggishness? According to the IMF, it is the economic policies of the European states. It calls for tax cuts and lower spending, two policies which, as is well known, lie at the heart of continental European economic culture. [*Handelsblatt*, 9th September 1999]

***Francophonie* wants to become less defensive**

The world leaders from French-speaking countries (and others where French is considered to play a role) meeting in Canada have resolved to hold their next meeting, in 2001, in Beirut. The Lebanese president has said that he wants the association to become less fixated on defending itself against the encroachments of English and more open to the outside world. The group also decided to increase its own competence in 'human rights' matters – a decision which worried some of its African members who fear that their aid programmes may suffer if too much attention is paid to their democratic credentials. [*Le Monde*, 7th September 1999]

A Choice of Continents?

Sir Trevor Lloyd-Hughes recalls how, in the 1960s, Harold Wilson's Government seriously considered joining NAFTA.

If Tony Blair is "the sorcerer's apprentice" – as cynics unkindly dub him – whom do we cast in the role of sorcerer? The Prime Minister is believed to have consulted Lady Thatcher more than once, particularly during the Kosovo campaign. He obviously can no longer take counsel of his Labour predecessor, Harold Wilson, and I do not know if he has studied the lessons of 1964–70. If not, he should.

Throughout the Wilson years – indeed, for centuries – our relations with continental Europe have loomed large. Whatever our former Imperial, then Commonwealth, now, it would seem, "global ethical" concerns, we cannot ignore that kaleidoscopic mix of neighbours across the Channel. But to love them (in small doses, on holiday) or detest them (when they cheat us) does not require us to join them in an unnatural alliance.

Mr Blair may already be looking for ways quietly to disengage from his pledge of a referendum to decide whether Britain should enter Euroland. He took a knock in this summer's elections for the European Parliament; he must know that even big business is far from solidly in favour of entry, while the smaller companies – and almost certainly the mass of ordinary citizens – are strongly against. I believe he is now looking very nervously at the range of opinion within the trades unions ahead of his autumn party conference.

Both Lady Thatcher and, if he were still alive, I suspect, Harold Wilson would advise Mr Blair to do some serious contingency planning for alternative scenarios should Britain not join the euro. Perhaps such studies are already under way in the heart of Government. If so, they will never be admitted publicly – not so long as the PM is still trying to extend his influence in Europe following the leading role he took in Kosovo.

(Power can corrupt leading politicians: it is an insidious process whose victim is the last to be aware of its progression. I pray that ambition, hiding behind the mask of benevolent intentions, will not spur Mr Blair towards becoming "President of Europe" to the detriment of our true national interests: but I also trust our electorate to apply the brakes if need be; and provided we retain that vital power.)

What are those alternatives? Harold Wilson wrestled with the monster in the late 1960s. Overshadowing all the many day-to-day problems of his earlier Administrations (1966–70) were the endemic economic crisis, Rhodesia's illegal declaration of independence, the conflict in Vietnam and – it really wouldn't go away – the developing European Common Market of the original Six and the question of whether Britain should, or could, join it.

> … if our entry into the EEC was blocked, there was GITA – "Go It Alone"

Even when Wilson became convinced (his insight that we had to try to join the Six, for political more than economic reasons, struck him not on any road to Damascus but on a train to Wigan to open a new housing estate on 21 October 1966) he launched various studies of alternative options.

One was to persuade our partners in the seven member European Free Trade Agreement to build bridges with the EEC – as Harold put it, to "stop Europe continuing at Sixes and Sevens". Another was to throw in our lot with NAFTA – the North Atlantic Free Trade Area – in which the EFTA countries would join Canada and the US in a loose free trade area. One further version would have extended this to include Australia and New Zealand. Again, how about trying to develop the Commonwealth – representing more than one-sixth of the total UN membership of 117 countries and one-quarter of the world's population – to become a more powerful trading bloc? Or, as a fallback if our entry into the EEC was blocked, there was GITA – "Go It Alone" – Britain developing her own economic strengths and making her own terms with the main trading groups.

Wilson trod gingerly. First, in late October 1966 he secured the agreement of his Cabinet that he and George Brown should tour the capitals of the Six to test the bathwater. Painstaking discussions followed between mid January and early March 1967 in a whirl of visits to, in turn, Rome, Strasbourg, Paris, Brussels, Bonn, The Hague and Luxembourg. A full account of these talks (140 close-typed pages) was circulated to all Cabinet Ministers.

Then, from the end of March until the last week of April 1967 Wilson presided over wide-ranging Cabinet discussions, twice a week, as well as three long gatherings of the Parliamentary Labour Party, to thrash out all the implications of a British application to join the EEC.

On 2 May 1967 the Cabinet approved such an application, which Wilson announced in the Commons later the same day. After a three day debate, the Commons endorsed this decision on 10 May by 488 votes to 62, the biggest majority on a contested vote on a matter of public policy for almost a century. So Wilson was not out of step with majority public opinion at that time; and he had taken enormous care to make sure he carried his Cabinet, party and Parliament with him. Tony Blair has been less punctilious, so far anyway.

What followed carries a powerful lesson for today. Wilson was reasonably sure he had persuaded the leaders of the Six, bar France, to back Britain's entry; he even believed he had almost won over de Gaulle in their talks in the Elysee Palace on 24 January 1967 and during Dr Adenauer's funeral in Bonn three months later. But at a press conference on 16 May, only six days after that overwhelming Commons vote, de Gaulle issued his "velvet veto", pouring cold water on the idea that Britain was fit and ready to join the Six while denying he was actually vetoing our application. That he did with a vengeance on 27 November 1967.

It has nearly always been France, more than Germany, who has dictated the EEC agenda. So, today. Mr Blair, beware!

Wilson was double frustrated. The Commonwealth alternative was looking less and less attractive because of the strident demands by our "black and brown brothers" for British military intervention to end Ian Smith's rebellion in Rhodesia; these demands soured successive Prime Ministers' conferences (in London, June 1965; Lagos, January 1966; and again in London, September 1966, described by Harold as a "nightmare – by common consent the worst ever held").

So it was that Harold was impelled to ponder another way – one that Mr Blair would now do well to consider – that the UK might become, if not actually the 51st state of the USA, then at least a closer ally in political as well as commercial ways. The idea was discussed between Wilson and President Johnson in my hearing on 2 June 1967, only 17 days after the rebuff from de Gaulle, and again on 9 February 1968. No more than six persons were present. No notes were taken, no records kept.

I have checked my memory with Lady Marcia Falkender, Wilson's Political Secretary and close confidante at the time. She, though not present at these meetings, confirms that Harold did have this idea in his mind and frequently talked it over with her. Bill Moyers, my opposite number as President Johnson's Press Secretary on the first occasion, has written to say that LBJ was indeed interested in closer ties with Britain: he appreciated the moral support Wilson was giving him over Vietnam, even though he would have liked it better if we had sent a token British force on the ground; he steadfastly supported the UK in her economic difficulties up to devaluation on 18 November 1967 and was helpful over sanctions against Rhodesia. Not for the first time was America rallying to our aid.

Moyers added, jocularly, "LBJ didn't like de Gaulle, who was not as tall as the President but just as egocentric, whereas he found Wilson highly short enough to be comfortable". But Johnson doubted whether Wilson had the political clout to carry the idea of closer UK/US relations much further.

Moyers' successor, George Christian, has also written to me: he has researched the LBJ archives in Texas, but can only confirm that no formal record was kept of the two meetings.

How about the next twenty years? I can see only disaster for Britain if, by joining the euro, we surrender the right to govern ourselves in the perhaps idiosyncratic but very effectively pragmatic way we have done for so long. I have lived for eight years in Gascony: with my wife, an experienced international marketing consultant, Swiss-born of French descent, and a pioneer in the 1960s of global marketing, we have hands-on experience of the corruption, the bureaucratic jungle, the chauvinism, elitism and double standards that constitute the "autocratic democracy" that rules in France. I know not how it is on the ground in the rest of Europe, but I suspect the worst.

Mr Blair, I trust, will not take the final plunge into this morass. But then, can Britain envisage a modern GITA? Or should we not at least be as ready as we are now urged by the Government to be in preparing for the euro to move into a closer relationship with the USA and Canada?

We do at least speak just about the same language (which happens to be the world's lingua franca); we have nearly the same sense of humour (and this IS important); we have fought side by side throughout this century, right down to the Gulf War and Kosovo; global communications have shrunk the Atlantic to little more than the Channel; and, like the North Americans, we not only believe in but rely on free, world-wide trade – by contrast, the Babel of eleven Euro nations, tight in their ring fence, share neither our language, our literature, our culture, our views of justice, our sense of fair play in commerce and private dealings or our fiscal, social, employment and trading policies.

I think I can guess which way Harold Wilson would be turning if he were alive today and still the Prime Minister.

Sir Trevor Lloyd-Hughes was the Prime Minister's Press Secretary, 1964–69, and Chief Information Adviser to the Government, 1969–70.

… news in brief

Euro falls again towards $1

With the euro back to just a few cents above $1, analysts are speculating that it may reach parity with the American currency by the end of the year, or even fall below $1. Joachim Goldberg, an analyst for Deutsche Bank, says that it will not stop at $1 but will fall to 98 cents. Other analysts, however, claim that it is heading towards $1.10 because the European economy is beginning to pick up. Goldberg bases his predictions on the fact that the euro has been floating between $1.04 and $1.07. He points out that the tendency has been for the currency to fall rather than rise and that those who predict further rises are doing so only on the basis of emotion. [*Frankfurter Allgemeine Zeitung*, 10th September 1999]

KLA "disarms"

The Kosovo Liberation Army has handed in 10,000 weapons and transformed itself into a sort of police force. This has been hailed as a victory for Kfor's commitment to disarm the terrorist group. But many are sceptical. One unidentified UN official told *Agence France Presse* on 20 September that "we are satisfied that the UCK has handed in 10,000 arms even if we know they still have 100,000." There were several reports of broken or very old weapons being turned over to KFOR troops during the demilitarization. Another UN source said "we know that some radical commanders will not accept the new agreements." AFP also reported that there is some friction between UCK political leader Thaci and the head of the new corps, General Ceku. Thaci reportedly opposed the idea of Ceku leading the civilian force. [*Radio Free Europe*, 21st September.]

More bad news for Schröder

The governing SPD has continued to suffer at the hands of German electors, losing power in Thuringia and suffering heavy losses in Saxony and in North Rhine Westphalia, the largest of Germany's Bundesländer in terms of population. The defeats have re-opened splits in the SPD over the party's future. In particular, the Old Left and the New Left are becoming increasingly divided, with the former rebelling against the leadership of the latter in the party. [*Die Welt*, 13th September 1999] The defeat in Saxony was the worst result the SPD has had since the war. The prospect of a complete collapse of the government before the end of the year is now being discussed. The Christian Democrats have warned that the SPD may raise taxes as a result of the defeats in order to placate its left wing. [*Handelsblatt*, 10th–11th September 1999]

Europe opens the door to Turkey

There is a new lift in the EU's relations with Turkey. At a meeting of EU Foreign Minister in Finland, 150 million euros were unblocked in aid to Ankara, within the framework of the new Turkey strategy of the EU. The Germans are pushing hard now for Turkey to be formally accepted as a candidate country for EU membership at the concluding summit of the Finnish presidency in Helsinki in December. [*Handelsblatt*, 6th September 1999] But the Italians have also thrown their weight behind the new friendship with Turkey. Lamberto Dini, the Italian Foreign Minister, has gone to Ankara to patch up differences after the Öcalan affair, when Italy refused to extradite the most wanted Kurdish terrorist to Turkey. [*Corriere della Sera*, 17th September 1999] The Turks, it seems, are prepared to befriend even those who have betrayed them most severely if it means getting admitted to the EU.

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'An Illustrated Guide to
the Scottish Economy'
by Jeremy Peat and Stephen Boyle
Edited by Bill Jamieson
Foreword by the Rt Hon. Gordon Brown, MP
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BOOK REVIEWS

Burying Caesar

by Graham Stewart, Weidenfeld & Nicholson, 1999, £25

Reviewed by Andrew Roberts

The clash between Winston Churchill and Neville Chamberlain over appeasement in the thirties was always going to be personal as well as ideological.

The two men viewed the whole question of British policy towards Nazi Germany in such diametrically opposite ways that each found the other's viewpoint incomprehensible. To Chamberlain, Churchill appeared like a warmonger who was willing to risk millions of innocent lives for the sake of his own career. To Churchill, Chamberlain looked like a craven idiot who had been mesmerised by Hitler.

Both men were wrong but it made for the greatest gladiatorial contest of parliamentary history, fought for the highest possible stakes.

What made the clash quite so searingly bitter was the long family history which connected the two. As Graham Stewart, a talented young historian, shows in this excellent debut, the seeds of the Chamberlain–Churchill conflict went back to their boyhoods. Both Winston's father, Lord Randolph, and Neville's father, Joseph, had occupied the centre-left ground of British politics back in the 1880s and either – or even both – could easily have been Prime Minister. They worked in London as personal friends until December 1886 when Lord Randolph sensationally resigned from Lord Sainsbury's Tory ministry.

Churchill believed that, with Chamberlain's support, he could have created a centre-left Government, but instead Chamberlain used the situation to his own, short-term political advantage and the scene was set for a half-century struggle between the chums.

The Churchillian revenge came in 1904 when, just as Chamberlain had almost grasped control of the Unionist Party in favour of Imperial Protection, Winston crossed the floor of the House in support of Free Trade, leading in part to the Unionists' disastrous defeat in the following General Election and Joseph Chamberlain's political eclipse. Like Winston, Neville believed that his father had been robbed of a premiership that was rightfully his and mutual resentment rankled for decades.

> Chamberlain could have sent an unmistakable message of defiance to Hitler by taking Churchill back

By the time Churchill was in the wilderness during the thirties, there were myriad reasons why Chamberlain did not want him to re-enter the Cabinet. They took different stances over Indian self-government, the Abdication crisis and, eventually, of course, the Munich Agreement over Czechoslovakia.

Even when Chamberlain could have sent an unmistakable message of defiance to Hitler by taking Churchill back into the Cabinet in the summer of 1939, he avoided doing so, seeing it as an admission of failure. Only when war was declared on September 3, 1939, was Churchill invited back as First Lord of the Admiralty.

Then something fascinating happened. Just as everyone watched for the old feud to flare up in Cabinet, the two men publicly and privately buried the ancient hatchet to work together for the good of their embattled nation.

Churchill served Chamberlain with commendable loyalty until he replaced him on May 10, 1940, and thereafter Chamberlain served Churchill with equal loyalty until his death from cancer in November. In the national emergency the ancestral voices no longer predicted dynastic vengeance.

This great saga, brilliantly told by Stewart, culminates in the panegyric which Churchill gave on Chamberlain's death. Instead of saying "I told you so", Churchill pointed out that history alone would be able to judge who had been right in the great battles they had fought against one another. By then he was, of course, secure in the knowledge that it would be he and his supporters who wrote the history.

Andrew Roberts's Salisbury; Victorian Titan *is now available in all good bookshops, priced £25.00*

… news in brief

In with the mark, out with the dinar

The UN administrator of Kosovo has ruled that the German mark is the official currency of the province. This is a strange decision, considering that the terms under which Mr Kouchner wields power there include a reaffirmation that Kosovo is part of Yugoslavia. It also took the European Central Bank and the Bundesbank by surprise and, apparently, the German Foreign Ministry. [*Die Welt*, 7th September 1999]

Even the Serbian opposition is astonished: Zoran Djindjic, the darling of the West, has attacked the decision. But the co-ordinator for regional co-operation in South-East Europe, Erhard Busek, said that linking Kosovo to the D-Mark was a key to its prosperity and cited Bulgaria as an example of this. (The standard of living has collapsed in Bulgaria during the last decade.) Busek also said that the creation of a proper banking system was important. [*Handelsblatt*, 7th September 1999] He thus reflected the suggestion, made in an internal EU document on South-Eastern Europe, that stability might be achieved by imposing the euro as the region's currency and having Europe take over the banking system of countries like Albania.

Handicap, Not Trump Card

by Keith Marsden, Centre for Policy Studies, £19.99, £5.00

Reviewed by Dr Madsen Pirie

Adam Smith famously countered mercantilism. People had believed that wealth consisted of gold and silver, and that government should pursue policies to attract more of it. Smith showed that the wealth of nations really consists of the productive activity of their peoples, and is potentially unlimited.

There is a new mercantilism, popular in France and Germany, which substitutes jobs for precious metals. It takes the view that the supply of these is limited, that nations should hoard them, and that government policy should try to keep this precious and scarce commodity within national frontiers. Keith Marsden, writing for the CPS, makes it his job to demolish this heresy.

His CPS paper, *Handicap, Not Trump Card,* is a model of what a think tank pamphlet should be like. It argues a clear case, supported by masses of statistics gleaned from international sources, mostly OECD, World Bank and IMF data. The conclusion is inescapable. It is that the Franco–German economic model, combining high social wages with government intervention and regulation, is simply wrong, and that the Anglo-American model, combining labour market flexibility with limited regulation and low non-wage burdens, has a record of success.

Anyone who advocates the 'European' (i.e. Franco–German) model has to contend with the fact that 1999 unemployment rates see France on 11.4%, Germany at 10.9%, with the UK less than half that on 4.6%, and the US lower still at 4.5%. The fact is that jobs have been created in the UK and the US, whereas in France and Germany they have been rationed. I remember the consternation caused in Spring 1999 when it was revealed that the US economy had created more jobs in the month of December than the countries of continental Europe had created between them over the previous decade.

Furthermore, the US jobs were real ones in business and industry, whereas the only new European jobs were in various levels of government. The response in France and Germany was to cut the working week and to introduce early retirement. Marsden shows remorselessly that it did not work. In the US, working hours increased by 4%, while in the UK they stayed more or less constant. Unemployment went up in France and Germany, and down in the UK and US.

Early retirement did not increase the jobs available to younger workers. In fact Britain and the US manage to employ many more of their young people and their older people. They have a higher proportion of 55064 year-olds in work, and a higher employment ratio for the 15–24 year-olds.

There is no comfort from Marsden, either, for the myth that the jobs created in the UK/US model are of low quality and low pay. He shows that on the earnings figure which matters – average net income – the UK and US score significantly higher than France and Germany for single earners without children, and for two household earners with two children. This is after taking into account taxation and social security taxes.

There is no refuge, either, in the New Labour mantra that training is done better in Europe. In fact they have more government training, but less private training. And it is private training which is effective. In the 1990s. Marsden shows, government training was 8 times higher (as a percentage of GDP) in Germany than in the UK, and 50%–80% higher in France than in Britain. Yet the percentage of youths actually working dropped to 20% in France and to 47% in Germany by 1997. In Britain, by contrast, the youth employment ratio is 60%, and in the US it is 58%.

Another totem flattened by Marsden is that of income inequality. He cites OECD data showing that earnings inequality is greater in France than in Britain, and has been so for the past 20 years. The earnings of the top decile of male workers in France were almost 3.5 times those of the bottom decile in 1994; the ratio in Britain was 3.3 times. For female workers, those in the bottom decile saw their real wages in France rise by only 1% between 1984 and 1994. In Britain, over nearly the same period (1985–95) the increase was 19%.

Ah well, at least the New Labour government is harmonising health and safety with Europe, so that our 'sweatshop' conditions are improved. Actually, no. For the last three available years of data, the UK and US have fewer occupational injuries and fewer fatalities than either France or Germany. The total injury rate per 1000 workers was 0.6 in the UK, 2.3 in the US, 3.1 in France and 6.1 in Germany. The fatal injury rate was 0.01 in the UK, 0.03 in the US, 0.06 in France and 0.07 in Germany.

The obvious question which emerges at the end of Marsden's piece is this: if the Franco-German model has so manifestly failed to perform, why does Britain's Labour government seem so enamoured with it? A raft of measures has increased the costs of employment, raised the non-wage costs to employers and sacrificed some of our hard-won labour market flexibility. The government has made life tougher for small firms, and made it more expensive to employ people. In other words, it has leaned toward the continental model. Why?

The answer is perhaps that it feels more comfortable with an interventionist policy. It has a propensity to set by laws those things which ought properly to result from supply and demand. It prefers businesses to respond to the demands of bureaucrats, rather than to the needs of the market. In its mouth are the words of competition and choice, but in its soul are the instincts of the meddler.

At the end of *Handicap, Not Trump Card,* Marsden gives us a ten point programme to reduce unemployment and increase personal incomes, calling for Britain to urge its adoption throughout Europe. The truth is that there is no chance at all of its adoption, even by the British government, let alone by our European partners. Governments are determined to pursue the failed model because they have too much political capital tied up in it. The best hope is that Britain can escape being ensnared by them into relinquishing its success.

If we make no more concessions to harmonisation of taxation, regulation or social wages, and if we stay well clear of the euro with its political agenda, we might just keep our advantage long enough for Marsden's ten point programme to be implemented by the next government.

Dr Madsen Pirie is President of the Adam Smith Institute.

Preparing for EMU – a LibDem Approach

by Dr Vincent Cable, MP, Centre for European Reform, 1999, £5

Reviewed by Michael Webster

Vincent Cable confirms all our fears about the hope of finding a eurosceptic in the Liberals. We have to come to the conclusion that they really are all the same. Dr Cable provides us with the mandatory, rather smug account of why they are in the best position to argue the Europhile cause. This basically boils down to citing their history of agreeing with everything that the European Union has ever conceived while claiming they have an exemplary record in fighting corruption and waste in the EU – a contradiction in terms. We are then treated to thirty-nine pages of argument in favour of a headlong rush to abolish the pound as soon as possible. One wouldn't mind as much if some new arguments in favour of the euro were put forward.

Dr Cable devotes a section of his pamphlet to "Revisiting the case for EMU". I hate to think how many times we have revisited this and I would not mind if the reader were offered something new like an honest admission now that the euro is up and running about the political ambitions that drive it. Or perhaps some realistic indication of the levels of tax harmonisation necessary for EMU to work in the long term or perhaps some comment on the proposals for a common European judicial area. These are issues which the political elite in Europe talk about openly and honestly but which europhiles in Britain dismiss as scaregering.

So what arguments does Dr Cable present us with to convince us of the necessity of abolishing our currency? I am afraid if you were bracing yourself for something new to persuade you, you will be disappointed. We have the same old negative and fear based reasons why we need to abolish the pound. Dr Cable claims the single currency will lead us to that Neverland of low interest rates and low inflation. What evidence does Dr Cable cite for this bold statement? He goes on to say, "There are monetary and fiscal disciplines which guarantee greater economic stability." Like the statement by the new President of the European Commission that Italy might have to leave the euro provides us with an indication of the sort of discipline we can expect.

We then come to the old europhile favourite of fear – Britain will lose inward investment. In short, vote for the euro or you might lost your job. Firstly this argument, played heavily by the big business, pro-euro lobby, is seen by many of them as their strongest card. Remember when Nissan announced it might no longer direct further investment into British plants. The BBC headlines connected this fact with Britain's failure to commit in principle to the euro. Despite Nissan management saying it was because of a number of factors including a fall in demand for new cars.

Cable goes on to say that joining the euro will mean interest rates will be halved (and they say the eurosceptics play the populist card!). Simple, join the euro and halve your mortgage. Why did we not think of it before? But we cannot treat interest rates in isolation. The reason Britain has higher interest rates is because we need higher interest rates. If interest rates could be halved tomorrow they would be.

The second old fear favourite is loss of influence or being left out of the club. Having visited the Council of Ministers I must confess I have sympathy for this argument. If power play politics exists, it is in the offices and council of Brussels. A ministerial visit to Brussels offers a break from the rigours of Whitehall and the House of Commons, where heaven forfend there are MPs, journalists and others, even under New Labour, who may question your actions and decisions. Brussels is a world away from this. You are swept from the airport in a limo to your meeting where business is conducted largely away from the eyes of the media and, seated behind national flags, one would imagine a great feeling of power as one "fought Britain's corner". In particular Dr Cable is concerned that we will be excluded from the Euro X Committee (why is it that the European Union seems to have a habit of creating names that would not be out of place in a spoof James Bond film?).

But influence is not just sitting on a committee where you have one vote in fifteen hoping to influence economic policy in Bavaria, or social policy in Greece, while at the same time "defending your corner". Trying to "get the best deal for Britain" against the diplomatic manoeuvrings of fourteen other states all trying to do the same has proven difficult for the most capable of ministers. The question we need to ask ourselves is what is the cost of being on the committee in the first place and what is it you are trying to influence and how it benefits you. A child at school could decided, in true europhile fashion, that the best way to prevent his classmates from smoking was to join them and not just "sit on the sidelines". However, a clever child who really wanted to influence his peers would make clear his objections and not participate. Many would doubt the influence that Tony Blair has on Bill Clinton or that Margaret Thatcher had on Ronald Reagan, but that influence was no dependent upon having a seat in the American Congress. Influence is about saying what you believe and trying to persuade others of the virtues of your position.

Through this pamphlet Vincent Cable does tell us something useful. He shows us yet again the weaknesses of the pro-euro lobby. They cannot muster any new arguments. The arguments they do use are largely based on fear and scaremongering. It is significant that those who favour the abolition of the pound are still afraid to admit the true nature and direction of the European "project" to the British people, despite the euro being up and running and calls from continental politicians for one European judicial area and further political integration.

During the European elections in June the Liberal Democrats were at it again when they campaigned on every issue (not many nowadays) for which the EU had no responsibility. However, to be fair to the Liberals, they are more honest about the nature of the EU than the Labour Party who, despite the pro-European rhetoric, are still battling as the last Government did with the European issue. It is perhaps Tony Blair's greatest weakness that he is unable to come to terms with the true nature, ambitions and direction of the European Union and Britain's place within it. His reluctance to openly and actively campaign in favour of British membership of the euro demonstrates Tony Blair's inability to fight for Britain in the European Union.

Michael Webster is a former Conservative researcher at the House of Commons

The Small Business Service

***John Walker** reviews this proposed new DTI backed Agency which, as well as being charged with the almost impossible task of tackling the primarily EU originated regulatory burden, will introduce a new concept to the UK of having a state funded organisation which lobbies the Government for small businesses.*

According to the SBS consultation paper, the Agency will be charged with addressing the following issues: A small business voice at the heart of Government; Government Support for Small Businesses; Assistance with regulatory compliance and ensuring small business interests recognised.

However admirable the objectives may appear, they are merely a repackaging of what has gone before, namely the introduction of Business Links four years ago (Ref my article in the European Journal, December 1995) to provide a single point business advice and a commitment to address over-regulation. It also poses a new situation, for the UK, where the Government will be funding an organisation to lobby itself, which carry both clear and obvious dangers.

The then Government backed 'Your Business Matters' exercise at the end of 1995 was intended to address many concerns of the small business sector, yet it has singularly failed to reduce over-regulation. The Better Regulations Task Force, the Regulatory Impact Unit and the Better Regulations Unit have done little or nothing to stem the massive increase in regulations that affect this sector. The Government has not provided a clear definition of what 'Better Regulation' actually means and who it is better for. Also, an explanation as to how this large increase in regulations can occur if the Government keeps stating that it will only 'Regulate when necessary', is long overdue.

SBS voice at the heart of Government.

This must carry very considerable potential alarm bells for all independent voices of small businesses. The Government often states that it wants to deal with less voices or preferably one voice of this sector, and a situation that leads the SBS into being that voice must be strongly resisted. The Government must give a clear commitment that under no circumstances will the current access to Ministers and Civil Servants, including responses to consultations, afforded to independent business organisations be discontinued once the SBS is up and running. Whilst contact with the SBS for these organisations will be important, if they are told that they can only feed opinions into the Government through the SBS, this would be a travesty to the democratic traditions of the UK especially if the SBS leadership was too Government orientated and effectively acted as shield to criticism.

> Like the changes to the Euro Election boundaries, there would probably be no public consultation

Another aspect of concern must be the proposed structure. The mergers of Training & Enterprise Councils (TECs), Business Links and Core (mainly County) Chambers into Chambers of Commerce, Training & Enterprise organisations (CCTE) are currently on hold due to this SBS issue. The TECs are expected close down in April 2001 with the 'Training' element transferred to proposed new 'Learning & Skills Councils' which are likely to have a significant influence over the education of young people over the age of 16. As an interim measure, the existing Business Links, plus the 'Enterprise' element from the TECs, will run as franchisees of the Small Business Service and in the longer term those franchises will be put out to public tender. With the larger Core or County Chambers of Commerce becoming more entangled with the state through the current system, the Chambers themselves could become the franchisees themselves or merge with the Business Links to achieve the same result. The potential removal of many Chambers from their important role as independent voices for business is certainly a very serious possible by-product indeed.

The nine Regional Development Agencies in England, with their equivalents in Scotland Wales and Northern Ireland, will have a role in the SBS delivery structure. According to the Consultation Paper, the Business Link franchisees will be established on an EU Sub Region basis as opposed to the current system which is on Counties or similar sized areas of groups of local authorities. It is likely that the boundaries for these new SBS Business Links will have to be the same as the new Learning & Skills Councils, with the latter having the defining influence. The use of the EU Sub Regions to determine these boundaries is undoubtedly to meet statistical demands of Eurostat for the provision of information about the business community in each EU Sub-Region, which in itself could lead to the introduction of Statutory Business Registration for every small business person in the UK. Currently in the UK only certain business activities are regulated and there is no licence to trade as such, which is not the case in most other EU Member States.

A side effect of this EU Sub-Region approach will no doubt be further attempts by the UK Government to have a uniform system of local government, something that the 1993/4 Local Government Review failed to deliver. Many County Councils survived that Review and the resulting patchwork of County, Unitary and District Councils is becoming a barrier to advancing directly elected Regional Assemblies in the 8 English Euro Regions outside London. The educational aspect of the Learning & Skills Councils could well be the engine for another Local Government Review in areas of England where the two tier system still exists, particularly if the Learning & Skills Councils assume some of the County Councils' current educational responsibilities. Like the changes to the Euro Election boundaries, there would probably be no public consultation and the two tier system would just go as a result of an Act of Parliament.

Government Support for Small Businesses.

The quality of TECs and Business Links, including their equivalents in Scotland Wales and Northern Ireland, is varied and improvements are always welcome. There are two areas which do need attention. Firstly, the practice of giving dis-

counts to Chamber of Commerce members on chargeable services from the TEC/BLs must cease when the SBS starts. This is a good opportunity to put a stop to state subsidies favouring one membership group and to have a single scale of fees for all. Secondly, the local SBS outlets must be permitted to assist businesses with less than 10 employees. The Consultation Paper states that business within this range will be assisted, yet similar confirmations were given over Business Links with implementation on the ground being patchy.

Assistance with regulatory compliance and ensuring small business interests are recognised.

The large growth in EU originated regulations that have and continue to be introduced, particularly from the Social Chapter, Health & Safety directives and the Single Market, are reaching a point that many small business proprietors and directors will be demanding rights for themselves that fully reflect the risks of owning a business, and particularly those with staff. The Working Time Regulations, the paying of the Working Families Tax Credit through the payroll, the Distance Selling Directive, administering stakeholder pensions, the spread of 'Standards' of a quasi regulatory nature and the rumours of Housing Benefit becoming a payroll matter are just a few examples of the continuing regulatory increases, although not all are directly EU driven.

The weight of political will behind these regulations when compared with the SBS's 'Voice of Small Businesses in Government' would be like a mouse taking on a lion. The Qualified Majority Voting system, in the Council of Ministers, in which the UK has only 10 out of 87 votes and where 63 votes are required for a legally binding decision on all Member States, including those States that voted against, makes the ability of the UK as a legal entity to stop excessive regulation on small businesses by the EU almost impossible. There may come a time when political pressure on the UK Government moves in the direction of pushing for the repeal of Section 2.2 of the European Communities Act 1972. This would have the effect of making UK law superior to EU law as opposed to the other way round which is currently the situation. The vast majority of laws implemented in the UK and particularly those that impinge of the business community now come from the EU, or at least have to be consistent with the Treaties or other EU obligations entered into by the UK Government.

The repeal of Section 2.2 of the European Communities Act 1972 would be seen by some or many as thinking the unthinkable, yet it may become the only effective method to stop these damaging EU Directives adding to the regulatory obligations of small businesses in the UK. All to often these Directives are introduced so as to give the impression that they are purely UK domestic initiatives and by implication changeable by a future Government, which of course they are not. For example no UK political party could establish a commitment that it alone, through Westminster, would repeal the Working Time Regulations if it was elected to office. The reversal of an EU Directive would have to apply in all Member States and be agreed by the Council of Ministers. Therefore it is most unlikely that the SBS will be able to do anything about EU Directives which have already been transposed into UK law, save for gold plating issues. Repealing this clause could be highly questionnable legally due to the amendments to the Treaty of Rome passed since 1973 (Single European Act, Maastricht and Amsterdam) and the concept of *Acquis Communautaire*. The European Union Court of Justice could have a challenging situation on its hands if the UK ever took this action.

Given this background, the main function of the SBS will be no doubt be assisting, helping or even ensuring small businesses comply with the regulatory avalanche. Most small business want less regulation and not an Agency that helps with compliance, as this will only add to the ease and justification by which this avalanche will continue. It is because of this factor, plus other reasons identified elsewhere in this article, that Statutory Business Registration, or Statutory Chambers, could emerge as a result of this Small Business Service. If it is to be a helper with this compliance, then the SBS cannot be a proper voice for this sector with Government.

The tendency for Government (and local authorities) to state that business has been consulted on a particular issue, with the implication that this sector is content, and then proceed in a way that is against the interests of small businesses, must cease. To act in this way is misleading and has often been the Government's approach over EMU, where the business community clearly has a range of opinions.

Conclusion

For a Government of a democratic Country to even consider setting up a state funded Agency to lobby itself would be not be believable if it was not down in printed form in the SBS Consultation Paper itself. Successive UK Governments have regularly talked strong on tackling the regulatory burdens on small businesses and until they publicly acknowledge where the majority of these regulations originate, then they are merely creating a subterfuge which gives false hope to many small business owners that action is on the way. The repeal of the Section 2.2 of the European Communities Act, or outright withdrawal from the EU, is the only way that any real chance of reducing these burdens on small businesses can ever be achieved.

John Walker is involved with a UK small business organisation and makes this contribution in a personal capacity.

… news in brief

Schröder supports Polish EU membership

The German Chancellor has completed a two-day visit to Poland with a promise to support Poland's aim of becoming a member of the European Union by 2003. The two governments agreed to exchange some historical documents and the visit was an amicable remembrance of the day 60 years ago when German troops started the Second World War by attacking Poland. But there were also divisions, notably over claims for compensation to be paid to Polish slave workers, forced to work for Nazi Germany during the war. [*Süddeutsche Zeitung*, 6th September 1999]

Speculation about Grand coalition

Following the poor showing of the ruling Social Democrats in the regional elections in the Saarland and Brandenburg, there has been speculation within the Christian Democratic party that moves should be made towards establishing a "Grand Coalition" between CDU and SPD, not only in Saarland and Brandenburg but also, perhaps, in the federal government in Berlin itself. [*Die Welt*, 7th September 1999]

An Update on the Withholding Tax

by Douglas Ellison

The Finnish Presidency of the EU set as two of its objectives "to reach a decision on a comprehensive tax package by the Helsinki European Council" to prevent harmful tax competition and to introduce measures so that companies can "be given equal opportunities to operate without hindrance throughout the EU" having had EMU create "the prerequisites for a common financial market". This echoed Commissioner Monti's speech at the Mansion House in May where he directly linked the British desire to open the Single Market in financial services to measures to promote greater tax harmonisation, especially in the area of savings, or the so-called withholding tax. Once again, as in all of our dealings with the EU, this debate highlights our perennial problem of being caught between the deep blue water of the Single Market and the devil of a political manifesto of a single European state.

The recent Prodi Commission hearings confirmed a fundamental difference of opinion between the views of our EU partners and our own government on this issue. Commissioner Monti stated that "it is heartening to see that there is now general agreement on the need to combat harmful tax competition while the advantages of fair tax competition are recognise. Some practical instruments to this end *have been accepted* (such as the Code of conduct on business taxation and the basis for a Directive on the taxation of savings)." Not according to Gordon Brown who said at the recent EU Finance Ministers meeting in Turku "We will not accept this directive if it damages the interests of the City of London and the eurobond markets and I've made it clear that I would not back down on these issues".

The issue of damage to our national interest is clear. The International Securities and Markets Association (ISMA) recently issued a summary of the Withholding Tax debate thus far, and their warning is stark: "The European Commission and certain EU governments appear to be wilfully ignorant that the Directive, if adopted in its present form, would be likely to have disastrous consequences on the economies and the employment levels of the financial centres *within* [my emphasis] the EU". ISMA goes to pains to warn that "the proposed Directive poses a problem *not* just for London, but for the banking and securities industry *throughout* the EU".

It is perhaps worthwhile to restate the problem which has driven ISMA to issue such warnings. COM(1998) 295 final, the Withholding Tax Directive, intends to impose on "economic operators" an obligation to either deduct a withholding tax of 20% upon all cross-border payments to private individuals, or to provide information to the recipient's fiscal authorities. Cross-border payments covers, inter alia, interest payments on bank accounts, bonds, loans etc. ISMA identifies 5 major objections to the Directive:

- Substantial losses to existing bondholders (including institutional investors such as pension fund holders) may arise due to the early redemption (calling) of bonds at par with tax 'gross-up' clauses if the Directive is imposed. This problem is exacerbated by the relatively low level of interest rates currently prevailing, with Treasury estimates that 80–90% of bonds in issue are trading above par.
- Distortions between EU markets and other international financial markets will be artificially created by this unilateral action.
- Heavy administrative burdens will be placed upon EU-resident paying agents who will pass on these costs to capital market participants or relocate outside of the EU, directly threatening employment in London.
- The proposals are unlikely to raise additional tax revenue if the cost of administration is taken against any additional tax revenue raised.
- An unacceptable lack of prior consultation with the banking and securities industry as to the Directive's likely impact.

> … the Treasury does seem to have accepted that … it is powerless to resist, thus consigning another chunk of fiscal sovereignty to Brussels

The ISMA review is far from hopeful that these objections have been recognised and will be taken into account by the Commission. ISMA pointedly notes that the Commission seems to not have learnt anything from the experience of the United States in 1963 when it imposed a unilateral withholding tax, causing the international capital markets to migrate to London. Indeed, the Commission is flying in the face of recent initiatives by other major international markets, most notably Japan, Australia and Greece, who are abolishing domestic withholding taxes on securities.

Major criticisms, indeed incredulity, are reserved by ISMA for the fact that even now, no cost/benefit analysis has been produced by the Commission on this proposal. Of course this come as no great surprise to seasoned eurosceptics, as cost/benefit considerations have no great relevance when Commission policy is at stake.

At the time ISMA appeared satisfied that the reason for Chancellor Brown's anaemic ECOFIN performance during the German presidency on this matter, was the fact his belated grasp of the difficulties in suggesting a compromise, a fact recognised in the review which itself spends a great deal of time considering the practical problems of the possible compromise of exempting eurobonds. IPMA's reaction to Gordon Brown's Turku compromise, is much more positive though, going as far to say that "it was very pleased with the paper, which draws heavily on IMPA's contributions". Indeed, this is the case, with the Treasury's paper also expressing grave reservations that the Commission's objectives of tackling tax evasion will be best met by the Directive in its current form without seriously damaging the international competitiveness of the bond market. By restricting its objections to the bond market, however, the Treasury does seem to have accepted that as regards any other form of withholding (e.g. on interest on bank accounts) it is powerless to resist, thus consigning another chunk of fiscal sovereignty to Brussels.

Indeed the Treasury cites evidence from Switzerland that international investors are

moving funds away from the EU and the threat of any withholding tax, and reminds the Commission of the blow to confidence caused by the United States's threat in 1987 to the Dutch Antilles which crashed the price of effected bonds by 15–20%, before the US reversed its decision. One would hope that the concern for preserving the financial architecture espoused by Messrs Brown *et al.,* would ensure that they themselves do not trigger such financial meltdowns.

The Treasury's compromise focuses on two mutually exclusive approaches. The first is to exempt eurobonds by defining what international bonds are, grandfathering existing issues and then exempting future issues held in clearing systems. The Treasury itself admits that there are significant details to resolve in that it will be necessary to define what is an interest payment and a paying agent, and to resolve the issue of revenue sharing between tax jurisdictions. It does not of course obviate the imposition of the administrative burden and associated costs from the banks and other custodians, but to this the Treasury has no solution.

The second involves a wholesale rewrite of the Directive, defining the sources of interest, including that derived from deposit taking and other retail instruments that would be covered. In so doing the Treasury accepts a massive harmonisation of the tax system, subjecting savers and companies to an EU-wide tax. Moreover, this presumably will also involve a massive re-write of double tax treaties to incorporate these changes.

Reaction to the plan was pretty damning. Hans Eichel, the German Finance Minister, spoke for the general view of the unworkability of the plan, stating that it was politically impossible to sell a compromise that "exempts the big investors and taxes the small ones". The next bout takes place in front of a panel of experts on September 21st and thence back to Finance Ministers on October 8th.

Idealistically the ISMA review concludes that if the proposed Directive is meant to deal with tax evasion in Europe, then "a far better approach … [would be] to tackle the problem at source by considering (1) the introduction of sensible income tax rates that do not create an incentive for investors to evade tax (2) the lifting of protectionist barriers to genuinely competitive pan-European pension schemes, thereby reducing the incentive for individuals to bolster their income in retirement [by tax evasion] (3) better policing and tougher penalties for tax evaders by *individual* member states." Such sentiments are echoed less forthrightly in the Treasury paper, but both appear to have missed the fact that the argument has moved on. Putting great faith in the fact that the matter will be decided by unanimity, ISMA endeavours to read the runes of the past few months and concludes that "there clearly remains a strong political momentum behind the proposed Directive, despite the resignation earlier this year of Oskar Lafontaine and the recent resignation of the entire Commission." It warns that much depends upon the importance Finland attaches to the Directive, and the new deadline of December 1999. Clearly the pace at which meetings have been arranged to resolve the issue indicates that this matter has risen back to the top of the agenda. Rather forlornly ISMA warns that if other member states are "pinning all their hopes on the UK to play the bad guys whilst the rest masquerade as good Europeans, politicians in Continental Europe are playing a dangerous game".



Why is it then that the Commission appears successful again in dividing and ruling? Many clues were given by Mario Monti in his speech at the Mansion House in May. Alternating between talk of liberalising European financial markets and the futility of opposition, he warned the City of the "serious political crisis" if the "irrational" situation of no compromise – that is the use of the British veto – arose. Despite assurances that he had persuaded his colleagues that the City was an asset to the entire EU, Mr Monti made it very clear that we would be blackballed by our partners should the Directive not be agreed. In short, he attempted to blackmail the City by linking financial services liberalisation to the acceptance of the principles of the withholding tax.

Recalling that it was indeed Margaret Thatcher that had started the process of "tax co-ordination" with the liberalisation of capital markets in Britain in 1979 and her insistence that the EU countries follow as part of the Single Market Act, Mr Monti reminded the audience that in 1988/9 capital market liberalisation was only originally agreed contingent upon a package of measures to reduce tax evasion/avoidance. He now presented the current proposals as a much delayed matter of housekeeping, necessary not only to complete a single market in financial services, but as a rectification of the failure of the Council of Ministers to agree the principle of tax co-ordination in 1989 as part of the three stages in pursuing the City's cherished goal of financial market liberalisation. The second stage was completed in the 1990s with the Capital Adequacy Directives for Banks and Securities Houses, and the third was tax co-ordination.

Dangling the carrot of the pension market whilst adopting what he saw as the morale high ground, Mr Monti confided to us that the British were right to insist on competition and liberalisation in financial services and that it was the Commission who had done the City a favour in persuading other Member States of the virtues of this policy. In the profit and loss columns of the City mandarins, the audience understood perfectly well that what Mr Monti was suggesting. The price facing the City for free and unhindered to the financial services of mainland Europe was the imposition of a withholding tax on eurobonds. Mr Monti suggested that his compromise was beneficial to all, because those states who were pressing so hard for

full tax harmonisation had achieved part of their demands, whilst Britain would have ensured the liberalisation of the EU financial services market to its own benefit.

Pointedly he told us that it had been "philosophically, psychologically and technically" difficult to persuade our partners of the current compromises, and he warned that Britain could not remain in the contradictory position of preaching the virtues of Single Market harmonisation whilst vetoing action to deal with our partners' concerns of unjust tax competition. Once again he urged, Britain would then be politically at the core of the EU and be seen to have ideologically won the day in Thatcherising Europe. The added benefit of this compromise was, in his words, that "it would not now be necessary to remove the veto in favour of QMV in matters of taxation".

It simply doesn't seem to have occurred to the Commission that the creation of a single financial services market is not solely contingent upon the harmonisation of withholding tax for individuals. Nor do they seem to accept that if the purpose of the Directive is to clamp down on private individual tax evasion, that this will not be achieved, as new non-EU providers of tax efficient custody and paying agent services will almost certainly step into London's shoes. No, it does genuinely appear that as our partners do think that tax harmonisation is a necessary adjunct of the Single Market, that increasingly financial services is becoming the battleground for the continuance of the veto in matters of taxation.

From the *Safir* case to the recent decision in *First National Bank of Chicago*, the boundaries are being pushed back in terms of the concept of tax harmonisation by the ability of the ECJ to interpret law to suit the view of the Commission and the majority of the member states. Further cases await decisions.

Indeed Mr Monti's first words were the "Single Market is probably the aspect of European integration that meets the most approval in the UK." He went on – "the Single Market as a fundamental tool to address structural weaknesses in the supply side of the EU economy is very much influenced by UK practice." But he warned "the full benefits of a single financial market within the EU have not yet been achieved … the simple fact is that further progress on creating a single financial market requires further progress on tax co-ordination." Now isn't this just the sort of language one would expect to see in an ECJ ruling under Article 251 to justify the use of QMV to achieve the objectives of the internal market under Article 14 and therefore to dispense with the veto under Article 93? ISMA's presumption that the veto can and will decide this matter may yet prove to be their undoing.

Certainly, in the *First National Bank of Chicago's* case, despite a prima facie case that financial services are out of the scope of the VAT net, the decision by the ECJ to make all foreign exchange a zero rated supply seems to create new law. If this is so, it can only lead to greater measures to harmonise turnover taxes on insurance, mortgage and other personal financial products. Clear parallels, given Mr Monti's speech and the importance of the Single Market provisions, on the potential evolution of the Withholding Tax issue can be made. Commissioner Bolkestein, Commissioner for Internal Markets, who despite recent press spins on his euroscepticism stated that despite a phased programme of VAT harmonisation mapped out in 1996, "it has proved impossible to respect the timetable initially foreseen because of the reluctance of Member States to get to grips with this task. Despite these initial setbacks, I believe that Commission perseverance … will lead ultimately to a common VAT system that eliminates any differential tax treatment between domestic and cross-border transactions." If this statement is from a eurosceptic, I am a Dutchman! If further proof is needed of the symbiosis of the Single Market and tax harmonisation, the absence of even a whimper over the introduction of the Interest and Royalties Directive 98/C123/07, is alarming. The preamble of this Directive states "In a Single Market having the characteristics of a domestic market, transactions between companies of different Member States must not be subject to less favourable tax conditions than those applicable to the same transactions carried out between companies of the same Member State." Clearly, the concept of the Single Market has deep implications for the conduct of our own tax policy.

Teaming up with Luxembourg (so much for influence in Europe!), Gordon Brown faces a real elemental problem as highlighted by Charlie McCreevy, the Irish Finance Minister, who stated Brown's plan would "negative the whole purpose of the savings Directive". Whilst Britain may win some form of short term pyrrhic victory, the outlook is bleak. A clear majority of Commissioners and other Member States are in favour of this proposal; it is just a matter of time before they either break the deadlock using QMV measures on the Single Market or find a suitable bargaining chip to trade with Chancellor Brown. Either way, he is facing a climbdown of monumental proportions, as was implicitly acknowledged in Dawn Primarolo's statement to the Lords in June, when despite the opportunity to restate the use of the veto, she limited herself to confirming the government was engaging with "good faith in the discussions" but that they were in the process of persuading our partners – note not the Commission – "why this Directive does not deal with the issue" of tax evasion " and moving "onto the next business that does address this issue". Presumably, Ms Primarolo still hangs her hopes on the fact that the Code of Conduct for Business Taxation from 1997 is not legally binding on Britain, whilst ignoring other Treaty obligations.

Whilst the City has eventually woken to the very real threat the on the taxation of savings interest pose, it may not realise in time that to have its Single Market cake and to eat it, is simply not part of the menu. Yak, yak is not going to stop *this* tax, tax, because like any collective, there are both rights and obligations arising from membership. In this regards, the City would do well to remember its own motto: "there is no free lunch". The price London might be forced to pay for unfettered access to the European financial services market may be a lot higher than has been budgeted for. Meanwhile the Commission appears hell bent in presiding over another art market fiasco, deliberately risking the destruction of a thriving industry for a philosophical belief. Only this time, the stakes are much, much higher.

Douglas Ellison is a Deputy Chairman of Greenwich and Woolwich Conservative Association and a National Committee Member of the Campaign for an Independent Britain. He is also one of the founders of the Campaign Against the Single Currency. He works in the City for ING Barings.

The Razzle-Dazzle of British Euro-scepticism

by Martin Ball

The news that Arsenal Football Club Manager Arsene Wenger has been recruited by the European Movement to participate in the pro-Euro campaign leaves me asking – "Who are the euro-sceptic celebrities and does the campaign against the single currency need them?"

Any call for celebrity involvement is not a criticism of the up-to-now exemplary assistance given to the anti-Brussels brigade by 'big beasts' from the worlds of journalism, business and finance. Their support, particularly in the early days, has been of enormous significance and was vital in ensuring that the voice of euro-scepticism became established. These persons, however, are not the names who will be familiar to the wider electorate and who may get the electorate's pulse racing enough to vote to save the pound. Here I am thinking more of well-known public figures from outside the political world, persons famous in other walks of public life, such as actors, musicians, models, television presenters, sportsmen and the like.

The involvement of such figures in the political arena is not a new departure. Politicians and celebrities have been rubbing shoulders since we first had politicians and we first had celebrities. Both sides have hoped for a little of the other's prestige to rub off. Celebrities want to lend their name to particular campaigns, and politicians want the endorsement of the famous, those who the public are more aware of and have a genuine affection for. They also tend to be quite wealthy and, as the recent leak of Labour biggest backers revealed, make big donations. Where would the Scottish National Party be without the monthly standing order injections of Sean Connery's money?

Some celebrities have not been content to lend high profile support for a cause and they have sought elected office. The best example is former Hollywood actor turned twice-elected US President Ronald Reagan. Here in Britain a number of well-known public figures have entered the political arena and become Members of Parliament. The Conservatives have had Chris Chattaway (athletics), Gyles Brandreth (television) and Seb Coe (athletics also). The Liberals have Menzies Campbell (athletics again). While Labour favours the acting profession, with Oscar winner Glenda Jackson currently in the Commons and former Eastender Michael Cashman in Brussels.

Thankfully, the 'Save-the-Pound' campaign is not lacking in backing from the famous, and could well draw upon the services of the following. There's Robin Page, who stood for the Referendum Party in 1997, and Geoffrey Boycott, who thought about being a RP candidate. Possibly Nigel Mansell, who is said to be very sceptical and apparently paid the costs of a John Redwood public meeting. More exotically, Tim Henman has been quoted in the London Evening Standard as opposing the euro. Reliable old Tory Party stand-bys such as Jim 'It's not just my jokes which are blue' Davidson and Peter 'I'll be happy speak to your Association' Springfellow. More surprisingly, Eddie Shah, who is said to be considering standing for Parliament, and Antony Worral-Thompson, who is apparently eyeing Henley. As backstop, there's always Freddie Forysth.

> Celebrity endorsement will enthuse our supporters or may even attract fans to switch to their allegiance

The important question for the 'Save-the-Pound' alliance is how do they utilise any celebrity backing. The first point to say is that there is a role for such people in the campaign andthat the electorate will expect their participation as a matter of course. The opposition has already, and will no doubt continue to, make use of theirs. So, in the very least, to avoid being at an immediate disadvantage we must keep up with the Jones. I am not suggesting that the celebrities be given front line campaigning roles, but they must be present at the rallies, be included on the letterheads and pictured on the glossy leaflets.

Crucially, there must be no dumbing-down of the philosophical element, whereby image replaces the substance of the campaign, After all we have the best arguments and have spent much effort establishing an intellectual hegemony over the pro-euro cause. Celebrity endorsement will enthuse our supporters or may even attract fans to switch to their allegiance. Before you say anything, I say that fair-weather friends are just as welcome to join me in voting to save the pound.

To head off those who are already sharpening their pencils to fire off a counter blast, let say that I accepted that there are potential pitfalls with involving celebrities. We have witnessed a number of previously pro-Blair enthusiasts, especially musicians, turning on him and attracting media coverage for their attacks. I recognise that politicians can make fools of themselves by appearing to be hip and trendy. Neil Kinnock now accepts that activities such as his participation in the video for pop-star Tracey Ullman's song 'My Guy' may have been to blame for the voters not taking him seriously as a potential Prime Minister. And we all know about William Hague's trip to the Notting Hill Carnival and that hat.

I can understand why there may be opposition amongst euro-sceptics to any role being played by big-name supporters. Some of this may be envy of those who have been fighting on this issue. They may possibly resent the involvement of 'Johnny-come-latelies'. Others are determined to prevent the campaign being dominated by a 'cult of the personality'. Basically this reflects a wish not to become the Referendum Party Mark II. It is their belief that the campaign should be – "Of the People, for the People". While this is an entirely honourable and laudable sentiment, it could cost votes. We can be certain that a pro-single currency campaign will make use of celebrity supporters, especially where it is felt they can inspire a certain section of the electorate – i.e. the young.

Already we have seen comedian Eddie Izzard participating in TV debates on European matters and this is a development we can expect to be repeated. Therefore, it is vital that the euro-sceptic campaign must counter with its' own celebrity supporters if it is not to suffer from being falsely portrayed as "unfashionable". Imagine if Newsnight or Channel 4 wanted to feature a debate between celeb supporters. The pro-Euro camp fields Izzard and the sceptics put up Lord Harris of High Cross. Lord Harris

would almost certainly thrash him on the arguments – and for some that is all that is necessary – but others may think that the sceptic side is full of 'old duffers', while the EMUists are the trendy gang to be in.

For plenty of people their opposition to the single currency will come from the brain or the heart. There will be no need for Messrs Lamont or Benn to parade in their bathing costumes to convince them to oppose further European integration. However, others may require the stimulation of parts different from those mentioned if they are to give their support. This is not devaluing the campaign but a recognition of voting reality. Just remember the stir generated by the Spice Girls' opposition to EMU, although I do accept that their outspokenness might not have been so genuine. Imagine then, the support that would swing behind euro-scepticism if the pop band Oasis declared that without an independent Britain there would be no Britpop.

The anti-single currency campaign must imaginatively utilise the backing it will receive from high profile public figures if it is to fire the electorate's imagination and win any Euro Poll. We should also remember that Euro-realist celebrities are, after all, voters themselves and it is their democratic right to have their say. So the save the pound campaign will only be providing them with a platform to ensure their voice is heard loudly in Brussels.

Martin Ball is currently gathering information on celebrities who are hostile to the EU and would welcome any help from readers in this matter. His email address is Mball@btinternet.com

… news in brief

The Queen of Hearts

The new Chief Prosecutor of the International Criminal Tribunal for the Former Yugoslavia has given an interview to the leading weekly German newspaper, *Die Zeit*. She was asked, "What are your priorities as Chief Prosecutor?" and replied "Arrest them! We must arrest these people!" Then she was asked, "Mrs del Ponte, what do you want to undertake as Chief Prosecutor?" "We must speed the process up! You know, in the Hague, they use common law! It's much too slow!" She went on (referring to requirements that evidence be tested for validity) "It's just not acceptable. It must all go faster!"

Carla del Ponte is known in Switzerland, from whence she hails, as a bungler of prosecutions. Many of her high-profile prosecutions have failed on various technical grounds and defendants have had to be released. This occurred, for instance, with four people the French authorities wanted to testify in the Carlos trial: they had to be released. It has also been the case with a high-profile case within Switzerland, which Mrs Del Ponte has messed up so much that questions have been put down in the Swiss parliament about her competence as a lawyer. According to newspaper reports, she has the reputation as an unremitting self-publicist whose appointment to The Hague is due more to the desire of the Swiss political class to have one of their nationals in an important international organisation than to any of her own merits. [*Die Zeit*, 16th September 1999; *Neue Zürcher Zeitung*, 12th September 1999]

Schuster sues journalist

The recently elected President of Slovakia, Rudolf Schuster, has filed a libel suit against a journalist for implying that he was an informer for the StB, the Czechoslovak Communist equivalent of the KGB. Being a "reformed" Communist (he was a member of the Central Committee), Schuster is immensely popular in the West: there have recently been state visits to Slovakia from the presidents of Germany and the Czech Republic, who both welcomed Slovakia's new government. This is in stark contrast to the attitude they had towards the previous prime minister, Vladimir Meiar, the architect of the country's national independence, who had actually been expelled from the Communist Party after 1968 – the very point at which Rudolf Schuster's career began to take off. The libel suit is also striking for the contrast it offers between the way the new Slovakia is treated and the way Croatia was treated. When President Tudjman of Croatia sued a satirical magazine for libel, he was branded an evil dictator by the great and the good in the West, bent on destroying media freedom in the country. (So, for that matter, was Meiar.) But it is very unlikely that Schuster will ever suffer the same indignity, since the West prefers Communists.

The other advantage of Schuster, from the West's point of view, is that he is preparing to sell off the country's utilities. This is a perfect way of making a small country like Slovakia an economic client state of the West. The parliament has just approved a privatisation law which allows for the sale of all the current monopolies: banking, postal services, telecommunications, gas industry, and the energy sector. We can be confident that they will be sold to foreigners and that energy will henceforth be supplied by Western companies, especially German ones. The Slovaks have just announced they are to close their nuclear reactors at Jaslovske Bohunice – just as the Lithuanians have been required, by Europe, to close theirs at Ignalina. [*RFE/RL NEWSLINE* Vol. 3, No. 182, Part II, 17 September 1999]

What an admission

In a separate development, an anti-Meiar commentator has admitted that the former prime minister of Slovakia was overthrown by anti-democratic means. Describing the way in which the West is now trying to get rid of Miloevi, it refers to Slovakia: "During meetings in Montenegro, tactics are discussed and prepared. Particular attention is given to the way in which other neo-Communist authoritarian regimes were fought in the East. For example, how the fall of Vladimir Meiar in Slovakia was facilitated by the activity of independent non-governmental organisations in the regions and the mobilisation of the votes of young people in the parliamentary elections in 1998." [*Le Monde*, 21st September 1999] Apart from the absurdity of describing Meiar as either neo-Communist or authoritarian, the phrase 'mobilisation of young people' is particularly apt, since it was alleged at the time that students were used to vote in various different places on polling day.

Arbour satisfied

Louise Arbour, the departing Chief Prosecutor of the International Criminal Tribunal on the Former Yugoslavia, has said that she has made the process of creating international justice "irreversible". She said she could not foresee any circumstances under which the United Nations would now dissolve the court or renege on the principle of supra-national criminal proceedings. [*Le Monde*, 15th September 1999] She also defended the very public indictment of Slobodan Miloevi and other Serb leaders by saying that it enabled their assets abroad to be seized. Apart from betraying her usual confusion between an accusation and a conviction, this remark also betrays her ignorance that Mr Miloevi does not appear to have the huge assets which Nato claimed he had. The Swiss government has said it cannot find any evidence of bank accounts belonging to him. [*Washington Post*, 8th September 1999] Mrs Arbour also confirmed that she did not have sufficient evidence to indict Mr Miloevi for any crimes against humanity committed in Bosnia.

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€EUROWATCH

Currency markets are experiencing new turbulence in which the Euro is on the sidelines but will inevitably be affected.

The impetus has come from Japanese institutions. Japan has been struggling to pull itself out of a long recession lasting most of this decade. To try to stimulate domestic recovery, Japanese interest rates dropped virtually to zero. While helpful to Japan's industries in cutting the cost of bank borrowings, her financial institutions had to look elsewhere for better returns on investment capital. The US, with significantly higher interest rates, was the obvious choice. Indeed, capital flows from Japan have been a major component in offsetting the ever growing trade deficit in the US current account. Consequently, the US stock and bond markets continued to thrive and the dollar continued to be strong, in spite of worsening trade figures. A virtuous circle was created.

Many economists and market commentators have been warning for a year or more that share prices are overvalued and that bond yields must fall. This had no effect while investment capital sought to optimise short term returns. The recent fall in US stock markets, the weakening of the dollar and the rise in the yen are seen as vindication of these warnings and a correction needed to counter a US trade deficit of almost $25 bn and a current account deficit of about $80 bn. More probably, it has been stimulated by a repatriation of Japanese funds as they are diverted to support the recovery in Japan and in other Asian economies. The Nikkei index has risen 25% over the year to almost 18000. In dollar terms, the rise has been more like 40%. The Japanese government has been alarmed by the strength of the yen, fearing that it will harm Japan's fragile recovery. Intervention by the Bank of Japan, selling yen for dollars and euros, has failed to offset the effect of these capital flows and the yen has continued to rise.

With the big hype given to the euro at the start of the year, Japanese investors bought into it as a means of diversifying from dollars. Funds that would otherwise have gone into Deutschmarks were also transferred to euros. This has proved disastrous for them as the euro against the yen has fallen by a quarter of its value over the last nine months. This trend will continue as the euro is perceived as an uncertain haven for new Japanese capital.

Over the summer, the euro stabilised against the dollar and Sterling. It has traded in the region of $1.05 and £0.65 respectively. Cautious forecasts of Europe's economies suggest that low interest rates and the euro's weakness are stimulating growth which could be about 2% for 1999 and rise to 2.75% in 2000. This is provided that EMU member countries keep a tight control on their budget deficits and restrain wage increases to prevent inflationary pressures. With socialist governments in 9 of the 11 euro-zone countries, the political will to challenge strong union representation may be lacking. Germany's Chancellor Schroder is pushing forward cuts in public spending but at the expense of political popularity. This may prove a constraint on Germany's growth target to rise from 1.7% this year to 3% next year. This is the level required to make a significant impact on unemployment, currently around 10%.

In summary, prospects for the euro depend on capital flows back to Asia in the shorter term and, in the longer term, the ability of European governments to maintain sound economic management. The recent relative stability of the euro has led to renewed campaigning by British pro-European politicians and interest groups. Britain, with its low unemployment, flexible labour markets and lower taxes should remain wary of allying itself with European economies while they still exhibit structural rigidities of outmoded welfare state and tax regulations which result in high wage costs, unemployment and budget deficits.

Lynette Swift

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… news from Europe

German coal allowed more subsidies

In a ruling which underlines the brutal lawlessness of the European Union, the European Court of First Instance has rejected the arguments of the British company RJB mining which had claimed that it was disadvantaged in the single market because German coal, unlike British, is subsidised. This is in spite of a clear treaty interdiction on state aids. In 1997, the German coal industry received DM 10.4 billion (over £ 3 bn). The plan is to reduce them to DM 5 bn by 2005. There are currently 80,000 people employed in the industry, due to fall to 35,000. [*Handelsblatt*, 10th/11th September 1999] But the European Coal and Steel Community treaty was signed in 1951, which by most people's standards would have allowed sufficient time for these things to be ironed out.

New team, same old story New Commission approved

The new European Commission was approved by over 70% of MEPs. This is in spite of the question-marks hanging over several of the new Commissioners. The Belgian commissioner is suspected of complicity in the Augusta bribery scandal involving the Belgian Socialist Party; the Spanish Commissioner of complicity in abuse of EU subsidies by officials in the Spanish Ministry of Agriculture; the Dutch commissioner of lobbying for a pharmaceutical company without declaring an interest; the French Commissioner, Pascal Lamy, of intervening to cut the fine imposed on a French exporter while he was Jacques Delors' *directeur de cabinet*; and Romano Prodi himself of failing to declare his taxes. The only people to vote against the new Commission were, in the ineffable words of the Spanish socialist daily, *El País*, "members of the extreme right and nationalist conservatives" – i.e. British Tories. The Conservative MPs, indeed, voted against the retention of four members of the old Commission (Kinnock, Monti, Liikanen and Fischler) saying that it wanted a completely new start. Because of the split in the EPP, *El País* characterised the new European People's party as having declined from the august days of de Gasperi, Adenauer, etc. into a chaotic mix of "thatcheristas, berlusconianos, ex falangistas, centristas de ocasión y liberales." [*El País*, 16th September 1999]

It is obvious that national and party political interests determined the huge vote in favour of the Commission. British Tories were amazed when the German Christian Democrat MEPs refused to give the German Commissar for Enlargement, Günter Verheugen, a proper grilling – especially as they had promised to do so in their internal meetings with the Tories the day before the hearing. The conclusion must be that they will simply not vote against their "own" people (i.e. Germans) while the British were quite happy to take Neil Kinnock to the cleaners – and even Chris Patten, for that matter. One German newspaper, at least, admitted this bias. "No one wants to mess with the powerful people in Paris and Berlin," it wrote. "Everything remains as before." [*Handelsblatt*, 6th September 1999]

The divisions within the Christian Democrat EPP (the majority voted for the new Commission; the British Tories voted against) were mirrored by divisions within the supposedly anti-federalist group led by Charles Pasqua and Philippe de Villiers – who had hoped to form an alliance with the British Conservatives. The French breakaway Gaullists, the *Rassemblement pour la France*, voted against the Commission, while their "allies" in *Fianna Fail* (Ireland) and *Alleanza Nazionale* (Italy) voted in favour of it. [*Le Monde*, 18th September 1999]

Even the Wise Men, whose report caused the Commission to resign in March, has attacked the new team for failing to conduct root and branch reform. The new report is "extremely severe" and "very negative", according to *Le Monde*. Although it does not criticise individual Commissars (unlike the last time) it attacks the general climate of cronyism and corruption which still prevails in Brussels. It slams the anti-fraud unit as "incoherent and incomplete" – although of course naturally sees the solution in a "European prosecutor" with "unlimited powers" and "a single and indivisible European prosecution service". [*Le Monde*, 11th September 1999] Since the Committee is appointed by the Commission anyway, it is not surprising that it should come up with exactly the same suggestion as that made in the infamous *Corpus Juris* document published two years ago, which also called for a European prosecutor "to protect the financial interests of the European Union". We are likely to see calls for this accelerating now again.

"Crimes against Europe"

Little wonder, therefore, that the co-ordinator of the *Corpus Juris* project has said that "European crime must be defined". In a long interview in *Le Monde*, Mireille Delmas-Marty, the author of the original paper, has said that she hopes that a summit to be held in October in Tampere in Finland will extend European jurisdiction from crimes against humanity to "ordinary" crimes, such as economic or financial crime. Although she uses the usual argument that borders are open to criminals but closed to prosecutors – to which one might reply that they should never have been opened in the first place – she graciously says, "As far as murder is concerned, or violent attack, why not continue to allow national law to be used?" By contrast, when crimes are committed "across borders", she says, "these are not just crimes 'in' Europe but crimes 'against' Europe, directly against European interests." She also says, "We must harmonise penal procedures, particularly at the investigative stage" and she elaborates on her proposal to create a European prosecution service with a chief prosecutor and fifteen deputies. [*Le Monde*, 21st September 1999] It is important to emphasise that, despite British government claims to the contrary, Professor Delmas-Marty has been given the task by the European Union to co-ordinate efforts towards creating a single European penal system.

Finland presses for tax harmonisation

The Finnish presidency has called on its European partners finally to make progress towards tax harmonisation. Certain finance ministers have informally agreed a tax packet which may be approved in December; the Finnish finance minister has called for the whole packet to be approved by then. He said that the credibility of the European Union was at stake. Another proposal before the Council of Finance Ministers is to reduce the transitional period in January 2002 when national banknotes are to be withdrawn from circulation and euro banknotes introduced. [*Handelsblatt*, 10th – 11th September 1999]

Youth unemployment highest in Italy

Unemployment among people under 25 has reached 32.1% in Italy. Italy is thus way above France, whose youth jobless rate is 26% and Finland where it is 22%. [*Corriere della Sera*, 11th August 1999]

Onward, Prodi's army

If, as he has promised, Romano Prodi devotes his term in office as president of the European Commission to the creation of a European army, then Javier Solana, the former Secretary-General of Nato and future EU High Representative for foreign policy, will be a faithful lieutenant. "We have a road opening up in front of us," he has said. "First the treaty of Amsterdam with its innovations in common foreign and security policy and then the declarations of Cologne and Washington on the European defence identity gave us a precise mandate for going forward. When and where? This will depend on consensus and on the will of European governments." Naturally, Mr Solana referred to the Kosovo war as the prototype for new European military operations – in defence of 'values', not territory – and he made the customary attacks on state sovereignty. The use of force, he said, was justified in the defence of human rights. [*Corriere della Sera*, 11th September 1999]

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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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- producing policy papers and briefs;
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- liaison with like-minded organisations in other EC and EC applicant countries and elsewhere;
- liaison with trade associations and other professional bodies .affected by EC action and policy.

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