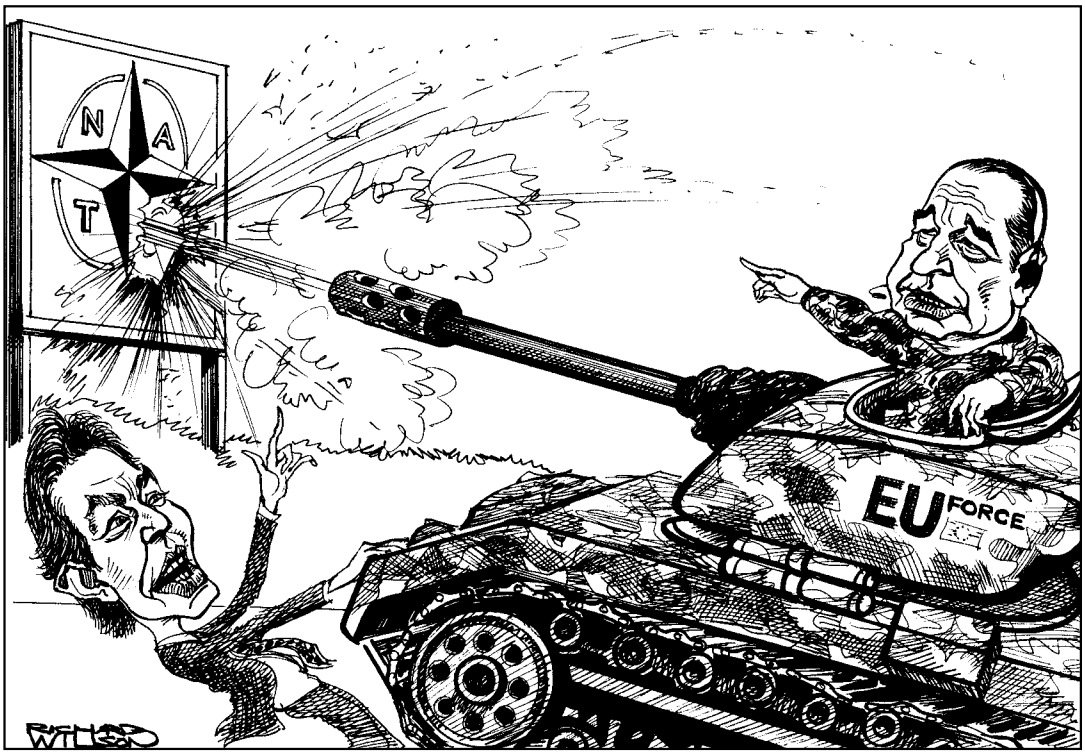
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December 1999 £2.50
Volume 7 Number 3

THE EUROPEAN JOURNAL

The Journal of the European Foundation



Lady Thatcher
Europe Takes Aim at NATO
&
Sir Charles Powell, John Bolton,
Iain Duncan Smith, MP, Sir Oliver Wright
and Michael Colvin, MP

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

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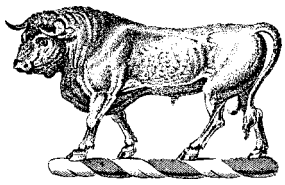
Publisher: The European Foundation, 61 Pall Mall, London SW1Y 5HZ
Telephone: +44 (0) 20 7930 7319 Facsimile: +44 (0) 20 7930 9706
E-mail: euro.foundation@e-f.org.uk

ISSN 1351–6620

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

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Typesetting by Nelson & Pollard Oxford



Europe's Army:
'autonomous' with 'international' reach

The events of last month revealed how ludicrous Tony Blair's claim is to lead in Europe. Isolated on the issues of withholding tax, *droit de suit* (art resale tax), and Chechnya, Mr Blair has decided to make up ground by forging ahead in defence, using the Helsinki summit to establish a 65,000-strong European defence corps. Yet he continues to deny the obvious: that we have created a European army which is autonomous, subject to majority voting, and with an international and not merely European ambit.

What else do the words 'autonomous' and 'international' used in the Presidency Conclusions that the Prime Minister signed mean? I suggested in the House that he consult the Oxford English Dictionary. (See page 26 for my intervention to Tony Blair on his statement to the Commons following the Helsinki Suimmit.)

How absurd it is that Mr Blair should negotiate with President Chirac and Chancellor Schröder over defence and the withholding tax whilst those same leaders continue to wage war on Britain's farming and financial sectors.

Speaking in March, 1998, Tony Blair issued an unequivocal pledge on which he has now ratted: "Britain," he said, "will never put at risk Nato, the foundation of our security. Britain and France and many others insist that there is no European Commission role in military matters. No country will ever yield up control of their own armed forces."

Yet, with its roots in Maastricht, the Amsterdam Treaty has *already* undermined the UK's defence veto: Title V of the Treaty states that in respect of matters affecting Petersburg tasks (which include peace keeping *and* peace making) majority voting applies once a common strategy has been devised. Once a strategy is agreed at European level Britain will indeed, in Blair's inarticulate phrase, "yield up" control of her armed forces. The only remedy for those uncomfortable with this scenario is – as it is for all aspects of European integration to which the British people so object – to *renegotiate* the treaty base from which its derives.

Renegotiation is *not* withdrawal, *nor* does it repudiate the principle of the Single Market. All treaties involve renegotiating existing ones – it is just a question of in which direction we wish to move: toward or away from European Government and a European army.

The vacuity of Mr Blair's promise on defence was unmasked in a whole series of European summits, reports, and meetings in which it was made quite clear that we can expect no less than a common European army. Witness the ongoing integrationist steps taken in St Malo, Cologne, the Franco–German summit, the Anglo–French summit, and the Helsinki summit.

The 'wise men's' report, co-authored by Lord Simon and welcomed by Blair, recommended that the Western European Union, a defence organisation, be folded into the EU. From France's perspective, the move is designed exactly so that Europe might one-day jettison Nato altogether. Why else would the empire-building Javier Solana opt to leave Nato in order to head the WEU? (Readers may recall my campaign in *The Times* and in concert with over 100 US congressmen to stop Solana's appointment as Secretary General of Nato.)

By any sane measure, Europe is far from solving the lack of co-ordination that hamstrung its policy and action in the Gulf, Bosnia, and in Kosovo. Indeed, it was Germany's unilateral decision to recognise Croatia that contributed to the problems that beset Yugoslavia throughout this decade. Germany's Foreign Minister described that recognition as "the greatest victory of German foreign policy since 1945" – some victory!

The Franco–German summit contained declarations, not only on a shared military intelligence satellite (Syracuse 3) and a Rapid Deployment Corps, but also for a heavy-lift capacity. Dr Jonathan Eyal of the Royal United Services Institute has estimated that, excepting the unlikely prospect of America loaning Europe a fleet of Galaxy aircraft, acquiring heavy-lift capacity would cost the European taxpayer £62 billion a year for ten years. No wonder Brussels is pushing for tax harmonisation.

The reality is that European nations are *cutting* their defence expenditure, in part to meet the Maastricht criteria which stipulate that no country may run a deficit greater than 3% of GDP (see Dr Burkitt's article on page 18). In a decision rightly criticised by William Cohen, America's defence secretary, Germany has reduced her military expenditure to a pitiful 1.5% of GDP. The UK spends 2.5% of her GDP on defence – a figure which, whilst low, is considered high in Europe. (See data on page 32.)

How, with such dismal spending levels of its own, is Europe to persuade America to lend it the equipment that its defence ambitions require? When in joint command through Nato, America has shown herself prepared (when persuaded) to contribute to the solving of essentially European conflicts (indeed, the USAF dispatched 90% of the bombs dropped on Kosovo). Denied a commanding role, however, America, already flirting with European withdrawal, is unlikely to sign over its Nato equipment to an underfunded, undermanned, and poorly co-ordinated European defence force.

Even supposing Europe could successfully co-ordinate an independent defence capacity, where on earth would it use it? The Gulf, Bosnia, and Kosovo conflicts could not possibly have been solved by Europe acting alone.

The European Union is thus falling between two stools: groping toward common defence, but not prepared to pay for it. Even were the project to prove more than mere posturing, it would do serious damage to Britain's interests abroad. As Sir John Coles, Head of the British Diplomatic Service 1994–7, points out:

"The ability to deploy sizeable, highly professional and well-quipped armed forces is a crucial element in British influence abroad. Should that ability ever become limited by the creation of European armed forces, subsuming national forces and subject to central EU direction, then British influence overseas would be sharply reduced." (*British Influence and the euro*, New Europe.)

In sum, the lesson of this century is not that Europe is, or in the foreseeable future can ever be, the guarantor of Britain's security. The true guarantor of Britain's defence has, rather, lain in her close co-operation with America through Nato. As Churchill put it, the supreme fact of the twentieth century is that Britain and America have marched together.

A common European defence would lead Britain to dissolve her national interest into those of others. For that reason, we must resist common European defence and instead turn our attention to strengthening our own woefully underfunded armed forces.

Bill Cash, December 1999

All the staff at the European Foundation would like to extend their very best wishes to readers for Christmas and the New Year – *Ed.*

Labour's Sceptics: The Burden of Being Right

by Austin Mitchell, MP

Smiling benignly at the European Union but waiting to see what happens on the euro is the essence of Labour policy. It's also the position of our diminishing band of Euro-sceptics. We don't smile benignly at the euro. It will be damaging to both jobs and public spending. Yet we, too, wait and hopefully won't see. What could be more sensible? The euro isn't an issue at the moment, apart from the euro enthusiast fools who want to rush in now. It won't become so until after, hopefully well after, the next election. So why stick heads over parapets, trigger unnecessary rows and incur more odium? Circumstances will decide this. Not us.

Euro-sceptics were in a majority in the Labour Party in the early eighties when withdrawal was official policy. Since then we have lost numbers and impetus. Some transferred to the House of Lords, where the vigorous presence of such stalwarts as David Stoddart and Peter Shore keep the issue alive, carrying the banner we all once waved. Others, such as Nigel Spearing, retired. More fell silent or changed position. The letterhead of the Labour Euro Safeguards, once boasting over a hundred MPs, lost most as pressures or career reasons drove them to resign. This culminated in the cull of Euro MPs where most withdrew so as not to endanger reselection; vainly, since most lost their seats anyway. Once Euro-sceptics were the majority and the leadership of the Labour MEP Group. Now they hardly exist.

Time has reduced us to an ageing rump and incoming young MPs know little about the European Union and its problems and care less, preferring to follow the leadership line. Tory confrontations had led down a dead end street. Labour's inevitable alternative was to try co-operation and goodwill. Proclaiming patriotism and denying that we would be Euro-Patsies, the party proclaimed its willingness to co-operate where Tories had sulked.

Kelvin Hopkins, John Cryer and Ann Cryer are staunch Euro-sceptics but most new MPs are either Euro-enthusiasts or meekly follow the new line. So the new Parliament began with Euro-sceptics reduced to an excluded, alienated minority in a vacuously pro-European party: the reverse of the Tory party, though Labour's Euro-sceptics (yesterday's men like the Tory Euro-enthusiasts) lacked Clarke/Hezza stature as political dinosaurs as well as the media interest they generated. Labour's sceptics are in a career and media backwater. So the Amsterdam Treaty and the transfer of interest rates to the Bank of England (a trial run for the European Bank) excited minimal attention and few Labour votes against. Euro-scepticism is the truth which durst not speak its name. At least not above a whisper.

UNISON is opposed to the euro, realising, as the GMB does not, that the effects on public spending of the Maastricht criteria could be disastrous

Time will change this, though I don't know how. The trade unions are crucial. Unless they break pro-euro ranks, few Labour MPs can sustain a dedicated anti-European or anti-euro line. Currently the TUC is enthusiastically pro-euro, reflecting not the views of their membership but the enthusiasm of John Monks, David Lea and John Edmunds of the GMB. Some even want early entry, a clear indication of euro ideology, not economic sense, for going in at the prevailing high exchange rate would lock Britain into a permanent competitive disadvantage, making it uneconomic to invest or produce in this country. That trap would be as crippling as ERM membership (which they also supported) though the then central rate was lower than today's actual rate.

Euro-enthusiasm reflects neither the views of rank and file union or party members. Yet dissent has emerged from only a few unions. UNISON is opposed to the euro, realising, as the GMB does not, that the effects on public spending of the Maastricht criteria could be disastrous. The Transport and General is cooling quickly. Its General Secretary, rightly concerned about growth and jobs, dissents from the vacuous TUC position that Europe is a package to be bought as a whole: euro, social contract, union advances, Maastricht and all.

Emerging friction with Europe will also influence MPs. Governments come in committed to better relations with Europe, even, in John Major's case, to towing Britain to the heart of Europe. They then cool rapidly as the inevitable frictions of an unsatisfactory and (for Britain) unequal relationship wear enthusiasm down into rows over contributions, rebate, tax harmonisation, intrusive regulations, the immutability of the CAP and the follies of the CFP.

All these are now taking their toll and will wear down naive Euro-enthusiasm, particularly now that the beef war boosts anti-European feeling among the public. Labour won't go against focus groups who are now beefing and the strategy of building goodwill to win co-operation can hardly be said to have worked perfectly. Such frictions will continue. They could get worse given the centralising drive from a Commission where Romano Prodi, our choice as President, has turned out to be a centralising federalist anxious to strengthen the Commission to deal with an influx of new members.

The real imponderable is the economy. Gordon Brown and Tony Blair shared a misguided view that globalisation and huge financial flows precluded any ability to manage Britain's economy, interest rates and demand. They hoped, therefore, to get the strength of the union around them, a hope which led Brown and John Smith to advocate membership of the Exchange Rate Mechanism. Brown justified it to the PLP on the grounds that it would set him free to build Socialism by the supply side methods and structural changes he preferred. When the ERM led to a massive increase in unemployment and disaster, its Labour advocates fell silent, but the same attitudes led them to a support for membership of the euro which was muttered rather than proclaimed before the election and made safe by a commitment to a referendum.

Experience in power has disproved all these fears. Labour inherited a strong recovery which it has prolonged. It came in committed to orthodoxies and policies appropriate to the inflationary seventies and eighties, just as inflation died because labour and capital have lost power over wages and prices while intense competition precludes price increases. So, for the first time, a Labour government inherited not a

crisis but steady growth, low inflation and falling unemployment, and discovered that it could succeed in one country. That lesson must be connected with Gordon Brown's silence on the euro. Indeed it creates a strange paradox. The government needs growth to win the next election. Yet euro membership can only be sold if the economy is doing badly.

What happens now? Interest rates are high by historic standards and double those in Europe. The pound is grossly overvalued and that leads car firms to look, illogically, to the euro as an alternative where it would set overvaluation in concrete. Neither has led to the expected recession, though will mean lacklustre performance from here on. So how will this compare to Europe with its lower interest rate and a competitive devaluation? The euro won't fail. To much has been invested in it to allow that. Yet will it damage the weaker economies who are not offered the kind of redistribution and regional support a national economy gives to lagging regions? Glimmerings of growth in Germany have petered out, probably because the D-Mark is substantially overvalued compared to the franc. France is growing though this began pre-euro. The real test is the weaker peripherals: Italy, Spain and Ireland. All are currently growing but whether that will be sustained is far from clear.

Succeed or fail, Europe will be a negative influence on Britain. If the European economy falters, the drift of funny money out of Europe and into Sterling will be maintained, pushing the pound up further, and damaging our productive economy as a result. If the European economy expands, our over-priced exports won't gain and a balance of payments, already gaping, will get worse.

It's difficult to call these shots. Probably things won't be clear-cut enough to facilitate an easy choice. Yet it is already certain that we are wasting a unique, historic opportunity to grow fast without inflation by seizing the opportunity to boom ahead of Europe, rather than slumping behind it as we have for much of the post-war period.

Labour MPs will make their euro decisions on these economic grounds. Their preoccupations are jobs, growth and public spending. They care little about sovereignty, the pound, or even the old fashioned Socialist view that Labour should not give up its ability to run the economy for the purposes of the people. That pass has already been sold – or rather given – to the Bank of England.

Blair and Brown are free to take any decision they like after the 2001 election. Labour's majority will be smaller, making it a harder fight in Parliament and country. Yet bringing Labour MPs into line will be easy. Indeed, the real difficulties are practical, not political, centring on the difficulty of getting the pound down to a level where it can dock into the euro without a long term competitive disadvantage. That rate needs to be 30% lower in my view, 15% in the view of the IoD and even the CBI, but, given Sterling's obstinate strength, it will require tough action and new instructions to the Bank of England on interest rates to get it down, something we should be doing now on competitive grounds.

Compared to that the political problems are negligible. Attitudes to Europe and the EU are a generation effect in the PLP. New chums will remain loyal to the party that made them and the leadership which won them their seats. They will rally uncomprehendingly round whatever leaders decide. The sceptics are older, few in number and divided between the left Euro-sceptics, such as Tony Benn and Alan Simpson, and right sceptics, such as Ted Rowlands and Denzil Davies. Between the two poles of Euro-enthusiasts and sceptics are several more MPs for whom the economy and its ability to deliver the growth, jobs and public spending Labour needs to succeed will be the crucial, indeed only, determinant. If the British economy delivers the jobs, growth and the public spending they want without the euro, it will be difficult to persuade them to join. If Britain flags and Europe moves ahead, they will support entry. Navigating between all that is easy. Labour's leadership is free to do what it wants. If only it can decide what that is.

Austin Mitchell is Labour MP for Great Grimsby and is a Vice Chairman of the Labour Euro-Safeguards Campaign.

… news in brief

And on the 8th day, God created Europe

Shortly before 5th November, according to the *Tablet,* the Vatican Press Office has confirmed, at the end of a synod of European bishops, that canonisation process has begun for the so-called "Founding Fathers" of the European Community, Alcide de Gasperi, Robert Schuman and Konrad Adenauer. A supporter of their canonisation, Chiara Lubich, said that the opening of the cases would show that Europe "was built upon a rock". She added, "I think that the European Union is a design not only of human beings but of God." A bidding prayer at the closing mass of the synod prayed that the political leaders of Europe would "courageously encourage the process of European integration and development" and used phrasing which picked up the words of Romano Prodi, president of the European Commission, in his message to the synod. The text released at the end of the Synod was addressed to Christians and "fellow citizens of Europe" whom it invited "to be committed Europeans … treasuring the precious heritage left us by the founding fathers of a united Europe". It was necessary to "pursue, with courage and urgency, the process of European integration, widening the circle of member countries of the Union, while appreciating with wisdom the historical and cultural differences of the nations". [*Tablet,* 30th October 1999]

Monti and Germans vow to press on with tax harmonisation

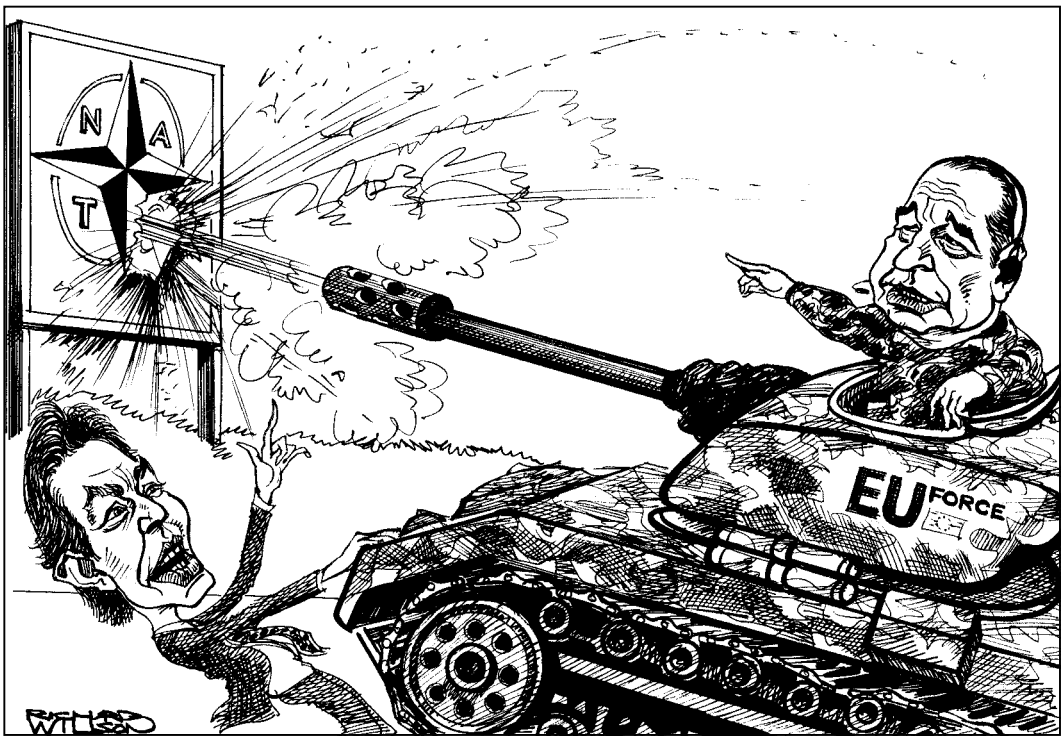
The EU competition commissar, Mario Monti, has said that the Commission will produce its own proposals to fight against "unfair tax competition" in the EU if the summit at Helsinki fails to produce agreement on the matter. Britain and Luxembourg have made it clear that they will not give ground on what Monti regards as "tax exceptions", i.e. on their sovereignty. The Finnish presidency remains determined to force Britain and Luxembourg to give in on the withholding tax, while the German government, supported by a majority of other EU states, are similarly resolved to press ahead with "a minimum level of tax coordination" [*Handelsblatt,* 29th November 1999]

Belarusian economy

"The Belarusian economy is in a dead end" according to the German Economic Institute. The talk is of rising inflation, falling growth and a trade deficit. Yet when you look at the graphs you find that economic growth in Belarus was 10% in 1997 – at a time when, as the DIW still claims, the place was in collapse. In the period 1996–97, moreover, inflation was low. If it had low inflation, high growth and falling unemployment (now at 2%) and was still said to be in decline, what faith should we have in the DIW's dire warnings now? [*Handelsblatt,* 2nd December 1999]

Europe Takes Aim at NATO

Lady Thatcher attacks plans for a European Defence Force: excerpts from her recent New York speech.



It was in the 1930s that Winston Churchill set out to write *A History of the English Speaking Peoples*. Having served as chairman of the English Speaking Union from 1921–26, he knew well the importance of drawing together those who had stood their ground against Germany during the Great War. When he was finally able to return to his task in the 1950s, after the defeat of Hitler's tyranny, he was more convinced than ever of what he called the English speaking peoples' "common duty to the human race". In his commitment to the English speaking peoples, as in so much else, Churchill displayed what President Ronald Reagan would later describe as "that special attribute of great statesmen – the gift of vision, the willingness to see the future based on the experience of the past".

From its official launch on the Fourth of July 1918, the ESU has prospered and grown into the international organisation we know today, bringing together in common cause over one billion speakers of the English language. Through your programmes and publications, your scholarships and exchanges, the ESU does so much to insure that we will remain united and continue to promote the fundamental principles inherent in our English speaking cultures. For English is not only the language of politics, diplomacy and finance, or international business and travel; it is also – and most important of all – the language of values.

Teaching the world

Those of us who enjoy the traditions of freedom have an obligation to teach others among the newly emerging democracies how to be free. This will best be achieved not simply through politics and diplomacy but through civic education.

For example, each summer for the past two years the Institute of United States Studies at the University of London, of which I am Chairman, supported by grants from the United States government, has hosted a four week institute for scholars from Eastern and Central Europe on 'Civic Education and the Practice of Democracy'. The participants spend the first week reading and discussing the great works of democratic theory, including John Locke, Thomas Jefferson, James Madison and Alexis de Tocqueville. They move on to read and consider the history of constitutional rights and liberties as they have been handed down by the Supreme Court of the United States, then to compare different forms of democracy. They end their four weeks by considering those institutions that bring the practice of democracy to life – parliament, political parties, law courts, polling, public relations and the media. During their time in London they meet and discuss the problems they face back home with leading figures in politics, media, business and law. By the end of their visit the participants return to their homelands with a renewed appreciation of the intellectual foundations as well as the institutional arrangements of liberal democracy.

The fact is, the English speaking peoples are, above all others, uniquely situated to impart these lessons of liberty to those who seek to emulate our successes. We boast, after all, the world's oldest systems of representative government; we were the first to recognise fundamental rights and individual liberties; and we have preserved our institutions of freedom for centuries, often against overwhelming odds. And, perhaps most important, we have shown by our example how political liberty and economic progress go hand in hand. A new political alliance of the English speaking peoples would allow us to foster those values that have been so important in our peace and prosperity and thus encourage that same peace and prosperity around the world.

The European Union
– les liaisons dangereuses

Anything which stands in the way of that relationship is an obstacle to progress. But even more worrying, it could constitute a risk to our security.

That is why I am so concerned about the current attempt to create a new autonomous European defence structure which must, if taken much further, pose a threat to trans-atlantic defence co-operation. Of course, superficially, it sounds splendid that the Europeans are now willing to concern themselves more with the continent's defence. As the Kosovo conflict showed, and as the figures for defence spending confirm, European defence capabilities are lagging dangerously far behind those of the United States. This is particularly true in the vital area of advanced military technology.

The problem is, however, that the impulse towards developing a new European defence and separate European armed forces has little to do with the fact that Europe is cutting its defences while America is increasing hers. It has even less to do with any serious European response to the global dangers of proliferation, which can only properly be met by ballistic missile defence. No: the real drive towards a separate Europe defence is the same as that towards a single European currency – namely the Utopian venture of creating a single European super-state to rival America on the world stage.

This has been a longstanding French aspiration. The fact that the present British government, in pursuit of a doomed ambition to 'lead Europe', has reversed Britain's traditional hostility towards such ideas should worry our American allies and indeed the wider English speaking world. After all, NATO has worked so well in the past for two reasons – namely, the acceptance of American leadership and the understanding that, in any crisis within the Alliance, Britain could be relied upon to support America. The creation of a separate European defence, whatever the qualifications and assurances, threatens both these conditions, and so poses a serious long term danger to NATO's cohesion and effectiveness.

By contrast, Professor Robert Conquest has recently argued the merits of a new political alliance that he would call – with thanks to this fine organisation – the English Speaking Union. Such an international alliance, he suggests, would redefine the political landscape and, in the long term, transform "politically backward areas [by] creating the conditions for a genuine world community". Unlike the European Union, first brought together by common interests in trade, and now riven by the ambitions of bureaucrats in Brussels to control almost every aspect of policy within each of its member nations, an English Speaking Union would be united by those deeper values – our common moral commitments to democracy and freedom, tied together by our common language.

This article is based on extracts of a speech at the Inauguration of The Thatcher Lecture Series for the English Speaking Union in New York on 7th December 1999.

Europe's Wrong Turn in Response to the Growing Threats to Western Security

by Iain Duncan Smith, MP

When the Berlin Wall came down, many people simply assumed the world would become a much safer place. Yet ironically relieved from the super-power rivalries, regions across the globe have been marked by the spread of vicious conflicts and to make this worse in recent years, we have seen a wide and dangerous proliferation of biological, chemical and nuclear weapons. This has been given an even sharper edge by the speedy proliferation of ballistic missile technology.

Only last year, the Rumsfeld report to the US Congress, pointed out that within as little as five years, rogue states in Asia, the Middle East and North Africa could have the ability to strike the nations of Europe and the United States. All this adds up to a very uncertain and unstable world – a world where direct threats to NATO including North America, will become a harsh reality.

Given the nature of the growing threats to Western security, it is clear that the best means to defend against them is through a united NATO. However whilst the USA seems determined to face up to this threat, the nations of Europe do not. It seems perverse that Europe which will be in range of such missiles before the USA either refuses to discuss ballistic missile defence or dismisses simply it. Instead they have embarked on a European defence process which could artificially divide NATO and weaken our defences. Many in the USA will be bewildered by some of the conflicting signals coming from European capitals. Strengthening military capability within NATO is one thing but this European defence process seems to be moving well beyond that.

The problems started last year when Mr Blair signalled the reversal of Britain's traditional hostility to an EU defence identity in a speech in October 1998. This was quickly followed by Anglo–French Agreement at St Malo. The St Malo agreement of December 4 1998, stated that the European Union would need to have "recourse to suitable military means", but more importantly he continued the proposal for "… multinational means *outside the NATO framework*)."

Yet only one and a half years before, the Prime Minister had returned from the Amsterdam summit in June 1997, claiming he had prevented the EU being turned into a military alliance. He later even described the Franco-German plans for the WEU as an "ill-judged transplant operation." However, these very proposals, to merge the WEU with the EU, are taking shape at great speed now.

At Cologne European leaders signed up to a landmark document formally committing the EU to an autonomous common defence policy. New military structures under the roof of the EU were created.

Those who believe in a separate European Defence Identity use the Kosovo conflict to push their plans for European military autonomy outside NATO. But if Kosovo did anything, it underlined the growing gap in military capability between the forces of the United States and European Nations. The stark truth of the Kosovo air campaign was that it would never havebeen possible, let alone successful, without US support. The real lesson from Kosovo is

clear. Most European NATO states have not invested sufficiently in their armed forces to allow them to operate at the highest levels of modern warfare.

But far from increasing or even improving the quality of their defence spending plans, European nations are actually cutting their defence spending further – whilst instead, setting up an institution which for some is more about disguising their weakness and getting the USA 'off their backs'.

The moves towards an independent EU military capability threaten to undermine NATO. The existence of two overlapping military alliances within Europe, will inevitably prove unacceptable to the US and undermine their commitment to NATO. For political rather than military reasons we are seeing the EU in the process of dividing the most effective peacetime defensive military alliance the world has ever seen.

Yet these weakened European armed forces may well have to face the world's new and dangerous threats alone, with potentially disastrous consequences. Serious questions need to be asked now whether we are prepared to accept such an eventuality.

Publicly, the US administration say they are content because they are told it is about improving the desperately ill-equipped European armed forces. Yet I am sure that privately, concerns are being expressed about the speed and nature of the changes. There is a growing recognition that many in Europe see this as a further step in the march towards a federal Europe, and are quite happy to see NATO sidelined. Recent French Government speeches highly critical of the USA underline this conclusion and Anglo–French proposals in the last week for an enlarged Euro Corps can only add to these worries.

Events have moved at breakneck speed over the last thirteen to fourteen months. It all started with a complete reversal of the Government's previous public position and the adoption of policies they assured the country they would not accept. It is the scale of the Government's ambitions in this area that they have sought to hide with misleading rhetoric. At a recent visit to Washington, I was struck by how many people spoke about the reassurances they had been given by the British Government, after the Anglo–French St Malo agreement. The British Government went out of their way to assure the Americans that the references to European action outside NATO, were only late night drafting points made under French insistence and they indicated that such proposals would not reappear in future agreements. However, the Cologne summit showed what a hollow assurance that was.

At a recent visit to Washington, I was struck by how many people spoke about the reassurances they had been given by the British Government, after the Anglo–French St Malo agreement

Perhaps more than in any other area, including the Single Currency, the Prime Minister's real beliefs come through in these defence proposals. Brushing aside all the political rhetoric, it becomes clear that the Prime Minister is a passionate believer in this whole European project and is not as he so often wishes to be seen, a pragmatist. At least, it can be argued that with a single currency the Government will have to go to the public with a referendum, (albeit after having used the public's own money to try and force them into believing that British entry into the Euro is inevitable). Yet in the area of defence they need do no such thing. They hold no debates on the subject in Parliament and spend their time trying to 'play down' the issue because they realise how much the British public would oppose such proposals if they knew the truth. It is a Euro-army policy by stealth.

Lowering our guard at a time when the threats to NATO and our vital interests are growing, constitutes a colossal mistake in defence policy. Defence of the realm is the first priority of any government yet this Labour Government sees it only as a 'chip' in the big game, to be used in the corridors of Europe regardless of the outcomes. For that they should be condemned.

Iain Duncan Smith, is Conservative MP for Chingford and Wood Green, and Shadow Defence Secretary. He is a member of the UK Advisory Board.

… news in brief

Chechnya is "an internal affair"

Despite awarding itself the right to intervene in the internal affairs of other states with this new army, the EU is resolutely declining to do so in Russia, whose attacks in Chechnya continue to appal the world. The deputy Foreign Minister of Spain has explained why the EU has refused to contemplate even sanctions. "Chechnya is an internal Russian affair," said Ramón de Miguel. An EU official also explained that no one wanted to make things any more difficult for Yelstin by applying any sanctions. Six months ago, however, Tony Blair and other Nato leaders announced a new doctrine of international law according to which the excuse of national sovereignty would not longer carry weight. This was the way that the West justified its attacks on Serbia. Just as with the decision to flatter Fidel Castro while imprisoning General Pinochet, in other words, the arguments against national sovereignty are applied with utter arbitrariness and are little but a fig-leaf allowing big powerful New Left countries to pick on smaller ones they do not like. [*El País,* 16th November 1999]

Prodi attacks unanimity

Romano Prodi, the president of the European Commission, has said that the principle by which some areas of policy-making are subject to unanimity (and thus to a national veto) is handicapping the EU. He called for this issue to be addressed at the EU summit which is to be held in Helsinki on 10th and 11th December. He said that unanimity was especially harmful in the matter of tax harmonisation, where "progress" was being hindered by Britain. He said that tax harmonisation was not only a very important measure in the fight against unfair tax competition but that it was also an essential instrument in the EU's employment policy. Prodi also said that external economic policy should no longer be subject to unanimity, as well as internal security matters and judicial affairs. In all these areas, he said, the EU was being hindered by the national veto. He said that he also wanted to see initiatives on the new European "foreign and security policy" and said that the Commission would use all the means at its disposal – single market legislation, competition and trade policy – to develop a European defence industry. [*Handelsblatt,* 2nd December 1999]

They Like the Sound of a European Force

by Sir Charles Powell

At a recent dinner in London, the US Defence Secretary, William Cohen, was asked bluntly: do you trust the French? His reply managed simultaneously to sound like 'yes' and feel like 'no'. The Americans can be forgiven for believing that deep down the French still want to get them out of Europe. France's record of anti-Americanism cannot be easily expunged. Both President Chirac and his Foreign Minister rail peevishly at the US as a 'hyper-power' which needs to be 'contained'. Their thinking goes deep into France's obsession with cultural encirclement and American domination.

That is the context to keep in mind when considering the Anglo-French plan, given further impetus by the Prime Minister and President Chirac at their London summit last week, to create a European rapid deployment force capable of dealing with crises in Europe. But whatever one thinks France's real motives are, the Anglo-French plan at least recognises a very fundamental problem: Europe's defence capability is seriously inadequate, desperately dependent for effectiveness on US willingness to step in and provide technology and muscle. The inadequacy, and the dependence, was pitilessly exposed by the experience of Bosnia and Kosovo. Americans had to fly more than 80 per cent of the sorties against Serbia. European units could not get to the battlefields in their own back yard without American planes to take them there. Even the British and French are increasingly just 'niche' forces compared with the Americans.

None of this is to disparage the courage of the individual European soldiers and airmen. It is a condemnation of European governments which could not wait to cash in the peace dividend at the end of the Cold War at the expense of maintaining an adequate defence effort.

But at least the Prime Minister and President Chirac recognise that the Americans are not going to tolerate such a lack of a European effort much longer; indeed, the signs of dissatisfaction are ever clearer. Pat Buchanan has put it with customary uncomfortable clarity: "Why should 260 million Americans be asked to defend 350 million rich Europeans from 140 million impoverished Russians?" George W. Bush's first major foreign policy speech last week called on Europeans to invest more in defence. Whoever wins the election, the next US Administration is less likely to repeat the Kosovo experience and bail out the Europeans again.

Mr Blair is also right to recognise that Europe's defence effort will not be galvanised unless Britain and France give a lead. Some of the Conservative critics of the present Government's European defence initiative should recall the efforts made by Lady Thatcher's government in the eighties to achieve much closer Anglo-French nuclear co-operation. Although doctrinal issues on the French side and limits on technology sharing imposed by Britain's arrangements with the US restricted what could be achieved, useful progress was made in dovetailing tactics for the two nuclear submarine forces. This experience makes clear that the best way to proceed is practical co-operation between the military rather than grandiose declarations by politicians.

A big question remains over France's agenda. While there were soothing words for Nato at last week's summit, which in itself represents a gain for Britain, France's abiding anti-Americanism fuels the suspicion that its real motive is to build a European force separate from Nato, in order to counter US influence and to check American power.

That goal is far removed from Britain's instinctive Atlanticism. If the French really want to underline their commitment to Nato – as they leader insists he does – the solution is in their own hands: they can rejoin the Alliance's integrated military structure. But President Chirac made clear in London that this will not happen. It serves to reinforce the suspicion that France has its own, anti-American, agenda.

Meanwhile most other European governments are more interested in the 'European' than the 'defence' aspects of the European defence initiative, seeing it primarily as a further step in Europe's institution building programme, which adds a military force to the single currency as yet another attribute of a single European state. While that is not Britain's motive, the danger of the defence initiative being hijacked and converted into a purely political exercise is there. Especially when one takes into account that Europe's defence spending has actually declined by 10 per cent in each of the past two years.

All this at a time when we are not exactly short of threats to Europe's security. There are rogue states striving to arm themselves with weapons of mass destruction; states within Europe itself and on its fringes which regard war as an acceptable continuation of politics by other means; so-called humanitarian conflicts where we feel a moral compulsion to intervene; and a lingering threat from Russia which is dormant, not dead.

Yet, alarmingly, there are misgivings about the practicality of a European force and about the circumstances in which it would be deployed. The much vaunted Euro-corps, dominated by France and Germany, is largely symbolic and incapable of front-line fighting.

The truth is that most European countries have no sense of strategic responsibility beyond the borders of Europe, and do not want to see Nato or Europe play a global role.

This leads to three conclusions. First, individual European countries need to improve their defence. If a European rapid deployment force can actually create the incentive for this, it is estimable and worth pursuing. But while there are gains to be made through standardisation of equipment and joint procurement, significant improvements will only come if governments and electorates are ready to spend more. And who would bet on that?

Second, the gap between the concept of a European force and its realisation is immense, both in the time which it will take Europe to create and equip a worthwhile force and the difficulty of agreeing on what tasks it would undertake.

Third, it is crucially important to do nothing to undermine Nato or sour relations with the US, which is the one effective protector of Europe's interests.

The worst outcome of all would be for Europe to fail to add to its military strength while distancing itself from the US in decision taking. That would do more than anything to stimulate American isolationism. If we want the US to remain involved, the Europeans must do more and do it within the Nato alliance.

Sir Charles Powell was Private Secretary to the Prime Minister from 1984 to 1991.

EUROWATCH

For those of us who did not share the euphoria of the introduction of the euro at the start of the year, one can't help but feel a sense of vindication as the year ends and the euro has broached parity with the dollar. It seems a tidy close.

Looking back to January when the euro opened at £1.17 and 71 pence, what were the predictions and expectations?

- it would be a major currency, for trade and international reserves, to rival the dollar;
- it would bring price stability and eliminate uncertainty;
- it would unite European members of the single currency;
- it would strengthen the European economy;
- interest rates would be low; business would benefit from lower cost of capital;
- Britain would suffer if it stayed out.

The outcome of these claims, so far, is self-evident. Neither the ECB, nor European Commission or member governments have offered a satisfactory answer to them. Indeed, the outcome really serves to emphasise how little the economic issues had been considered. It was widely believed that, as the Eurozone bloc would represent an economy and population comparable with that of the US, the single European currency would be as powerful and as sound as the US currency. The US economy, though, is already fully integrated with liquid capital markets, flexible labour markets, a common language and a common culture. Europe does not share these characteristics and is not what economists call an 'optimal currency area' or OCA.

The argument for the euro was that, by creating a common currency, all these disparate economies could be unified. The euro would provide the gel that bound them together. They could have a common monetary policy and, as inflation was low and stable, interest rates could be low too. This was bound to help industry and especially exports. Having the same currency, exchange rate uncertainty would be eliminated. It offered a perfect panacea for creating a virtuous circle.

The euro may yet help strengthen part of Europe's economy. Individual governments are still committed to maintaining their budget deficits to within 3% of GDP, even if some have difficulty in achieving it. The weakness of the euro will boost the export sector but it has also laid European business open to take-over by foreign competitors, such as the bid by Vodaphone for Mannesman. Issues like these are leading to a retrenchment of national interests and to national spokesmen bickering amongst themselves as to who is to blame for the euro's lacklustre performance. On the other hand, there are signs of inflationary pressures building up which will mean that the ECB, whose prime responsibility is the control of inflation, will be forced to raise interest rates.

Meanwhile, Britain has been faring very well outside the euro. The economy is thriving and the pound has remained comparatively stable against the dollar. With our great economic strength of free and competitive financial markets, the City has achieved a near monopoly in the trading of short-term euro currency contracts and handles about two thirds of new bond issues denominated in euros as well as about three quarters of trading in those bonds. This business, together with the £2000 billion turnover in other currency denominated eurobonds, is threatened if Germany succeeds in getting Britain to adopt a 20% withholding tax. The business lost to Britain would not, however, be shared out within Europe but would merely move outside Europe altogether.

Had Britain been part of the euro this year, we would not have benefited from an exchange rate that was stable relative to the rest of Europe but failing relative to the rest of the world, which represents more than half our international trade. The higher cost of imports would have affected our level of inflation more than for the other European economies for whom trade within Europe is a higher proportion of total trade. Indeed, as Britain runs a net current account deficit with the rest of Europe of about £7 bn, we have actually gained from a weaker euro.

Our interest rates would have been lower. Although business would have benefited from lower cost of capital, with interest rates at half the desired UK level, the result would have been inflation and instability. House prices, which in Britain are especially sensitive to interest levels and which have already risen significantly this year, would probably have gone through the roof. But we could have done nothing about these effects on our economy. We would have only limited control over macroeconomic policy because we would have transferred sovereignty of monetary policy to the European Central Bank.

Lynette Swift

… news in brief

French politicians are disgusting

In the country of permanent opinion polls, some strange results are thrown up. Although 57% of French people think that "democracy is functioning well" (as opposed to 40% in 1977), when you ask the French how they react when they think of politics, 57% replied "with suspicion", 27% with "boredom" and 20% with "disgust". 26% say "with hope" and 20% "with interest". (Evidently, people were allowed to express more than one emotion. One wonders how many put both "disgust" and "interest".) A mere quarter of French people say they are well represented by a political party or a leader. Meanwhile, 61% say "elected politicians and political leaders in France are generally corrupt". This figure rises to 75% among the young aged between 18 and 25. [*Le Monde,* 18th November 1999]

OSCE betrays democracy again

The Organisation for Security and Co-operation in Europe, which is supposed to ensure the respect of universal democratic values across the Eurasian continent, has once again proved itself to be the instrument of Western policy preferences and a traitor to democratic principles. When the 'pro-Western' candidate in the Macedonian presidential elections 'won' thanks to massive cheating, mainly by the Albanians who live in the Western part of the country, his supporters fired machine-gun rounds into the sky at the official celebratory meeting in the centre of Skopje. Their exuberance may have been premature, however, for the Supreme Court has ruled that the vote must be held again in no fewer than 221 constituencies. The OSCE, for its part, had declared the vote "satisfactory" the day after the poll was held. [*Radio Free Europe,* 29th November 1999; *Süddeutsche Zeitung,* 16th November 1999]

Thanksgiving European Style

by John R. Bolton

On America's Thanksgiving Day, Prime Minister Tony Blair, meeting in London with French President Jacques Chirac, effectively reversed the United Kingdom's long-standing policy against a military role for the European Union. Little noticed in the United States, Blair's decision, ironically supported by his good friend President Clinton, is a major step 'into' Europe for the British, and, if implemented, a major step away from America.

Blair and Chirac, anticipating the December EU summit in Helsinki, advocated a rapid reaction force of approximately 60,000 soldiers to provide the EU with "the autonomous capacity to take decisions and, where the [NATO] alliance as a whole is not engaged, to launch and then to conduct EU-led military operations." Their communique followed an unprecedented meeting of the EU's foreign and defence ministers, which appointed Javier Solana (formerly NATO Secretary General) to head the long-moribund Western European Union, in addition to his new EU position as the impressively named "High Representative for a Common Foreign and Security Policy". It also followed Chirac's provocative and openly anti-American speech in the first week of November, which, unlike the Blair-Chirac meeting, did receive media coverage in the United States.

As with many EU communiques, considerable confusion exists as to what exactly were the implications of the Thanksgiving Day announcement. Typical of most recent announcements about the increasingly separate European Security and Defence Identity ("ESDI") there was the obligatory statement of UK Defence Secretary Geoff Hoon that the Anglo-French proposal was purely and simply a way to make "a stronger European contribution to NATO". Others were not so restrained.

Following Chirac's notoriously anti-American November 4 speech, the *New York Times* quoted an unnamed senior European diplomat as saying that "this issue could end up driving a stake through the heart of the alliance". This is really the key point. If all of the recent European moves – from the announcement some years ago of a joint "Franco-German" corps, to last year's St Malo declaration, to the more recent agitation precipitated by the air campaign against the former Yugoslavia – were in fact purely and simply efforts to increase Europe's contribution to NATO, America would be foolish not to agree. And it is certainly true that many Europeans, not just the Blair government in its obligatory pubic pronouncements, honestly and in good faith believe that ESDI is not inconsistent with NATO, and is not intended to weaken the alliance.

> … if the Europeans really wanted to make a larger contribution to NATO, they would substantially increase their military budgets…

Of course, if the Europeans really wanted to make a larger contribution to NATO, they would substantially increase their military budgets, in virtually all areas (especially research and development, procurement and readiness), both in absolute dollar terms and as a percentage of GNP. Unfortunately, not only are they not doing so, but their total budgets, particularly Continental welfare systems, are more squeezed than before because of the effects of European Monetary Union, forcing painful budget restraints in politically popular domestic programs. It should, therefore, come as little surprise that defence budgets are likely to come under even greater downward pressure in the very near future. This fact, uncomfortable for both Europeans and Americans, is perhaps the strongest practical reason not to worry too much (for now, at least) about ESDI: European checkbooks simply will not match the political rhetoric.

But even impecunious budgets cannot obscure the basic political direction of key European leaders. Nor can the good faith of pro-NATO Europeans alter reality, and the reality is that a separate European defence "identity" whether as a "pillar" within NATO, or outside of the alliance, will inevitably change NATO forever, and perhaps eviscerate it. This is an inherent problem of alliance cohesion and management, and not something than can be papered over with the inevitable EU verbiage about architecture. If the Europeans desire and can actually achieve a separate, unified, military capacity, without recourse to the United States – which is what many say they want – then they have effectively eliminated the rationale for NATO as we have known it. It simply blinks political and military experience not to believe that a European "identity", whether within NATO or outside of it, would fundamentally change the relationship between the United States and the Europeans. Solana himself has said expressly that he is aiming for "a new equilibrium between Europe and the United States and Canada". That is also precisely what Chirac seeks, to end both American "dominance" of the alliance, and European dependence on US capabilities and technologies.

The British split with America is visible in other critical common-defence contexts as well. The Blair government, along with most other Europeans, strongly disagreed with the US Senate's recent – and overwhelming – rejection of the Comprehensive Test Ban Treaty. Indeed, when they realized that the Senate might actually formally vote down a submitted treaty for the first time since Versailles, Prime Minister Blair, Chancellor Schröder and President Chirac actually co-authored an *op ed* piece in the *New York Times* urging the Senate not to do so. In his now-famous November 4 speech, Chirac called the Senate decision "perplexing," blamed it on "isolationist tendencies" in the United States, and warned against a "unipolar" world. His foreign minister, Hubert Vedrine, went further, saying "we cannot accept either a politically unipolar world, nor a culturally uniform world, nor the unilateralism of a single hyperpower". At least as reported on this side of the Atlantic, the Blair government has left these attacks on the United States unanswered.

Stripping away perennial French fears about hot dogs and Walt Disney, the Chirac and Vedrine remarks actually reveal their own unwillingness (or inability) to match the rhetoric of an alternative security 'pole' with tangible resources. The failure of the Test Ban Treaty means that France's own small nuclear capability will not be secured in a protected and superior position, and that to enhance or even maintain it will

require significant, and highly unpalatable, budgetary commitments. The Treaty's defeat also means that the United States will be able to ensure that its nuclear deterrent remains effective, thus reinforcing its 'hyperpower' status. Republicans who voted against the Treaty, principally concerned about maintaining the deterrent's eadiness, would uniformly agree to continue using that deterrent in support of NATO, as we have from its inception. Thus, they see European reactions to the Senate vote as little more than Continental petulance.

Perhaps even worse in some European eyes than the defeat of the Test Ban Treaty are American efforts to perfect national and theater missile defence systems, and the attendant calls for changes in, or U.S. withdrawal from, the 1972 Anti-Ballistic Missile Treaty. German Foreign Minister Joschka Fischer has complained that "there is no doubt that this would lead to split security standards within the NATO alliance". Once again, however, this is a flat misreading of the views of missile defence advocates, who see a US national missile defence system as consistent with and inextricably related to theater missile defence (e.g., for NATO and America's Far Eastern allies).

There is no sentiment whatever for 'split security standards' that would justify Fischer's or other Europeans' fears. Such sentiments might arise, however, if Americans react negatively when 'senior European diplomats' say (as one did recently) "there is also the fear that if the [missile defence] system works, American and European security interests will no longer be bound by exposure to the same threats." If the best European argument is that NATO can only be preserved by the United States leaving itself vulnerable to blackmail with weapons of mass destruction by rogue states, as Europe is, then NATO may be in terminal condition. While many in Congress express considerable doubt about the efficacy and cost of missile defence, few if any Members are willing to admit publicly that 'homeland' defence is not a legitimate objective, and that defence of our allies is equally valid in principle. It befuddles Americans when supposed European allies refuse to understand that such missile defences would automatically be extended to NATO at the earliest opportunity. A few more Continental complaints, and that view could change.

Europeans are quick to remind Americans that we should not really take the French seriously, and that Chirac and his colleagues do not speak for all Europeans when, for example, they attack the US as a *'hyperpuissance'*. Nonetheless, those closest to us in Europe are under no illusions about what is actually happening. In the United Kingdom, the Conservatives, who have successfully frustrated Blair's desire for British membership in EMU, are now beginning to make ESDI an important subject of debate. Shadow Defence Secretary Iain Duncan Smith recently gave Americans a wake-up call in testimony to the House International Relations Committee, and Blair is obviously worried enough that he used his Thanksgiving Day meeting with Chirac to attack the Tories as "mischievous and misguided" on the issue. Mischievous they might be, but misguided they certainly are not.

Even the Clinton Administration may have finally realized that the various threats to NATO's viability as an alliance are real. Secretary of Defence William Cohen told an audience of German military commanders on December 1 that German military expenditures must increase. The next day, at a meeting of NATO defence ministers, he made the case – for the first time in a NATO context – for missile defence against rogue nations. Although belatedly and half-heartedly, the Clinton Administration may perhaps finally be starting to understand that its heretofore unequivocal support for deeper European union may not have been so wise.

Moreover, all of the responsible American 2000 presidential candidates favor a strong NATO. Nonetheless, as the 2000 campaign gets underway, the alliance is unmistakably at risk, not from an external threat but from internal schisms. The candidates should understand that it is precisely the opposite of unilateralism (not to mention isolationism) to raise this concern, and to demand that the Europeans face the inherent consequences of enhancing politico-military structures independent of NATO. If the United States fails to take decisive action during the next Administration, there is every possibility that within ten years, NATO will lose its military rationale and its domestic political support at home. We might well face the prospect that it is the WEU that is the real alliance, and NATO the appendage, rather than the other way around.

John Bolton is the Senior Vice President of the American Enterprise Institute. During the Bush Administration, he served as the Assistant Secretary of State for International Organization Affairs. He is a member of the EF International Advisory Board.

… news in brief

Miners protest against SPD in Germany

8,000 miners demonstrated in Cologne recently against the German government's plans to introduce an ecological tax which, they say, will be disadvantageous to coal-fired electricity generators. The SPD prime minister of North Rhine Westphalia was met with cries of "traitor" and "liar" when he tried to calm the crowd by saying that he would oppose the tax. Meanwhile the Chancellor, Gerhard Schröder, tried to bring his party on side and encourage his party members to remain resolute in their support for the tax: he was met with little applause. All this goes to show the extent to which public policy in Germany remains in hock to powerful trade unions (the German miners receive massive subsidies to the tune of tens of thousands per miner every year) and how the SPD remains fundamentally a Socialist party with little enthusiasm for the 'Third Way' icing which Schröder is trying to put on an increasingly crumbly cake. [*Welt am Sonntag,* 14th November 1999]

Bulgaria closes down reactor

On the instructions of the European Union, Bulgaria has confirmed that it will close down two nuclear reactors at the Kozloduy nuclear power plant on the Danube. The remaining two reactors will, the EU said, be closed down by 2006. The EU also said that it had received commitments from Slovakia and Lithuania that they would close down their reactors "as a precondition for launching accession negotiations". [*Radio Free Europe Newsline,* 1st December 1999] In this way, French nuclear companies and German electricity companies can gain control of the energy supplies of the EU's new client states.

Havel predicts end of sovereignty

In a speech to the Canadian Parliament, the Czech president, Václav Havel, praised the Yugoslav war as "an important precedent for the future", saying that "state sovereignty must inevitably dissolve," and nation-states will be transformed into "civil administrative units". [*Washington Post,* 19th November 1999]

Blair on Europe: rhetoric *versus* reality

by John Tate, Head of Research

Reprinted below are Tony Blair's pronouncements upon various aspects of European integration juxtaposed with what actually transpired. The two versions of events are, as readers of this journal would expect, very different.

Whilst successive prime ministers have attempted to hold the line on European integration only to see themselves overtaken by events, Mr Blair is the example *par excellence*. I quote:

- *"Mrs Thatcher fought a battle for Britain's rebate. She was right. We defended it this March in Berlin."*

Will the UK lose her £2b rebate? Romano Prodi: "I assume so. Each country must carry its fair share." Jacques Chirac: "As far as France is concerned the British rebate is still on the table."

- *"Britain will never put at risk NATO, the foundation of our security. No country will ever yield up control of their own armed forces."*

The Treaty of Amsterdam undermined Britain's veto over defence matters: Title V of the Treaty states that in respect of matters affecting the Petersburg tasks – which include peace keeping *and* peace making – majority voting applies once a common strategy has been devised.

The 'wise men's' Report report, co-authored by Lord Simon and welcomed by Blair, recommended that the Western European Union be folded into the EU.

- *"There is no mood for [tax harmonisation] among the member states. This represents the more integrationist views of the European institutions."*

All European Countries except Britain and Luxembourg continue to press for tax harmonisation and, in particular, a savings and withholding tax that would destroy the City. As the Austrian President put it when alluding to the issue: "A signal must be sent that a single market and a single currency is not the end of the EU journey." Most VAT rates are being harmonised anyway (*à la* the art market).

Hans Tietmeyer, President of the Bundesbank: "A European currency will lead to member nations transferring their sovereignty over financial and wages policy as well as monetary affairs. It is an illusion to think that states can hold on to their autonomy over taxation policies."

- *"As soon as we came to power, we pressed the case for economic reform to make the product, labour and capital markets of Europe more flexible."*

Pace the Social Chapter, the Working Time Directive, and the threatened savings and withholding tax. Gordon Brown's compromise solution on the latter issue has been rejected. The DTI and the NHS have admitted to being mired in the detail of the Working Time Directive, the NHS having cited it as a major cause of their £200m budget shortfall.

Blair's call for market flexibility is directly contrary to the Amsterdam Treaty's Article on 'The Union and the Citizen' which calls for '*harmonious* and balanced development of economic activities, a *high degree of convergence* of economic performance, [and] a high level of employment and social protection.' (Italics added.)

Does flexibility mean that British companies may take over continental ones? Vodafone's experience may yet suggest not.

- *"Just as at Amsterdam, we have safeguarded our national border controls."*

The Home Secretary plans to adopt EU policy on immigration whilst Home Office pressure on France has been totally ineffective: the Gendarmerie continue to move asylum seekers on to the UK (7,120 in August alone).

- *"In 1998, we backed the establishment of Europol. We are determined to build this into an effective instrument for tackling the growing menace of transnational crime within the EU."*

Too true: Amsterdam stated members must "approximate, where necessary, rules on criminal procedures."

Blair backs Lord Simon's report which called for a European Public Prosecutor. Europol is ultimately to be made into a European version of America's FBI with authority over interstate crime. The next logical step for an enhanced Europol would be to claim jurisdiction over even *intra*state crimes to the extent that they can be shown to effect interstate ones – a step which would allow them the freedom to supersede the jurisdiction of state police forces just as routinely as does the FBI in the United States.

- *"There is a real debate now taking place and Britain is in the thick of it. The Blair–Schröder declaration is part of a real debate on the way forward for the Centre Left."*

The Third Way is dead: killed by Schröder's electoral nose-dive in Germany and by Lionel Jospin's aggressive undermining of the whole 'concept'. Even the Democratic Party in America, who invented the 'concept', has given it up.

- *"The Commission will have to change. I am confident that with Romano Prodi at the helm, it will do so."*

Blair agreed with the 'wise men's' report that the un-elected Prodi should get the ability to hire and fire commissioners and the ability to draft new EU treaties (see last month's editorial).

- *"We shall defend our veto in every area when it is in the British interest to do so."*

Blair has abandoned the veto in fifteen areas.

Prodi, speaking to the European Parliament on the 1st of December 1999, said that "As long as the veto exists, the EU will be like a soldier trying to march with a ball and chain around one leg. The unanimity requirement means either complete paralysis or reducing everything to the lowest common denominator. It is simply a non-starter in today's world."

- *"We need flexibility in Europe."*

The notion of flexibility is a Trojan horse, allowing enthusiastic states to open-up the ground onto which they eventually force less enthusiastic ones. Witness the Schengen agreement on open borders: once an optional item, the Amsterdam Treaty holds that it "must be accepted in full by all [new member] States". The Treaty also uses language which assumes that the UK will one day enter Schengen, talking about 'when' rather than 'if' we join.

N.B. In researching this article, I visited the Labour Party Web site. On the left of Mr Blair's image is the word: "ORACLE". Under the text of his speeches there is a message: "Check for Delivery". Clicking on the message reveals, of course, nothing at all.

RESEARCH ROUNDUP

By John Tate

Poll data released last months by the City law firm Manches revealed antipathy amongst UK businessmen to EMU, 70% of respondents believing tax rates 'will increase if the UK joins'. 49% believed that unemployment would go up upon entry, almost twice the number that thought it would go down.

Two findings merit emphasis: 48% of respondents believed that London's position as Europe's premier financial centre would be seriously undermined outside EMU, whilst only 21% of respondents believed that business growth would be greatly assisted by membership.

The second of these findings casts doubt upon Government claims that business is firm in its support for EMU. Whilst many large, international firms are in favour, a substantial majority of smaller and medium sized businesses, the backbone of Britain's economy, are not.

The first finding – that the City may suffer outside EMU – is belied by the decision last month of the Nasdaq, the American futures and technology exchange, to locate its European headquarters in London despite doubts over Britain's entry.

The British Social Attitudes Survey released last month also revealed antipathy toward the EU, with just over half of respondents, 50.3%, favouring either the reduction of its powers or the UK's withdrawal. Fewer than one in five respondents were in favour of replacing the pound with the euro, whilst 53% believed that the pound should be the only currency in Britain. Interestingly, 22% of respondents would be happy to see the pound and the euro in joint circulation, reminiscent of the 'hard ECU' formula promoted by the Conservative government between 1988 and 1992.

Taken as a whole, the data underscore the difficulty of Britain in Europe's plan, announced last month, to infiltrate through strategic share purchases the annual general meetings of firms whose management oppose EMU. Anti-euro shareholders in Dixons, Next, and JCB should take comfort in the fact that, if the poll data reported here are representative, their pro-euro fellows will be greatly outnumbered.

European Foundation On-line



The staff of the *European Journal* are proud to announce the re-launch of the European Foundation's World Wide Web service at "www.e-f.org.uk". The site will become the premier source of eurorealist information upon the Web, bypassing shallow and often biased media coverage to provide instant, in-depth, and cost-free information upon European affairs.

A core feature of the site is the *Intelligence Digest* – updated fortnightly and available free of charge. Written by our European Director, Dr John Laughland, the *Digest* consists of Europe-wide media monitoring interspersed with commentary and analysis.

The site presents the Foundation view upon a number of core issues including the euro, together with the stated positions of leading politicians from the UK and the Continent. The site also houses more in-depth versions of the articles that appear in this, a new feature of the *Journal*: the Research Unit Briefing.

The Foundation is tailoring the site to provide arguments and information relevant to the particular region in which users of the site happen to be located, whether the UK, the Continent, the United States, or the Commonwealth.

More staple functions of the site include information upon how to become a Foundation representative; how to donate to the Foundation; information on our Chairman; and details of our administrative set-up. The site also provides for an on-line translation of its content into French, German, Italian, Spanish, and Portuguese.

Comments on the site are welcome and should be sent to: tate@jump.to or to:

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The European Court of Auditors has failed to give a clean bill of health to European Union accounts for the fourth consecutive year, citing wastage, overlap, and corruption at almost every level. The only crumb of comfort for the Commission was the Court's finding that most outright impropriety took place only once money reached the member states themselves, rather than at EU level. The Court's report came in the same week that Edith Cresson, the former European Commissioner and Prime Minister of France, discovered that she might yet face prosecution for corrupt practice as a Commissioner.

The Tools for the Job

by Michael Colvin, MP

Adapt or die

Over the last decade our European defence industries have been influenced by three broad trends.

Firstly, since the end of the Cold War, our defence budgets have been cut by around a third in real terms and procurement is taking an ever greater share of those budgets.

Secondly, whilst the volume of global arms trade has shrunk, the 'defrosting' of international relations has made arms markets hugely more competitive.

Prior to 1990, defence exports faced numerous political restrictions. Soviet defence industries had a closed market with their Communist satellites. Beyond its immediate allies in Europe and the Far East, the USA was often unwilling to licence its most advanced weaponry for export for reasons of security. This left much of the Third World market open to European manufacturers.

Now, most of the rigidities in the post-Second World War arms market have been removed. What we have is a 'free for all' in which the traditional arms exporters, unfettered by political limitations, fight in savage competition with newcomers in gradually declining markets.

US defence industries, actively backed by the Pentagon, now sell throughout the world. Russian and Chinese exporters offer cut price products in their scramble for foreign currency. Formerly isolated states, such as Israel and South Africa, have developed indigenous industries in order to be self sufficient and are bidding for most foreign contracts and the new defence industries in the Far East are expanding and where we do succeed in selling abroad, agreements often include 'off-sets' for local assembly and other technology transfers which will result in new competitors emerging in defence sectors which were previously the domain of Western and former Soviet states.

The third and final trend is that defence inflation continues to run ahead of average inflation, particularly as defence equipment becomes increasingly complex. It has now become impossible for any country – with the exception of the United States and, to a limited extent Russia, to develop, manufacture and acquire unilaterally a full range of high technology weaponry.

National reactions to the global decline in defence orders have been mixed. In the United States the notorious 'last supper' cut the number of prime contractors in the aerospace sector from twenty two to only four. Two, if not three, of those are now bigger than the whole of Western Europe's aerospace industries put together. These mega-mergers in the US have been supported by the Pentagon with the controversial practice of reimbursing military contractors for some of the costs of mergers and rationalisations.

We have to ask ourselves if these 'payoffs for layoffs' are fair international competition? Direct reimbursement for merger costs is not policy in Europe – but should it be?

We should also bear in mind that US defence spending is twice as high as that of EU countries combined and growing, whilst in Europe too many countries are slashing budgets in order to try and meet or maintain the convergence criteria for EMU.

The result of all this is that the reduced number of US defence manufacturers can still survive on US procurement spending alone. Any exports gained are an added bonus and often enable US companies to undercut their European rivals which could eventually eliminate foreign competition. We also have to reckon with the 'pork-barrelling' power of American Congressmen, fighting their constituency corners.

Progress In Europe

We in Europe must therefore adapt our defence industries and procurement policies to enable us to stand up to the American competition, without creating a 'Fortress Europe'.

There is no shortage of Western European co-operation on specific defence industrial projects. Currently we have thirty three with France alone. What we now need are more permanent commercial mergers and that requires a change in political culture on Continental Europe where most of the industries are owned by their governments.

A rapid review of Europe's defence industries, as compared with the United States is telling. Europe has four tank manufacturers who compete fiercely in foreign markets against General Dynamics Land Systems of the US.

Armoured vehicles are manufactured in Europe by fourteen different companies and only three in the US.

Europe has eleven firms building aircraft and the US has four and Europe's eleven missile companies compete against the US four.

In total Western Europe has 750 companies and the US only 250, notwithstanding the fact that American defence expenditure is twice that of Europe.

There are too many European manufacturers chasing too little business. The European defence industry suffers from duplication and over capacity and it is up to the industry to use its commercial judgement to decide how to restructure. But things are beginning to happen. In December 1998 the French regrouped bringing Aerospatiale, Matra and Dassault together. In Britain, British Aerospace and GEC–Marconi merged, and Casa of Spain got together with Dasa of Germany in June this year. In October the most decisive step forward was taken when the French group Aerospatiale–Matra (in which the French Government still had a 47% stake) and the German group Daimler–Chrysler announced their merger under the new name European Aeronautic, Defence and Space Company (EADS) with an expected turnover of more than 21 billion Euros and employing 80–90 thousand people. It will be the world's third largest aerospace, missile and satellite company behind Boeing and Lockheed.

So while European defence manufacturers are facing up to the challenge of rationalisation and already taking active steps to restructure their industry to compete more favourably with the United States, what are the politicians up to? As usual, meddling.

Of course governments must do their part, particularly in the legislative field, to create the political and economic environment in which such international groupings and cross border mergers can take place, but privatisation is a pre-requisite and France has the most to do.

OCCAR

The WEU provides the framework for European defence industrial policy through the Western European Armaments Organisation and the Western European

Armaments Group. Within Europe, we also have EDIG which adds Austria, Finland and Sweden to the 13 WEAG member states, CNAD (Conference of National Armaments Directors) with a membership which includes all 19 member countries of NATO, COARM the group for co-operation in the field of armaments and the harmonisation of European export policies whose membership includes the 15 members states of the EU, POLARM which is the EU ad hoc group on European armaments policy. The LOI letter of intent which was signed in July 1998 by the 6 major European armaments producers, France, Italy, Germany, Spain, Sweden and the UK, reaffirming their common belief in the importance of an efficient and internationally competitive European industry in the aerospace-related defence sectors, led on to the creation in September last year of OCCAR, the Organisation for Joint Armament Co-operation. The Convention is now in the process of being ratified by member states.

OCCAR's principal benefit is that it applies competitive procurement procedures so the governments do not have to concentrate on getting the best deal for their national defence industries. This has been epitomised in the principle known as 'juste retour', which has been the basis for almost all previous European collaborations and which automatically assures the industry of each country involved in a project, a share of the work in direct relation to that country's financial contribution. As a result, the allocation of contracts can scarcely be based on the competitiveness of different potential suppliers bids.

OCCAR is not a closed shop. It has four main members and two more countries about to join but potential members must first renounce the principle of 'juste retour' because we must strive for competitiveness if we are to get better value for money from collaborative defence projects.

Like any treaty that has been voluntarily entered into, the OCCAR Convention essentially represents a pooling of national sovereignty in the pursuit of a trans-national objective. However, like any such inter-governmental deal, there are two strong elements of enlightened self-interest at work. The first is the belief that our defence industries are sufficiently competitive to get more out of a more open European defence market. The second is that the OCCAR arrangement will result in cheaper, better and more inter-operable equipment for our Armed Forces. Although the first belief may be well founded, the second is much more open to dispute.

Collaborative projects that have existed in Europe hitherto are littered with failures and cost overruns. It is hoped that OCCAR will help to eliminate these. Industry's response to the OCCAR proposals are at best luke-warm.

> … we must never create a 'fortress Europe' nor forget that the North Atlantic Alliance underpins our security

Will OCCAR become bogged down in the same old stale-mate arising from the pursuit of irreconcilable national interest that has dogged collaboration historically? Will it become just one more deadweight in the alphabet soup of European armaments groups run not by and for industry, but by the same self serving international bureaucrats who have driven all the others into the sand, and will it operate as an anti-competitive force, tending to value collaboration as an end in itself rather than as a way to achieve value for money?

Two political issues clearly present themselves in connection with OCCAR. First there is an inevitable clash between granting OCCAR autonomy under the Treaty to set its own rules and procedures and the desire to retain close political accountability in matters affecting national security. That larger question of accountability also raises the question of how effective the most technical level of accountability will be. Are the mechanisms in place to prevent OCCAR from becoming yet another lazy, bloated, extravagant, self-serving and purposeless international bureaucracy with no real political control to hold it to account?

The second and less definable policy question is exactly what OCCAR is supposed to tell us about the future shape of the European defence manufacturing industry and, more broadly, the future development of a European Security and Defence Identity and European defence capability. How does it fit into the NATO/EU/WEU set up? If it stays small, will it be seen by the big four as a means to dominate European defence procurement? If it expands, will it start to duplicate the functions of all the other unimpressive bodies seeking to achieve similar ends?

I remain to be convinced that accountability within OCCAR, and between OCCAR and the governments and parliaments of its member states, is sufficiently well-defined. This was a failing which the Defence Select Committee recently identified in its Report on OCCAR (Command 69).

Pan-European

It is important that we in the EU think Europe-wide in planning the restructuring of our defence industries. The countries of Central and Eastern Europe, particularly the three who have just joined NATO, have established 'defence industries' and cross borders mergers with them could facilitate inter-operability and hasten standardisation whilst at the same time assisting their economies. The proposed European Armaments Agency could facilitate this.

One last comment on the United States.

I said earlier that we must never create a 'fortress Europe' nor forget that the North Atlantic Alliance underpins our security. The 'two way street' of defence sales and procurement across the Atlantic is outrageously unbalanced six to one in America's favour. Britain has managed to do more than most countries in restoring that balance and has reduced the imbalance to only two to one. However, we will stand a better chance of restoring the balance if our European industries, united through commercial mergers, provide the critical mass necessary to maintain a leading technological edge at low unit cost. If we don't muster the political and commercial courage to achieve that, we will eventually have no alternative but to buy American.

Michael Colvin is Conservative MP for Romsey and was Chairman of the Commons Defence Select Committee, 1995–97.

Outflanking the Referendum

by Sir Oliver Wright

The Prime Minister, Mr Tony Blair, and the President of France, M. Chirac, met in London recently to discuss, among other things, the political shambles and the consequential military difficulties of Kosovo. What a good idea, one might think. They signed an agreement at their summit that, in any future conflict of this sort in which Britain and France might be engaged, they would give each other logistic support: fuel, food, ammo and so on. About time too, one might add.

But things are seldom what they seem. Seen in isolation, this Anglo-French agreement might appear to be no more than a sensible arrangement between friends and allies. Seen in the context of a little noticed follow-up to the notorious Maastricht Treaty, it takes on an altogether different connotation: yet another incremental step in pursuit of a policy which, if unchecked, will inevitably lead, at the very least, to quite unnecessary tension within the trans-atlantic alliance, at the worst to cutting NATO into two halves, European and North American. That way disaster lies.

To begin at the beginning. The Maastricht Treaty referred to "the eventual framing of a common defence policy, which might lead in time to a common defence". The wording seemed innocuous at the time, so innocuous that it attracted little notice and less controversy. The next treaty, the Amsterdam Treaty, took things a little further; it provided for "the progressive framing of a common defence policy". It further provided that in certain areas there should be a European structure of decision making that could take action when our transatlantic partners, the United States and Canada did not wish to become involved militarily.

Last year the British and French governments took things still further by agreeing at St Malo that the EU must have a capacity for autonomous action, backed up by credible force.† This year, Mr Solana, the Spanish former Secretary-General of NATO, moved up to become the boss man to run what has now become a fully fledged EU Foreign and Security Policy. Quite clearly he, as a naturally ambitious politician, and the people who put him there, including the British Prime Minister, do not regard this as a sideways move, still less a demotion.

This is the context in which the apparently sensible arrangements made between Mr Blair and M. Chirac at their summit on November 24 should be seen: as one in a series of quiet, incremental steps which attract little attention but which mean that the Defence of the Realm is becoming, like the economy, part of the on-going process of European integration. So far, it has to be said, all this is still intergovernmental. The Commission and the Court are not involved. But each head of government has his own agenda: M. Chirac no doubt welcomes further evidence of an independent defence role for Europe in line with the basic anti-Americanism of his predecessors, starting with de Gaulle; for Mr Blair it offers an alternative route to "the Heart of Europe", outflanking the road to the euro blocked by the nation's referendum veto. It is in the nature of European affairs that what starts out as co-operation and consensus converts over time into Qualified Majority Voting (QMV) and the beginning of the end of Britain's independence.

> The British take defence seriously. They are proud of their armed services, rightly so: they are well trained, well led, well motivated and they are one of our country's finest assets …

In these circumstances it is not surprising that alarm bells are starting to ring on the other side of the Atlantic. Make no mistake, the US Congress and American opinion formers have taken note of what is happening in Europe and do not like what they see. In mid-November the House of Representatives took evidence on European Common Foreign, Security and Defence Policies and their implications for the United States and the Atlantic Alliance. In testimony given on November 10, Mr John Bolton, Senior Vice-President of the American Enterprise Institute and a former member of the Bush administration, warned, "I think we should be blinking at reality if we did not agree that the Alliance was not at a critical point in its history." He made two main points. First: "it is the ongoing process of the EU's political and economic integration – and the not-so-hidden agendas of many leading European politicians – that have brought us to this point. We should openly acknowledge that the aim to align the foreign and defence policies of the EU's members into one shared and uniform policy is at times motivated either by a desire to distance themselves from US influence or in some cases by openly anti-American intentions." His second point was that, although America had "attempted in recent years to treat the emerging European Security and Defence Identity (ESDI) as entirely consistent with and supportive of the Atlantic Alliance, we can no longer realistically accept this analysis. A true ESDI would mean the end of NATO as we know it as a military organisation, a fragmentation of transatlantic political co-operation and could quite possibly spill over into harmful economic conflict as well."‡ It will be interesting to reach what the committee reports to the whole House.

Mr Bolton also has some pertinent things to say about Kosovo. He points out that NATO's political leaders engaged in a corrosive debate about whether to commit ground troops. Mr Clinton debated with himself. Mr Blair, in his own statements and the unrelenting spin of his subordinates, was NATO's hawk. Mr Schröder took exactly the opposite view, to the evident delight of Belgrade. Ironically, he says all three came out ahead in the political short term. Mr Clinton escaped a decision. Mr Blair was considered in London to have had a good war. And Mr Schröder is now called "Kriegskanzler" in Germany. Mr Bolton's conclusion was that NATO is the real loser.

Mr Bolton adds that, for all their posturing, EU's members have been "wildly unenthusiastic about matching their rhetoric with their money". He describes Mr Blair's "hawkishness" as a classic "free ride". That must be the first time that an influential American can have accused our country, of all countries, of taking a free ride on defence, of all matters.

What is to be done? The first thing is to alert the British people to what is being

done in their name and keep on alerting them. The signals are at red to stop the pound being merged with the euro. And the signals are reinforced by the people's veto: the referendum. On defence, Mr Blair has a 176 majority in the House of Commons and we, the people, have no veto. But the British take defence seriously. They are proud of their armed services, rightly so: they are well trained, well led, well motivated and they are one of our country's finest assets, with a worldwide reputation for excellence. Mr Blair fears public opinion, and public opinion will support necessary measures to bring our defences up to strength – New Labour's Defence Secretary admits to "Overstretch", or too few resources chasing too many tasks. The Chancellor of the Exchequer boasts of a budget surplus. British taxpayers would not object if some of their money were applied to bringing the armed services up to strength and up to date. What could be more prudent in the light of the emergence of rogue states with nuclear capacities?

The Opposition in Parliament must seek copper-bottomed assurances that the armed services of the Crown remain under national control, and that European posturing will not place at risk the supremacy of NATO. After all, the United States provided over 80% of the air power in Kosovo, in Europe's back yard. It would be madness for Britain even to think of distancing itself from the United States: we have nuclear and intelligence relationships there which are literally vital to our national survival, quite apart from unique bonds with a longstanding friend and sure ally. Above all, public opinion must know that the government are seeking to outflank the people's veto on the pound by taking a route to the "heart of Europe" which plays fast and loose with the nation's defences. We must have no truck with this incipient introspective European superstate.

Can the Opposition not claim that not only the national currency but also the nation's defences are safe with the Conservatives?

† *British Influence and the euro,* a pamphlet by Sir John Coles for New Europe.

‡ Statement of John R. Bolton, Senior Vice-President, American Enterprise Institute, before the Commission on International Relations, House of Representatives.

Sir Oliver Wright, GCMG, GCVO, DSC, wwas British ambassador to West Germany 1975–81 and to the USA 1982–86. He was President of the German Chamber of Commerce and Industry in London 1988–92. He is a member of the European Foundation's UK Advisory Board. His article 'Why EMU is Bad for Business' appeared in the Jan/Feb edition of the Journal.

… news in brief

Kohl in the dock

The former German Chancellor, Helmut Kohl, has been forced to admit the existence of unofficial bank accounts in the Christian Democrat Party which he led for nearly two decades.

He has also admitted to the parliamentary committee of enquiry that he occasionally accepted cash donations to the party's coffers. On the other hand, he denied that he had known of the donation of DM 1 million made to the CDU by an arms dealer. This denial has elicited some suspicion in German political circles because Kohl was well known for the intense personal control he wielded over the entire CDU party apparatus. [*Die Welt,* 29th November 1999]

Euro interest rates may rise

As the euro continues to fall against the dollar and other currencies, the danger of inflation cannot, according to one analyst, "be underestimated". The M3 measure of money supply has risen by 6% this year instead of the predicted 4.5% and, as is well known, the ECB targets money supply rather than inflation figures. The commentator says that although there is no immediate danger of inflation – under similar circumstances of rapid monetary expansion in Germany, he says, it took three years before the inflationary effects became visible – it is imperative that the ECB raise rates soon to dampen the expansion. [Professor Joachim Scheide in *Handelsblatt,* 2nd December 1999]

An independent judiciary

The destruction of democracy and the rule of law proceeds apace in Slovakia, following the installation of a pro-Western government following the elections in September 1998. President Rudolf Schuster, a lifelong senior nomenklatura Communist and former Central Committee member, has appointed all nine new judges to the Constitutional Court. None of the candidates proposed by the opposition was appointed to the court, nor were any of the outgoing judges re-appointed. [*Radio Free Europe Newsline,* 29th November 1999] Now all the levers of state will be in the hands of the governing party and any recourse the opposition may have to the Court will be dealt with by party political placemen.

The real reason for the beef ban

The new French Finance Minister, Christian Sautter, and his German counterpart, Hans Eichel, are increasing the pressure on Gordon Brown, the British Chancellor of the Exchequer, to accept a compromise on their demand that a 20% tax be imposed on savings across the EU. The Frenchman and the German, who met for the first time recently (Mr Sautter has just taken over the reins at Bercy following the resignation of Dominique Strauss-Kahn) were united in their conviction that tax harmonisation must proceed and that London must give in. "We must achieve a package of solutions at Helsinki," said Hans Eichel, while the Frenchman said that there was a chance that the British position would evolve before December. Indeed there is. Such a "package" might, for instance, include the lifting of the beef ban which both France and Germany continue to maintain. The two countries, the self-declared "motors" of European integration, could offer to lift their ban, which they know is immensely unpopular in Britain and damaging for the government, in exchange for the far greater prize of forcing Britain to cede on tax sovereignty. If this happens, the tax aspects will be duly covered up in a "package" of other measures so that the British public does not notice. Such an outcome will be a classic example of the "benefits" to be achieved from negotiating within Europe, as Tony Blair is always telling us we must. [*Le Figaro,* 16th November 1999]

Pinochet anticipated

As General Pinochet prepares to spend his second Christmas under house arrest thanks to an extradition warrant issued by a Spanish judge, he may derive some solace from the fact that the Spanish have been behaving like this to the peoples they colonised for centuries. As the Dutch historian, Emer de Vattel, noted in 1852: "The Spaniards violated all rules when they set themselves up as judges of the Inca Athualpa. If that prince had violated the law of nations with respect to them, they would have had a right to punish him. But they accused him of having put some of his subjects to death, of having had several wives, &c – things for which he was not at all accountable to them; and, to fill up the measure of their extravagant injustice, they condemned him by the laws of Spain."

Gordon Brown's Budgetary Policy and the Maastricht Convergence Criteria

by Dr Brian Burkitt

Gordon Brown's hoarding of a 'war chest' of at least £9 billion has astonished political friends and foes alike. Labour critics wish to spend it on educational and health service projects outlined in its manifesto. Tories cite the tax reductions that could be accomplished. However, both groups ignore that baleful influence of the Maastricht Convergence Criteria (MCC) in determining the Chancellor's behaviour.

The Maastricht Treaty established rigid targets, which *all* EU member states are *compelled* to meet in order to provide a stable framework for the operation of the single currency. Accordingly each country must reach the following convergence criteria:

(i) The European Council must not regard its budget deficit as 'excessive'. This was defined, by Article 104c(2) of the Treaty, to be where deficits exceed 3% of GDP for reasons other than those of a temporary or exceptional nature;

(ii) Its national debt must not be 'excessive'. Article 104c(2) defines government debt as 'excessive' where it exceeds 60% of GDP and is not declining at a 'satisfactory' pace.

It is important to realise that these conditions apply equally to the UK as to other member states. Its 'opt-out' gives Britain the right to decide whether or not to join the single currency, but does *not* exempt it from devising its economic policy to meet this set of arbitrary financial objectives. In effect, a government, democratically chosen by the British people, is *legally* constrained in how it manages the economy in the interests of its citizens. This fundamental loss of democratic accountability is imposed *before* any decision is made about membership of the single currency.

The requirement to comply with the MCC is not a one-off ticket to EMU, but is a long term commitment to be fulfilled in cyclical troughs as well a speaks, so that UK budget deficits will not be allowed to expand even in the midst of a deep recession. Consequently Gordon Brown's complacency that the UK is meeting the MCC during the current favourable economic climate is an inadequate response to the enormity of the Maastricht commitment.

The behaviour of the UK economy over the last two trade cycles emphasises the point. Government finances moved from a 5.3% deficit at the depth of the 1980–81 recession before recovering to generate a surplus of 3% of GDP at the height of the 1988-1989 boom. However, the next cycle led to a budget deficit that exceeded 5% during 1993–94, which, if the Chancellor is correct in his predictions, will improve to a 2% surplus early next century.

The large vacillation in budget finances, measuring 8.3% of GDP during the 1980s cycle and 10% during the latest period, demonstrates the extent to which government finances need strengthening if the UK has any hope of staying within the MCC limits during the next recession. *This is the reason for Gordon Brown's long affair with fiscal prudence.* A policy to ensure that the UK budget deficit remains below 3% of GDP at the bottom of a recession, given the cyclical variation in government to the order of 8½% to 10%, requires that the UK budget surplus at the top of the cycle should be approximately 5% to 7½% of GDP. This target would necessitate tax increases and/or reductions in public expenditure in the region of 4% to 6½% of GDP, on the optimistic assumption that the Chancellor's predictions are largely accurate. It implies tax increases or public spending cuts in the range from *£28.3 to £36.1 billion* at today's prices. Gordon Brown's 'war chest' is puny by comparison.

Therefore the savings needed to meet the MCC at the depth of a future recession are of the same magnitude as the *entire* level of public sector borrowing in the financial year 1993–94, at the end of the second deepest recession experienced since the Second World War! Reducing demand in the economy by such an amount would be disastrous for output and employment, in addition to the negative impact upon British living standards of swingeing tax rises or a substantial deterioration in the quality and quantity of public services.

The government's obsession with fulfilling the MCC is demonstrated not only by its overall expenditure strictures but also by its concrete curbs on financing particular welfare services. Thus its European policy imposes limits upon its education, health and social security measures. The expansion of public expenditure across the EU was 2% in real terms during the 1980s, 3% from 1990 to 1993, yet, under the impact of the MCC, a miserly 0.5% between 1993 and 1997. Under the Growth and Stability Pact, the unelected European Central Bank (ECB) controls public spending within rigid boundaries. Therefore, the budgets, wages and employment conditions of public sector workers are controlled by a process which they have no opportunity to influence.

One concrete example of the many ways in which the MCC structure government expenditure totals and patterns is provided by the widespread adoption of Private Finance Initiatives (PFI) to fund public works. PFIs are currently being rebranded public-private partnerships (PPP). At 1st April 1999 around 150 PFI and PPP deals had been signed with a total value of approximately £13 billion, a sum greater than Gordon Brown's 'war chest'. Moreover, the British government is committed to £84 billion worth of future spending through PFI and PPP. The reason for their popularity within government circles is clear: PFI and PPI enable public investment to take place now without increasing current public expenditure. At the November meeting of Labour's National Executive, Blair defended PPPs because raising money through private investment kept the loans out of the public sector borrowing rate. Therefore they allow the government to meet the MCC.

However, the long-term cost of adopting such policies is substantial. Chantrey Vellacott DFK, recently described by a Minister, Lord McDonald, as 'one of the UK's top accountancy firms', estimate that a typical PFI contract carries an interest rate burden some 5% higher than if the Treasury directly borrowed the money. Therefore, for every £1 billion spent on PFI, the extra cost to the public purse is £50 million per annum, a sum that could have been spent on education and health or have financed tax cuts. However, this cheaper alternative is precluded by pursuit of the MCC. The first wave of PFI schemes in the NHS involves a cost of servicing the capital, which amounts to between 15% and 20% of health trusts'

revenue compared to a current figure of 8% to 10% for tax-financed initiatives. Again a policy to meet the MCC imposes a direct burden upon the provision of health care.

These general contentions can be illustrated by a scientific example. A new medium size infirmary has just been built at Edinburgh, which would have cost £180 million if paid for by taxation or by Treasury borrowing. Under PFI, a private consortium designed, services and owns the hospital, which it then rents to the health trust at an index linked sum of £30 million for each of the next 30 years. Thus, in order to achieve the Maastricht targets, an infirmary, which could have been constructed at a contemporary cost of £180 million, will ultimately drain the public purse of £900 million. Tony Blair and Gordon Brown constantly urge voters to be 'responsible', but are prepared to attain their EU obligations by imposing fiscal burdens on future generations. Truly a case of meet Maastricht now and pay later with a vengeance!

There is much controversy surrounding the tightness of fiscal policy at the moment and, in particular, the stringent restraints upon health and social security expenditure. It is less frequently recognised that so many of these restraints derive from the Chancellor's efforts to shadow the Maastricht criteria, hence the £9 billion 'war chest' he dare not spend and his pursuit of initially cheaper but ultimately more costly PFI and PPP schemes. If Britain joined the single currency, its freedom for manoeuvre would be even more tightly constrained. That is clearly a choice to resist.

Dr Brian Burkitt is Senior Lecturer in Economics at University of Bradford's Department of Applied Social Sciences.

The Cost of Joining EMU: £9bn p. a. or 1% of GDP

***Tony Lodge** reviews the recent Bank of England working paper on the likely costs of EMU membership for the UK economy.*

A fascinating new Bank of England working paper has shed light on one of the key issues in the debate as to whether the UK should join economic and monetary union (EMU). Working through heavy technical jargon, the paper estimates the cost for the UK joining EMU and goes on to provide a number of interesting conclusions, most notably its ability to put an actual likely price on membership.

According to the research, the economic costs of UK membership of EMU could be as much as £9 billion a year, or equivalent to 1 per cent of national income each year.

The paper argues, "Monetary union requires one official interest rate. That may entail some countries setting their rate at a level that they would not otherwise have wanted."

It goes on to highlight the plight likely to be faced by an EMU member state if its economy did not correlate with other 'core' member economies. "It would have little influence over European Monetary Authority (EMA) choices because the country is poorly correlated to other EMU members.

The costs are high if there is a core group of countries whose economies follow similar trends, and your country is poorly correlated with that core. In that set up, the country would consistently be outvoted by the core group of countries."

On the key issue of correlating economies, the paper goes further. "The cost of being in EMU will be high if the member country were to find itself on the periphery of a tightly defined core, but low if its economy were well integrated with the other members."

With this key issue of correlation between economies repeatedly emphasised in the paper, it is worth repeating HM Treasury's own publication in October 1997. *UK Membership of the Single Currency – An assessment of the Five Economic Tests* sets out the Government's criteria for EMU membership. On the question of correlation of economies, it clearly sets out in Table 1.2 (reproduced below) the close correlation between the US and UK economies. This is reproduced below together with the commentary.

Tony Lodge is Editor of the European Journal

Table 1.2 **Correlation coefficients of US, UK, French and German growth rates**

	UK/US	UK/D	US/D	UK/F	D/F	US/F
1970–96	0.66	0.31	0.40	0.46	0.65	0.30
1979–96	0.56	0.01	0.17	0.38	0.49	0.10
Economic Cycles						
1975–81 (UK)	0.86	0.82	0.78	0.82	0.97	0.86
1981–92 (UK)	0.47	-0.14	0.10	0.48	0.19	0.05
1982–93 (Intl.)	0.52	-0.30	0.11	0.35	0.42	0.06

The correlation coefficients reported in Table 1.2 show that the timing of the UK economic cycle has been closer to that in the US. For all periods, the US and UK record high correlation coefficients, consistent with relatively synchronised economic cycles, while in both the latest UK and international cycles there was little or no correlation between UK and German growth. Overall, the correlation of the cycles between the US and the UK tends to be higher than between the UK and Germany of the US and Germany. Similarly, higher correlation coefficients are normally recorded for France and Germany than France and the UK, although the difference is less marked.

Source: *Bank of England Working Paper no 102,* Bridget and Nolan © *Copyright HM Treasury, 1997*

BOOK REVIEWS

Policing Europe: EU justice and home affairs co-operation

by Ben Hall, Centre for European Reform, £10.00

Reviewed by Charles Wardle, MP

This short, overtly federalist guide to the development of EU justice and home affairs policy was written as a prelude to the Tampere Summit for which Ben Hall clearly had high hopes.

What had begun at Maastricht, when asylum, immigration (except visas which Brussels immediately grasped), customs, police and judicial authorities were placed in the third pillar of intergovernmental co-operation, had been driven on dramatically further at Amsterdam, when free movement issues and judicial co-operation on civil matters were transferred into Treaty competence, albeit with a British opt-out on border controls. Little wonder, therefore, that European integrationists enthusiastically hailed the Council of Ministers' decision last December to draw up a five year post-Amsterdam action plan for asylum, immigration and justice measures to be launched at the Tampere Council. Under this plan, justice and home affairs would rank next only to EMU and the single currency as a driving force for ever closer integration and the pooling of sovereignty by member states.

As things turned out, Tampere was a damp squib. The agreed action on asylum offers little more than could have been achieved at any time since the Geneva Convention was ratified nearly 50 years ago. The Convention requires that a refugee, defined as a person with a well founded fear of persecution in his home country, must apply for asylum in the first safe country he reaches. There is no scope for asylum shopping for preferred destinations. It should not have needed Maastricht and Amsterdam, let alone the Tampere Council, for civilised nations to understand and honour those longstanding arrangements.

On judicial co-operation the relatively limited agreement at Tampere for the mutual recognition of court decisions falls safely short, for the time being, of the federal ambition to harmonise legal procedure within a "European judicial space" or to create a uniform body of law in the fashion of the European Parliament's Corpus Juris. Similarly, a new task force of police chiefs drawn from the member states to liaise with Europol on joint operations to combat cross-border crime does little more than give formal expression to the practical co-operation that has gone on for years between police forces in Europe.

At Tampere, therefore, federal progress may have been less than Brussels had wanted. Whatever may have been taken forward at the margins of the Council, Ministers did not come up with a coherent political strategy or give EU justice and home affairs policy the impetus Hall's advance billing suggested might be the case. Disconcertingly, Hall cites the fact that justice and home affairs already accounts for a third of the paperwork handled by the UK Representation in Brussels as justification for his believe that "Europe's leaders are beginning to invest political capital in it." Clearly he has not spent enough time in Whitehall. More alarming still, he foresees the need for an ageing EU population to import large numbers of workers to boost socio-economic development, to promote human rights and to prevent international conflict. Such is the stuff of federal ambition.

The huge growth in migration from eastern to western Europe via the EU's all too porous external frontiers, and the expansion of international organised crime, calls for practical measures between sovereign countries with a common interest in containment. The solutions are not to be found in the promulgation of policies, paperwork, official working parties, European Parliament consultative powers or Brussels directives. Those are not the devices of capable administrators. They are the conduits of federal activism whose creed, in spite of the evidence of history, is that national sovereignty is the root of all European evil.

Hall condemns third pillar co-operation for not having been sufficiently transparent, by which presumably he means that lobby groups, such as the Centre for European Reform, were not always able to influence the work of elected ministers and their officials. He is attracted to the idea of UK participation in Schengen without seeming to understand fully the tensions Schengen created between neighbouring countries or the chronic shortcomings of its information system. He looks forward to the day when an entry clearance officer from one member state can issue a standard European visa that must be recognised by British immigration officers at UK ports. He dismisses the value of border checks as unimportant to immigration control in the long term and sets no store by Britain's island geography. He is even tempted by burden sharing in refugee crises.

If only hall could stand down from his Brussels watch and serve time with immigration officers at Dover or Heathrow, he might possibly become aware of the complexity of the issues which are not allowed to impinge on his federal European dream.

Charles Wardle is Conservative MP for Bexhill and Battle. In 1995 he was a Home Office Minister in John Major's Government, with responsibility for immigration and border control. He resigned in order to speak out for the retention of Britain's border controls.

In Office

by Norman Lamont, Littlebrown, £20, 524pp, ISBN 0-316 64707

Reviewed by Russell Lewis

At the Newbury by-election press conference just after Britain's exit from the ERM, Norman Lamont was asked by the BBC correspondent there, "Chancellor, what do you regret most, seeing green shoots (of economic recovery) or singing in your bath?" (which he was wrongly supposed to have done after we were forced out of the ERM). His reply, in the spirit of this rather daft question, was, "In the words of the singer Edith Piaf, *'Je ne regrette rien*'". This was taken up by many newspapers as indicating he had no regrets about any hardships his economic policy had inflicted and to suggest that such gross insensitivity was a major cause of the calamitous by-election defeat. This was a prize example of the unfair way he was often treated by the press, in this case doubtless egged on by No. 10 because John Major was keen to blame him for his government's failures. This book attempts to put the record straight about Lamont's tumultuous period as Chancellor and a very engaging, readable, thorough and polished piece of work it is. The theme is indicated by the title. He was in office but not really in power. That was indeed true about the Major government in general which most of the time just drifted. The source of Lamont's own frustrations was that he was increasingly thrust by the PM into implementing policies, particularly with regard to Europe, to which he felt increasingly opposed.

The story begins with the downfall of Mrs Thatcher, which many have attributed to the unpopularity of the poll tax, but, though that played its part, was mainly connected with Europe. First, her Chancellor, Nigel Lawson, unleashed a boom which ended in bust through shadowing the Deutschmark – equivalent to a voluntary submission to the rules of the ERM. Then her Foreign Secretary, Geoffrey Howe, went off in a huff because of her emphatic "No" to further European integration. After the challenge to her leadership by Euro-enthusiast Michael Heseltine, Lamont told her that he would back her to the hilt if she stood in the second round of the contest but that he frankly thought she could not win and the only way to stop Heseltine would be for her to resign and back someone else who would carry the Thatcher banner. That someone else proved to be John Major, largely, it seems in retrospect, because he had the fewest enemies. Lamont, though not particularly close to him, was thrust by the Major team into running the campaign, which he did with great panache. Partly as a reward, but also because he had a good background as a Treasury minister, he was made Chancellor of the Exchequer.

> All his friends knew that he wanted to leave the ERM, but he soldiered on out of loyalty to Major and let his credibility be undermined

It all went swimmingly at the start. The Tory government seemed to have reinvented itself as the vehicle of a kinder, gentler Thatcherism and, of course, kinder and gentler towards Brussels. Only time would show that Major actually had a wetter, feebler approach to government which eventually retreated from much of what Thatcher stood for. The most worrying change was the loosening of the public purse strings. The old tax-and-spend Heathites like Hurd, Heseltine, Patten and Clarke (who were also ardent European integrationists) were now in the ascendant in the cabinet and Lamont, forced to concede their demands, found his Public Sector Borrowing Requirement mounting ominously. Nevertheless, his 1992 budget went well. It wrongfooted Labour (which had been anticipating a reduction in income tax which it was preparing to attack as unfair to the less well off) by introducing a 20p lower rate band, which it was hard for them to oppose. Lamont, on the whole, got his way in putting the main emphasis of the Tories' manifesto in the 1992 election campaign on their belief, in stark contrast with Labour, in tax reductions. This, plus Kinnock's distasteful triumphalism and John Major's smile, brought victory. Unfortunately Major went over the top and, against his Chancellor's advice, promised to cut taxes year after year after year. He doubtless meant it at the time, but he was not prepared to face up to the fact that, without economic growth, he could not keep that pledge without cutting public expenditure. In fact he was eager to spend more, especially on the NHS.

Lawson's recession was still biting but was expected by the official Treasury forecast to be short and shallow. Regrettably the expected upturn kept receding. Major was for ever pressing Lamont to say that recovery had begun, but he resisted. The nearest he got to doing so was his phrase about seeing green shoots of recovery, which would come back to haunt him. What was not yet fully apparent was that the main barrier to recovery was the restraints imposed by our membership of the ERM. To start with, though, the government's chief European concern was with the Maastricht treaty. When the treaty came to be placed before parliament, Major, on the face of it, plausibly claimed that he had protected Britain's interests mainly by two opt-outs: (1) from monetary union, actually negotiated by Lamont – who also resisted pressure from Brussels and from his cabinet colleagues to make membership of the ERM legally compulsory; and (2) from the Social Chapter, entirely due to the insistence of Home Secretary Michael Howard. Despite these opt-outs, Maastricht was an important stage in the march towards a centralised European state however shrouded in twaddle about subsidiarity. We conceded the principles of common citizenship, a common foreign and defence policy and harmonisation in other policy areas. Acceptance of those principles gave a lever to the judges of the European Court to hustle us into further integration.

The election victory in 1992 gradually turned to dust. Inflation was going down rapidly, which was good, but recovery there was none. To escape from recession Britain needed lower interest rates but there was little scope for that when the Germans, who had the anchor currency, were raising theirs. The point was that the impact of interest rate changes was and still is four times as great on our economy as on the economies of mainland Europe. In the light of that fact

alone, the decision of Lamont to make a wholehearted commitment to the ERM as the only way forward in a much publicised speech to the European Forum in June 1992 was ill-judged. It put his head on the block if the policy was changed. From then on things went from bad to worse. Major became more and more indecisive. In contrast with Mrs Thatcher, who enjoyed an argument, Major avoided serious discussion and thought only about the short term. If ministers crossed swords on an issue, he would tell them to go away and settle it between themselves. He had no fixity of purpose. For instance, at the start of his premiership he was in favour of more public spending. Later he was talking of reducing the government share of GDP to 35%, which would have meant slashing public expenditure and radical surgery on the welfare state. The idea of quitting the ERM, which Lamont had now concluded was the only way out of recession, could even be mentioned because it was he who had persuaded Margaret Thatcher, against her better judgement, to enter it. Major also had a kind of proprietary attachment to Maastricht which he regarded as his great negotiating achievement. That and the fact that he could never stand up against Hurd, Heseltine and Co. was no doubt why he missed the opportunity provided by Denmark's 'No' in its first referendum on the Maastricht treaty to drop the whole thing. Eventually it was not a conscious change of policy which took Britain out of the ERM but the market. Even then, after Lamont explained that there was no alternative to suspending our membership of the ERM, Major dithered and called in Hurd, Heseltine and Clarke. who wanted to stay in, so that they could have a further leisurely chat and carry on dithering. Meanwhile our reserves haemorrhaged away, not, as some critics later said, because Lamont was engaged in a hopeless attempt to prop up sterling, but because under the ERM rules we had to match all demands for foreign currency that were made at the rate fixed at the bottom of the band. The outcome of the meeting was a futile decision to put up interest rates to 15% while talks continued with our European partners. Of course that did not work, Lamont was made to look a fool and, after billions of reserves had been wasted, Britain's membership of the ERM was suspended. Thereafter the economy began to bounce back.

In the subsequent Tory conference Norman Tebbit made a fierce attack on Maastricht from the floor and finished up looking at Major and saying "Don't sack your Chancellor.", reminding him that it was he who had originally made the decision to join the ERM. That afternoon Lamont bumped into Tebbit on the stairs and thanked him for what he had said. he replied, "I'd find an issue on which to resign if I were you. The two-faced bastard will push you in the end, when he feels safer and it is more convenient for him." What a pity Lamont didn't take that advice. It would have been even better if he had resigned before Black Wednesday. All his friends knew that he wanted to leave the ERM, but he soldiered on out of loyalty to Major and let his credibility be undermined. He used his last months in office constructively to set up a better system of monetary management, which logically culminated in Gordon Brown's establishment of an independent Central Bank. However, as Tebbit had foreseen, Major made him the fall guy for his own failures. Once out of office, Lamont made some very robust and incisive criticisms of EMU, but it was too late and many dismissed them as sour grapes. Major did not deserve his Chancellor's loyalty, which he certainly did not reciprocate. Would that Lamont had been more loyal to himself. He had a more incisive mind and was more worthy of high office than Major. It shows something of his quality that, after all those traumas and then, the final blow, losing his seat, he has been able to give, with hardly a trace of bitterness, such a frank, luminous and entertaining account of those fateful years.

Russell Lewis is a former Director of the European Foundation and a member of the

… news in brief

Had enough of the Germans, let's try the French

These decisions by the German Chancellor have sent a chill through Anglo-German relations. Tony Blair and the Foreign Office are said to be realising that they have backed the wrong horse in thinking that the "Third Way/Neue Mitte" paper which the British and German leaders published in June would add up to a row of beans. So, just as John Major had to re-think his pro-German policy within two years of his becoming prime minister, so Tony Blair seems to be re-thinking his. A Franco-British meeting has been held between policy wonks on both sides of the channel from the Blairist and Jospinist inner circles in order to patch up differences between London and Paris. It follows an article in *Le Monde* by the head of the No. 10 Policy Unit, David Milliband. In tandem, and much more importantly, a common European defence policy is being initiated by London – designed, among other things, to reinforce the Franco-British axis. A quick end is being sought to the spat over beef so that, once again, Britain can attempt to repair the mistake it repeatedly makes of thinking that the Germans are its true allies on the continent. Whether it will succeed in this is doubtful: the 74th Franco-German summit concluded in Paris on Wednesday. Although reduced in format from previous meetings (it lasted only one day instead of two) the French and Germans may well decide that, after all, they are better off remaining the motor of European integration together, rather than each trying to go his own way with the perfidious British.

Euro falls to new low

The euro has reached a new low against the US dollar, trading at a mere fraction of one cent above parity. It has lost 15% of its value since it was introduced last year. If it falls any further against the dollar, a whole host of options around this rate will kick into play, threatening to accelerate the fall even further. In addition to hovering around the $1 (down from $1.17 when it was launched last January), the euro has also fallen in value by 34% against the Japanese yen. [*Süddeutsche Zeitung,* 29th November 1999]

European defence advances by leaps and bounds

The integration of the Western European Union into the European Union – and with it, the creation of a European army – took a huge leap forward with the recent appointment of Javier Solana, the EU's High Representative for Common Foreign and Security Policy, to be simultaneously General Secretary of the WEU. The plan is for the WEU to be formally integrated into the EU by next year. Now, the intention is for the new European army to take over running Kosovo. This once again underlines how the Kosovo war leads to the European army as night follows day. The German Defence Minister, Rudolf Scharping, said that this would allow the new European corps to cut its teeth on its main task of "crisis management". The whole purpose of the corps, in other words, is to "intervene" in other countries, i.e. to invade them. Funny that a German minister should be so keen on this idea. [*Handelsblatt,* 23rd November 1999]

Advertisement

Subsidies Distort, but Low Taxes Stimulate Competition and Trade

by Keith Marsden

The German coal industry, hardly the most environmentally friendly energy source, has swallowed up many billions of marks of government subsidies since the European Coal and Steel Community – the forerunner of the present EU – was set up in 1951. DM 10.4 billions were granted in 1997 alone, and the industry is still deep in the red. Yet the European Court has rejected a complaint from an unsubsidised British coal producer, deciding that the latest German bail-out is consistent with EU state aid rules. Almost simultaneously, a World Trade Organisation (WTO) Dispute Settlement Panel has upheld an EC complaint against a US tax incentive designed to boost jobs in, and exports from, US corporations established in poorer Caribbean and Pacific island countries.

Do these rulings promote the basic goals of the EU Treaties and WTO Agreements? Or have protectionists exploited loopholes in the legal texts to distort competition and erect further barriers to free trade? Let's look at what the texts say and how they have been applied in practice.

Article 87 of the EU Consolidated Treaties states that "any aid granted by a Member State or through state resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, in so far as it affects trade between Member States, be incompatible with the common market". The clear intention was to prohibit subsidies to specific enterprises or industries producing traded goods or services. Such subsidies are unfair because they allow the recipients to sell at prices below their costs, thus undercutting more efficient firms. But the Treaty framers undermined their own case by suggesting possible exceptions. These exceptions include (i) aid to promote the economic development of areas where the standard of living is abnormally low or *where there is serious underemployment,* (ii) aid to facilitate the development of certain economic activities or of certain economic areas, where such aid does not adversely affect trading conditions *to an extent contrary to the common interest,* and (iii) such other categories of aid as may be specified by decision of the Council *acting by a qualified majority* (my emphasis).

Given these escape clauses, it has not been difficult for protectionist minded governments to obtain exemptions from the general rule. Germany's overall unemployment rate tops 10%, so *"serious underemployment"* exists in several regions including coal mining centres. Subsidies have saved a few coal mining jobs, but at huge cost. Government aid to the German coal industry has averaged over 56,000 euros per employee annually since 1992. And there are other downsides. Subsidies are funded by raising taxes on other industries and workers, thus reducing their international competitiveness. Subsidies retard, or become substitutes for, reforms which would help to create jobs in other sectors. They also penalise countries that have already taken the politically courageous steps to encourage the transfer of labour from declining to expanding industries.

Unfortunately, state aid has not been confined to the coal industry, or to Germany. Agreement on what constitutes or promotes the *"common interest"* is not easy to reach in a Community where the problems and priorities of member states vary. However, countries with relatively high unemployment have formed a *"qualified majority"* within the EU Council. This has enabled them to approve more extensive use of subsidies, and to override the objections of more competitive countries which would like a level playing field for their producers and exporters.

The 1998 and 1999 Surveys on State Aid in the European Union presented by the EC show this clearly. Aid to Germany's agricultural sector has averaged nearly 20% of gross value added of agricultural production since 1992, four times the level in Britain. (Data for France and Italy were not disclosed.) Aid to fisheries averaged 14% of value added in Germany and 8% in Italy, but less than 4% in Britain. The manufacturing sector got handouts worth over 5% of value added in Italy, 4% in Germany and 2% in France, compared with under 1% in Britain. Subsidies to railways reached 45% of value added in inland transport services in Germany, 26% in France, 22% in Italy and 10% in Britain. French, German and Italian airlines gobbled up 5.6 billion euros of taxpayers' money in total over the period 1994-97, but British airlines got nothing. And France has granted nearly 7 billion euros in aid to its financial services sector over the last three years, with the approval of the EC. All these figures exclude government expenditure on training and other "active" labour market programmes which effectively subsidies employers and employees. These programmes have cost over 24 billion euros annually in Germany, 16 billion in France, 11 billion in Italy, but less than 5 billion in Britain in recent years. And, in addition, massive subsidies are received from EC funds under the CAP, regional development and other Community programmes. These have totalled over 10 billion euros annually for France, 7.7 billion for Germany and 5.9 billion for Italy since 1995. Britain has obtained 4.7 billion euros annually over the same period. Such wide disparities in subsidy levels, all condoned by the Commission, make a mockery of its claim to promote fair competition.

Another anomaly of EU competition policy that is rarely discussed is the discrimination between governments and undertakings (firms) in the application of the rules. Article 81 of the Treaties prohibits all agreements between undertakings that restrict competition by fixing purchase or selling prices, unless the agreements can be shown *to promote technical or economic progress.* Abuse by one or more undertaking of a dominant position within the common market is also prohibited. The EC's Competition Commissioner has generally taken vigorous action to eliminate collusive price fixing by firms, and prevent the emergence of private monopolies. Yet agreement among governments to 'harmonise' policies is encouraged and often enforced, even though this can lead to a convergence of prices at higher levels than consumers would otherwise have to pay. A *'qualified majority'* within the Council is little more than a cartel of governments which seeks to limit competition among themselves, and to use its dominant position to impose its will on others. And the Treaties do not insist that governments must prove that their joint

actions "promote technical and economic progress".

Turning to the rules governing global trade, the WTO Agreement on Subsidies and Countervailing Measures starts out with the same laudable objective of promoting fair competition and free trade, but provides similar loopholes to protectionists as do the EU Treaties. Certain subsidies are declared to be 'non-actionable'; that is they cannot be challenged or compensated for by other countries, even if they could demonstrate adverse effects or serious prejudice. Non-actionable subsidies include (i) assistance to disadvantaged regions, defined as those with income per capita of 85% or less than, or unemployment rates 110% of, the national average, (ii) assistance for research activities which does not exceed 75% of the costs of industrial research or 50% of the costs of so-called 'pre-competitive development activities' (a multi-headed beast), and (iii) assistance to promote adaptation of existing facilities to new environmental requirements. These may be worthwhile goals and activities. But it is not clear why these particular subsidies should be tolerated while firms must pay the full market price for other inputs that affect the competitiveness of their products and services, or why firms located in other regions should be discriminated against. All cash subsidies, however earmarked, are fungible. They release resources that can be used for other purposes and allow the recipients to undercut their less advantaged foreign competitors. If their governments retaliate, the result could be a shift in global resources towards activities, firms or regions that use resources less efficiently or over optimally, thus reducing overall welfare.

The prime purposes of taxes are to fund government services and to redistribute income. If governments, with the support of their citizens, choose to provide fewer public services or indulge in less redistribution, and return the savings to taxpayers in the form of tax credits or reduced rates, they should be entitled to do so without being accused of fiscal dumping or unfair trade practices. It's true that the Agreement does offer a let-out. It states that "it is understood that the setting or change of generally applicable tax rates by all levels of government entitled to do so shall not be deemed to be a specific subsidy for the purposes of this Agreement." This is both illogical and unduly restrictive. It's tantamount to saying that tax relief for exports is harmful, but the same relief on all domestically manufactured goods is fine, even when they are exported. Why should a country be required to impose taxes on foreign customers through its exports, either directly or indirectly? More than two centuries ago, the New England colonies objected to taxes levied on their imports by the colonial power, Britain. 'No taxation without representation' was their famous cry. Why shouldn't sovereign nations be able to turn this slogan around and tell their foreign customers – you're not represented in our parliaments, therefore we've put no taxes on our exports to you?



Some of the most successful developing countries – such as Korea, Malaysia and Mauritius – first managed to break into world markets for manufactured goods by granting their exporters exemption from most taxes on their inputs and profits. Export growth rates averaging 16%, 9.7% and 5.7% respectively have boosted their per capita incomes by 6.7%, 4.1% and 3.8% annually over the past three decades. Thus most of their people are now well above the World Bank's absolute poverty line. Regrettably, this WTO Agreement now bars other countries from following suit. It defines prohibited export subsidies to include "the full or partial exemption, remission or deferral specifically related to exports, of direct taxes, or social welfare charges paid or payable by industrial or commercial enterprises". It goes on to spell out that "the term direct taxes shall mean taxes on wages, profits, interests, rents, royalties, and all other forms of income, and taxes on the ownership of real property". Why any developing countries should want to impose all these taxes on their entrepreneurs, especially those with the courage to venture forth into foreign markets, is a mystery. They certainly should be allowed to decide for themselves whether the jobs and incomes generated by exports are sufficient, without the government taking its pound of flesh. Prohibition of any remission of such taxes, even if misguidedly set, only reflects the protectionist instincts of some developed countries who finally got their way at the end of the protracted Uruguay Round negotiations.

Once carved in stone, such rules are difficult to dislodge or sidetrack. The decision by a WTO panel mentioned earlier has been appealed by the US, but the outcome is uncertain given the way the Agreement on Subsidies was written. Encouragingly, the WTO has expressed reservations about the general principle. Its 1998 annual report stated that "there are clearly signs that tax competition, as well as pressure on governments to become "leaner" and "more efficient" are growing" … "protectionism is not the first best choice to deal with fiscal challenges arising from trade liberalisation and globalisation." "Tax harmonisation is being discussed, e.g. in the European Union and the OECD, to deal with harmful tax competition. *This option, however, should be treated with considerable caution, as a fight against a 'race to the bottom' in tax rates may be used as a pretext for introducing a tax cartel.*" (my emphasis) Let's hope that participants in the Seattle Round of trade negotiations now underway will take a fresh look at these issues. Just before leaving office, Bundesbank President Hans Tietmeyer said that "there must be competition between tax systems, a competition in a way that generally leads to more flexibility." Policy makers should heed these wise words.

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

EURODATA

Mannesmann-Orange Vodafone-Mannesmann

Vodafone, the British mobile telephone company, last month launched an £85 billion take-over bid for Mannesmann, a German mobile telephone and steel company. The bid caused a stir in a country where hostile take-overs are unheard of and where mergers are often brokered by government.

The German newspaper, *Bild,* asked its readers: "[m]ust [Mannesmann's board] watch helplessly as a pearl of German industry falls victim to greed?"; whilst the *Welt am Sonntag* lamented: "it can't be that a functioning firm like Mannesmann can be beaten down and the thousands of jobs are destroyed, just because international investors want to make a short-term profit." Gerhard Schröder argued in the Bundestag that hostile take-over bids should be "prohibited" on the grounds that they "destroy an enterprise culture" – going on to describe Britain's blocking of the savings and withholding tax as "protectionist".

The Vodafone-Mannesmann battle is of great import to the wider debate over which form the Single Market should take: the corporatist 'Rhineland' model or the Anglo-Saxon model. Complicating the situation is the fact that the two models house very different bodies of company law.

Take-overs in Britain are determined on a plurality 'one-share-one-vote' basis, whereas in Germany individual shareholders are limited to 5% of the voting rights and 75% of the votes are needed to pass a take-over.

Wolfgang Clement, regional state premier of North Rhine Westphalia where Mannesmann is headquartered, said: "Mannesmann in Dusseldorf should not become a regional subsidiary of a London firm. The telecommunications firm Mannesmann is better positioned than the British firm in many markets in Europe. Therefore a hostile takeover bid, where decisions are made in London and carried out in Düsseldorf, doesn't make any sense economically."

Were this nationalistic view of company ownership to win the day in Germany and

Helsinki Summit Statement

Intervention by Bill Cash to Prime Minister Tony Blair, 13th December 1999

Mr. William Cash (Stone): In the Presidency conclusions to which both the Prime Minister and the Secretary of State referred, there is mention of

"determination to develop an autonomous capacity to take decisions and … EU-led military operations in response to international crises."

The right hon. Gentleman has said that each of the member states would be able to consent. Does he accept that, under the Petersberg tasks to which all this relates, including a wider defence policy, majority voting applies where a joint strategy and a common action have already been devolved? Does he accept that, in plain English as in the Oxford dictionary, "autonomous" means "self-governing" or "independent"?

As for strengthening NATO, there can be no serious doubt that that wider defence policy is causing enormous concern in the United States and enormous enthusiasm in Russia.

The Prime Minister: As ever, the hon. Gentleman is seeing conspiracies where none exist. The full sentence from which he has quoted in part is in paragraph 27. It reads:

"The European Council underlines its determination to develop an autonomous capacity to take decisions and, where NATO as a whole is not engaged, to launch and conduct EU-led military operations."

There is no way in which any country will give up control over its own armed forces. The European Commission and Parliament are not involved in any way. This is where NATO does not wich to be engaged, or where America for any reason does not want to be engaged.

Mr. Cash: Autonomous.

The Prime Minister: It is autonomous in circumstances where the alliance as a whole does not wish to be engaged. If the hon. Gentleman reads further, he will see that the document refers to the forces

"capable of the full range of Petersberg tasks."

Those are specific and limited tasks.

Mr. Cash: Majority voting.

The Prime Minister: It is not majority voting. No country has any intention of giving over its armend forces or defence to another country and neither would any other country do it on behalf of its armed forces.

The hon. Gentleman talks about huge concern in the United States. There has been some concern, which has been mainly prompted by senior cconservatives going to the United States and talking complete nonesense. *[Interruption.]* If I remember correctly, if, in the old days, Labour party spokesmen had started attacking this country's defence policy abroad, the Conservative Government would have our flesh hanging in strips off the rafters.

House of Commons, 13th December 1999 © Crown Copyright

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Not So Special Relationship

By John Tate

Those who argue Britain should eschew European defence union simply to depend upon the Americans have misread our post-war history. This examination of Anglo–American relations shows that we must retain a defence capacity independent, not just of Europe, but also of the United States.

Introduction

A distinguished observer of Anglo–American relations once described the special relationship as "an agreeable British myth designed to disguise [relative] national decline". Evidence for this view lies in a series of post-war events that undermine the view of Anglo–American relations as special. A more convincing argument is that expounded by Beloff, Watt, and Reynolds, amongst others, who point instead to the post-war period as having been one of limited Anglo–American co-operation born of real, if at times tenuous, interest convergence and defence thereof.

1945–1979

The first and most concrete stage of the special relationship was the Second World War. Yet the first time the special relationship was cited as such was immediately post-war, Winston Churchill identifying it as being, along with Europe and the Commonwealth, one of 'three interlocking circles' with which British foreign policy should be concerned. British prime ministers continued to emphasise the importance of the relationship, Harold Macmillan likening Britain's rôle to 'playing Greece to America's Rome'.

Significant is that throughout the post-war period testimony to a special relationship has almost always emanated from London. The Director of Historical Studies at Cambridge, David Reynolds, put this fact in to sharp context when he wrote that

"recognising that the special relationship has been in part a deliberate British creation – a tradition invented as a tool of diplomacy – helps us appreciate the artifice that has often lain behind fulsome official British rhetoric about America."

The perception of a special relationship has on occasion caused Britain to conflate her own and the American national interest, and rarely more so than immediately post-war.

In 1945–6, the partnership between Britain and America crumbled in a variety of important respects. Sudden curtailment of the Lend-Lease Act (concerning the contribution of munitions, food, and raw materials to Britain and the Commonwealth) put greater pressure on an economy that had already lost one-quarter of its asset base fighting the Second World War. Though not permanently damaging to Anglo–American relations (Lend-Lease was always temporary), there were nevertheless genuine grounds for British ill feeling given that termination of the Act was supposed 'to occur at a time which the President deems satisfactory'. The fact that President Truman deemed the time of Britain's near-bankruptcy 'satisfactory' was certainly not indicative of a special relationship.

Arguments that President Truman could not afford to have delayed termination of the Act prove erroneous if one considers that America's was the only manufacturing base still in one piece, benefiting from its unique ability to fuel reconstruction in Europe. (Remember: Marshell Aid had not yet been implemented.) Further undermining Anglo–American relations was the fact that, in July 1947, the US proceeded to engineer a run on the pound by her insistence on the free convertibility of sterling despite British objections.

Anglo–American relations suffered further by the imposition of the McMahon Act in August 1946. Passed by a nationalistic and security conscious Congress, the Act prohibited transfer of atomic research information to foreign governments. Coming just six years after Britain shared freely her own more advanced atomic research, the McMahon Act was, like the abrupt termination of Lend-Lease, in no way indicative of a special relationship.

Strains in Anglo–American relations also stemmed from Washington's antipathy toward Britain's empire and her indefinite occupation of the mandated territories. Indeed, it was to a large extent due to American pressure that Britain withdrew from Palestine in May 1947. In the Middle East as a whole, tensions persisted throughout the 1950s, particularly when the US exploited the oil nationalization crisis in Iran to establish parity in a region which had hitherto been Britain's last oil stronghold.

Throughout the 1950s, and despite having collaborated extensively within Nato and on the United Nations force in Korea, any idea of a distinctly special Anglo–American relationship proved mythical on numerous occasions.

The first such occasion was in 1951 when Britain was excluded from the ANZUS defence pact comprising Australia, New Zealand, and the United States. London rightly viewed her exclusion as a political and military snub aimed at the furtherance of American at the expense of British influence in the Pacific. More insulting was that Britain's exclusion took place with the connivance of core Commonwealth allies.

When in February 1955 Britain formed the Baghdad Pact, America refused to sponsor the agreement and, in the same year, refused to supplement a Royal Navy patrol in the Indian Ocean.

The nadir of post-war Anglo–American relations occurred in 1956 with the Suez Canal crisis – the worst crisis between the two countries since 1916. Washington viewed the Anglo–French intervention as outdated gunboat diplomacy and duly brought it to a close by engineering (another) run on the pound.

Despite low points, relations between Britain and America did generally take place on a familiar if not a special footing. The two nations together formed an alliance against Communist expansion, which came into practical effect during both the Malayan and Korean campaigns. These campaigns reinforced the belief that Communism could be contained by the use of force both in the case of internal subterfuge (Malaya) and outright invasion (Korea). It was against the backdrop of the Cold War that the US turned quite naturally to the second major capitalist force in the Western world; to a country that then manufactured thirty percent of Western Europe's industrial output and more arms than the rest of Europe combined.

The basis of Anglo–American co-operation remained, though, firmly rooted in *realpolitik*. America had to share sensitive intelligence material with London, furnish her (despite the McMahon Act) with nuclear technology, and even consult with her over foreign policy, for how else was Britain to fulfil an effective rôle in the defence of American interests? The US

would still act without and decline even to consult Britain when that was what her national interest demanded.

Recently declassified oral evidence illustrates the way in which John F. Kennedy weighed his options during the Cuban Missile Crisis and, on the issue of foreign consultation, he concluded that

"… the last question is the degree of consultation. I don't know how much use consulting with the British has been. They'll just object. Just have to decide to do it. Probably ought to tell them, though, the night before."

Kennedy's sentiment finds a contemporary parallel in the air strikes ordered against targets in Afghanistan and the Sudan by President Clinton. Before that unilateral action in August 1998 Clinton, like Kennedy, saw fit to warn Britain only the night before the attacks took place. Even at the height of post-war relations under President Reagan and Prime Minister Thatcher, this lack of consultation persisted. America's decision to invade Grenada in 1983 was a case in point: despite HM Queen Elizabeth II being the island's head of state, the US failed even to inform the British Government of the invasion.

What thoroughgoing collaboration there has been between Britain and America should not be taken as evidence of a special relationship so much as a contingent alliance born of broad interest convergence and a mutual defence thereof. Even a junior-joint rôle was, though, to prove too much for Britain given her ongoing relative decline – a fact often ignored by the Americans. When Britain reported its post-devaluation decision to reduce her military commitments east of Suez, for example, the Americans were horrified – apparently having endorsed Britain's over-extended and costly military commitments up to that point. 'Be British, George, be British: how can you betray us?' pleaded a Washington official to the then British Foreign Secretary, George Brown.

What joint rôle there was for Britain in the defence of Western interests came under great strain in the 1960s during the Vietnam conflict. When asked to internationalise the force by contributing British troops, Harold Wilson's refusal provoked outcry in Washington. Secretary of State Dean Rusk was openly hostile, remarking that "all we needed was one regiment … don't expect us to save you again"; certainly not the rhetoric of a special relationship. Attempting to warn against the use of nuclear weapons, Wilson's request for an audience with President Johnson was refused. The Prime Minister was informed by the President's advisors that "[he] won't tell you how to run Malaya if you don't tell us how to run Vietnam." In 1966, Britain attempted to sooth American anger by speeding through the British Indian Ocean Territory Agreement, granting joint use of the Chagos Archipelago to US forces.

What thoroughgoing collaboration there has been between Britain and America should not be taken as evidence of a special relationship …

Ever since the Second World War the US had attempted to persuade Britain to take a leading rôle in Europe as well as to continue to project a world rôle militarily. London's resistance to the former injunction stemmed from a suspicion that America was attempting to reduce her European commitments. (British foreign policy was throughout the Cold War to 'the Russians out, the Germans down, and *the Americans in*'.) Resistance to the second injunction stemmed from the staggered process of deconolisation which, coupled with over-reliance upon America, caused Britain to underestimate her need of armed forces possessed of an independent, global reach – including at least the capacity (like that of the French) for the unilateral design, construction, and launch of nuclear missiles and satellites.

After President Kennedy's death in November 1963, what tangible claim Britain had to a special relationship with America was weak. Not only did Britain no longer possess a worldwide defence rôle but she could not even gain access to the European Community. Despite a brief renaissance post-Suez, any idea of a special relationship between Britain and America during this period was erroneous. As David Reynolds put it:

"By the early 1970s Britain had lost much of its special importance for the United States. Germany had replaced Britain as the principal European pillar of NATO, the EEC was a major focus for America's affiance diplomacy, the United Kingdom had little influence on superpower relations, and Britain's economic decline had forced it to abandon its global commitments more rapidly than it intended or the Americans desired."

1979–on

It was not until the 1980s, with Margaret Thatcher and Ronald Reagen, that reference to a distinctly special relationship could be upheld. Born of the shared New Right philosophy of their leaders, Britain and America in this period embarked upon a sustained round of reciprocity.

This reciprocity began in January 1980 when Britain announced her support for 160 US-owned nuclear missiles to be stationed on her soil. Then, in 1981, Mrs Thatcher made a highly publicised and successful visit to the US during which she declared wholehearted support for Reagan's plan for a Rapid Deployment Force to be set up and dispatched to trouble spots worldwide. Britain's reward for such loyalty came in 1981, when the US gave her permission to purchase Trident II at a discount. The US was also, after the failure of diplomacy, to provide assistance to Britain in her Falklands campaign in 1982. Britain's response was swift and in kind, contributing substantial military support to a US peacekeeping force preventing the protrusion of Syria in to the conflict in the Lebanon in 1983. Despite resentment over a lack of consultation, Britain in the same year endorsed America's invasion of Granada.

The Anglo–American relationship, by then well revived, continued to manifest itself in a host of areas, including policy on South Africa and air strikes against Libya in 1986. This sustained period of mutual support was tempered only in 1987 by Britain's temporary refusal to provide minesweepers for America's re-flagging exercise involving Kuwaiti ships in the Gulf. Any idea that the 1980s saw a revival of a distinctly special relationship is erroneous, however, for the period 1963–79 bequeathed no 'specialness' to be revived. One need only consider the hostility between President Clinton and Prime Minister Major over the Bosnian conflict to discern the return of Anglo–American relations to a contingent footing.

Conclusion

Whilst warm, post-war Anglo–American relations have never transcended the *real-politik* demanded of countries inhabiting an essentially anarchic international environment. Long-run interest convergence and a mutual defence thereof does not of itself render Anglo–American relations special. For that reason Britain must not eschew European defence union only to continue its over-reliance upon the United States. Rather, Britain must begin to invest more heavily in her armed forces and reverse the swinging cuts enacted since the end of the Cold War.

At the end of the Cold War, Alan Clark, amongst others, authored the now popular myth that Britain had need only of small, flexible, rapid reaction forces dispatched to low intensity and principally civil conflicts around the world. The myopia of Clark's analysis is evident in the fact that all it would take is an event such as the election of a tyrant in Russia – a not at all fanciful possibility – and pundits would decry the reduction of Britain's armed forces to their present levels. Commentators may speak of 'cutting away the fat', 'preventing overlap', and 'balancing the books' of the forces, yet in truth they have been cut to the bone. Indeed, Washington's praise of George Robertson's Strategic Defence Review was based as much upon its omission of expected defence cuts (in particular, the feared abandonment of a carrier force) as upon its actual content.

Epilogue

RAF Upper Heyford is home to the longest runway in Europe, fifty-six hardened aircraft shelters, and near-unique engine testing facilities (nose docks). Yet since September 1994, the base has been closed and cannibalized by companies awarded contracts to occupy its vast expanse. The local council even wants permission to dig up its runways and shelters for hardcore. There is some pretence that in case of war Heyford and bases like it would be reoccupied in as little as forty-eight hours yet, having visited Heyford, I can report that any such claim is indeed pretence. There is no way Heyford could be reoccupied in so short a time, not least because so much of its essential infrastructure is in disrepair and is presently surrounded by over 50,000 unsold motor cars.

Last month saw the closure of RAF Laabruch in Germany, an impressive base the local community wanted to remain and which, under a decade ago, received over £1m of new investment by the MoD. Britain's military presence in Gibraltar, meanwhile, has been reduced to a token one.

The closure and neglect of vital infrastructure such as bases and ship building yards can not be reversed overnight and modern warfare is unlikely to allow a phony war period during which they might be replaced. For this reason, Britain must act swiftly to reclaim and augment such national treasures as Upper Heyford. Not to do so would have the effect of pushing us toward over-reliance upon America and/or Europe whilst, at the same time, rendering us a less attractive partner to both.

The response of those opposed to greater defence spending is as predictable as it is pertinent: 'where is the money to come from?' This author believes that if raising defence expenditure requires that those wealthy enough to pay for their medical treatment are, as in most other countries, required to do so, then that is a price worth paying. After all, our entire national health might one day depend upon it.

John Tate is Head of Research at the European Foundation, though he is writing here in an independent capacity.

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Liberties, Negative and Positive

by Robert W. Cahn

Some forty years ago, as a lecturer in metallurgy at Birmingham University, I conducted a group of British undergraduates around a selection of European factories and research laboratories. One port of call was the newly established European Coal and Steel Community building in Luxembourg – the first, faint precursor of today's colossus in Brussels. I chose that visit myself, to the mystification of the students, who refused to take an interest in this shiny edifice and the people in it; I think they saw the occasion as a piece of agitprop forced upon them and they resented it. Their unexpected reaction gave me pause; it was the first time that I sensed a hint of danger from what looked at the time to be an innocent enterprise.

I had better start out by explaining how I came to be conducting this tour. Born to a Jewish family in Bavaria in 1924, I was spirited out of Germany in the summer of 1933. My parents had seen how I had been mistreated in my primary school (and that was nothing at all to what was to come later in Germany) and, unlike most other German Jews, they had the extraordinary courage to leave so early, and migrate from considerable affluence into near poverty abroad. For complicated family reasons, I spent three years at an American school in Spain, learnt English and then, caught in the savagery of the Spanish civil war, my mother had to flee again with my sister and me. I joined my father, who was already in England, in 1936. Allowing for little problems like the Spanish debacle, I was still luckier than the great majority of German Jews.

My response to the English language in 1933, at the age of nine, was just like that of a notable historian, Peter Fröhlich, also a German Jew, who became Peter Gay when his family moved to America. In a recent moving essay in *The American Scholar*, he has this to say of his first encounter with the English language in 1937, while still living in Germany: "I took to it as though it were my mother tongue that I had mysteriously forgotten, as through a sudden amnesia … and was reclaiming with remarkable speed. I fell in love with the language and came to regard it as an incomparable vehicle for expressiveness. I still do, and take the many pages I have written in English as so many tributes to what I call my adopted first language." It would be impossible to express this better – and, although I speak several European languages competently, I don't think I could express such a sentiment anything like as convincingly in any of them.

> … a steady stream of directives has poured forth from the Council of Ministers in Brussels on the exclusive initiative of the Commission, and the only task the Westminster Parliament has in this connection is to pass each directive into law

I still recall an overheated essay I wrote for the German paper in my School Certificate examination (the precursor to O-levels), about what England had come to mean to me in two short years living here; rather different, I expect, from the general run of School Cert essays. As I recall, I wrote in the language of Sturm und Drang, but it was certainly written from the heart. I still recall the overwhelming sense of freedom that I experienced, and that I sought to communicate in that essay.

Later, as a sixth former in the opening stages of the War, in the middle of the Blitz, I was exposed to a young zealot who sought to convince me that there was no future for a Jew living in England, that assimilation was a pipedream and that I must prepare to emigrate to a future state of Israel. I had experienced no anti-Semitism up to then (and indeed, in more than sixty years, England has subjected me only to a few trivial instances of that vice) and, detesting overt propaganda even as a schoolboy, I disregarded the pressure. I am by no means anti-Zionist, but am a deeply convinced Englishman and, when in 1947 HM Government agreed to grant me the status of a British subject, a dream had come true. Ever so often I recall the oath of allegiance that I swore to King George and to his heirs – it was no mere form of words to me – and have come to wonder how I can keep that oath if the Queen should cease to be our head of state because the United Kingdom ceases to be a state. (The fact that in two sentences I have referred to "Englishman", "British subject" and "United Kingdom" shows how hard it has become to find the right language for what we now are.) Somehow, I cannot quite see myself transferring the import of that oath to a future Euro-President Schröder, Jospin or Aznar, let alone Santer. Yet what was not even on the horizon 40 years ago, during that curious visit to Luxembourg, has now acquired the attribute of a Tolstoyan inevitability. If there is one thing that is antipathetic to the British political genius, it is a conviction of inevitability. It took another immigrant historian-philosopher, Sir Isaiah Berlin, to make that crystal clear.

I spent two years towards the end of my professional career as a professor (= civil servant) in Paris, and know from firsthand experience the profound difference between the ideals and practice of the British and the French governing classes. I also know, from the experience of a relative who has worked for some years in the Commission in Brussels, that the structure and working practices of that organisation have been determined by French civil servants and politicians. The Germans may have been the paymasters – up to now – but the French set the political tone. Of all the curiosities that I saw during my time in France, the oddest (and it is unknown in this country) is the concept of the *Derogation*: this is a formal permission, granted by a civil servant, for a few citizens (in competition with each other for this purpose) to break a particular French law with impunity.

When I lived in Paris, I read the French press assiduously and was struck by how little the *Assemblé Nationale* featured on the news pages. This may be partly because so much of ministerial decision making in France emerges as "decrees", bypassing parliamentary approval. This, no doubt, is at the origin of the single aspect of the European Union that most upsets me – the prevalence of "directives". The very word, and certainly

the concept it denotes, is profoundly un-British. Yet a steady stream of directives has poured forth from the Council of Ministers in Brussels on the exclusive initiative of the Commission, and the only task the Westminster Parliament has in this connection is to pass each directive into law. Debate is usually irrelevant, as it so often is in France too. I worry about the prospect that a French civil servant might in future offer one of his fellow citizens a derogation from some French law or decree enacted in response to a directive from Brussels; I am told that this would never be tolerated by the Commission – but would they ever find out, I wonder?

Let me return for a moment to the theme of historical inevitability. There is a linkage between the resolute attempt by many of our political and administrative leaders to present the issue of Britain's relation to the European Union as an exclusively economic matter (to be judged by purely economic criteria) and the attempt to persuade the British electorate that our joining the currency union is an inevitable development. The moment that the matter is examined as a constitutional watershed, inevitability goes out of the window. Recent propaganda from Brussels has set out the creation of a federal European state as a necessary corollary of a common currency; a common currency cannot work, we are told, unless the nations of Europe give up much of their separate identity. And that is, of course, true. What we are not told is that the common currency was only dreamed up to enable Brussels to push Europe into a federal state – the federal state is not being called for as a surprising necessity following currency union. I often wonder whether some of my students on that visit to Luxembourg already sensed this.

Perhaps the dishonest disguise of currency union as an economic engine rather than as a locomotive towards political union is not all there is to it. Europhiles often tell us that the common currency offers British ministers a means to 'exert influence', to 'punch beyond their weight', and other metaphors of that kind. The answer to that argument is to remember Isaiah Berlin's distinction between negative and positive liberty. What some of our elite are urging us towards is to give them the opportunity to join in the design of a state which will force us all to live in a particular way (presumably closely resembling the French polity); that is Isaiah Berlin's 'positive liberty'. What I sensed in Britain even as a schoolboy without a vote was the prevalence of 'negative liberty': the presumption that we were all free to follow our own preferred mode of life so long as we did not thereby interfere with our neighbours' freedoms; and the Westminster Parliament was the guarantor of that form of liberty. The systematic downgrading by government of the Westminster Parliament in the past few years (by both conservative and socialist governments, it has to be admitted), accompanied by a drop in press coverage of its proceedings (except for an occasional sardonic 'diary style' caricature), shows that our masters prefer positive liberty – which maximises their own role – to negative liberty, which maximises the freedom of the ordinary citizen. I really am not interested in ministers' (and civil servants') influence in Brussels – or in Paris, or in Bonn; what I care about is my right to determine my own mode of life, and the corresponding right of my fellow citizens to do the same.

Leaving aside the disguised fact that the common currency is really a means to make federal union "inevitable", it is also explicitly presented as a means to strengthen the economic performance of the European countries. At the heart of this is a ferocious rivalry, in the eyes of the French élite primarily, with the 'Anglo-Saxon' world. A few weeks' living in Paris makes this unmistakable obvious. If we were to join the common currency, and *a fortiori* if we were to be embroiled in a federal state, we would be steadily, and irresistible, dragged into systematic economic hostility towards the United States. Political hostility would follow (I am almost tempted to say "inevitably") and before long the ever present American undercurrent of isolationism would re-emerge into the open. The British way of life (here, perhaps, I ought to call it specifically 'English') is linked, to a degree, to the American perception of it as the underpinning of being American. It is noteworthy that an American senator, in discussing something really complex like impeachment procedures, as a matter of course quotes Chaucer and Shakespeare in his support. Things have changed a great deal since Lafayette was a hero of the American Revolution; and, clearly, the French élite backed the American rebels because they were rebelling against the British. Once the British made their peace with the new American government, in the early 19th century, the French cooled. The American government will never quote La Rochefoucauld, or for that matter Machiavelli, when they are trying to puzzle out what to do; although some of the present institutions in Brussels may well call forth the odd quotation from Cervantes! But we might be forced to abandon Shakespeare for La Rochefoucauld once we are part of a federal European polity, and perhaps we shall have to refer to Robespierre rather than to Edmund Burke when we need to appeal to a historical exemplar. The mind boggles.

Those who think as I do are usually termed 'eurosceptics'; sometimes we tremble at this designation and fear that it is synonymous with 'europhobe'. But it is not: 'sceptic' comes from the Greek for 'to think', and I see no reason to apologise for taking thought. What is worrying (if indeed it is true) is that so many of our fellow citizens are said to regard the issue of the common currency (and indeed the use of our membership of the EU itself) as a purely economic matter, to be judged on exclusively economic criteria – and that if early experience of the operation of the common currency proves not to be catastrophic, we should draw the correct conclusion and join it. At the risk of being seen to be repeating a tired metaphor, I cannot think of any better way of describing such an attitude than to call it, in biblical terms, 'selling one's birthright for a mess of pottage'. It goes further even than that for people like myself who were admitted to Britain's hospitable shores long ago. The British concept of liberty is not a birthright for us – rather, it is a right acquired by long residence and steadfast loyalty, sealed by an oath of allegiance. If it is indeed true that adopting the euro means, 'inevitably', adopting a federal constitution, then the arguments which should decide whether or not we individually vote for this course of action should be wholly political and not at all economic. This is especially true for those of us who have had close experience in our childhoods of other polities. I would rather live in relative poverty, but in freedom, with an effective parliament in place, than in (predicted) affluence as a near slave, with my acquired birthright sold by my governors in exchange for their influence in distant places.

A key test of the primacy of political over economic considerations is to see what the Swiss will do. Up till now, the German

speaking Swiss have kept to their very fierce devotion to political liberty and scotched their financial elite's attempts (backed by the French speaking Swiss) to drive them into the European Union. It seems that these attempts are starting up again. If even the independent Swiss are persuaded into joining a European state, then I would judge that our cause has become hopeless. We shall see.

I have just referred to 'voting'. If the present government is re-elected in 2002 and it then seems unlikely that it can win such a referendum for joining the common currency, we may see a repeat of what happened in Denmark a few years ago, and see a repeat referendum called when the eurosceptic camp has run out of resources. We may eventually be driven to the point where the only means left for the eurosceptic camp is demonstration in the streets. Unfortunately, we don't grow artichokes in this country; there is nothing more effective in blocking a highway. De Gaulle once remarked that he could not really hope to govern a country with 264 (or whatever the number was) different kinds of cheese. In Britain, we have a large number of different kinds of apple…

Robert Cahn was for many years professor of materials science at Sussex University and is now emeritus professor. He is currently a Distinguished Research Fellow in Cambridge University and remains active in writing and editing. He is a Fellow of the Royal Society.

The article above is an extract from the recent Bruges Group pamphlet advertised on p. 29.

Defence Expenditure Among Nato Countries

Compiled by John Tate, Head of Research

Statements in this month's journal on the comparative defence expenditure of European nations and the United States should be seen in the context of the data below.

The data show that Britain, Greece, and the United States stood alone during 1975–89 in devoting over 4% of their gross domestic product to defence. The data also reflect the tendency of countries bordering much larger economies to take advantage of their strategic positions effectively to 'free-ride' upon their neighbours' defences. Canada and Luxembourg are cases in point; their defence expenditure fell as low as 1.3 and 0.8 of GDP, respectively, despite their relative wealth.

High spending by Greece and Turkey upon defence has in part been due to the tension between the two countries over Cyprus and in the Aegean, though Turkey's spending was bolstered by its (a) having to defend a long land boarder with Syria, the Soviet Union, Iran, and Iraq; (b) its oppression of the Kurds; and (c) its long-term suppression of political Islam.

Defence Expenditure as a Percentage of GDP, 1975 to 1998

Country	Average 1975–79	Average 1980–84	Average 1985–89	Average 1990–94	1994	1995	1996	1997	1998[1]
Belgium	3.2	3.3	2.8	2.0	1.7	1.6	1.6	1.5	1.5
Denmark	2.4	2.4	2.1	1.9	1.8	1.7	1.7	1.7	1.6
France	3.8	4.1	3.8	3.5	3.3	3.1	3.0	3.0	2.8
Germany[2]	3.4	3.4	3.0	2.2	1.8	1.7	1.7	1.6	1.5
Greece	5.6	5.4	5.1	4.4	4.4	4.4	4.5	4.6	4.8
Italy	2.1	2.1	2.3	2.1	2.0	1.8	1.9	2.0	2.0
Luxembourg	0.9	1.1	1.0	0.9	0.9	0.8	0.8	0.9	0.9
Netherlands	3.1	3.1	2.9	2.4	2.1	2.0	2.0	1.9	1.8
Norway	2.9	2.7	2.9	2.8	2.8	2.4	2.2	2.1	2.1
Portugal	3.4	3.0	2.8	2.7	2.6	2.7	2.5	2.5	2.4
Spain	-	2.4	2.2	1.7	1.5	1.5	1.5	1.4	1.3
Turkey	4.4	4.0	3.3	3.8	4.1	3.9	4.1	4.1	4.4
United Kingdom	4.9	5.2	4.5	3.8	3.4	3.1	3.0	2.8	2.7
NATO Europe	**-**	**3.6**	**3.3**	**2.7**	**2.4**	**2.3**	**2.3**	**2.2**	**2.2**
Canada	1.9	2.1	2.1	1.9	1.8	1.6	1.5	1.3	1.2
United States	5.0	5.8	6.3	4.9	4.3	4.0	3.7	3.5	3.3
NATO Total	**-**	**4.6**	**4.8**	**3.6**	**3.3**	**3.0**	**2.9**	**2.8**	**2.7**

NATO definition of defence expenditure as a proportion of gross domestic product based upon current prices. Figures are for financial year with most months in fiscal year (i.e. 1996 is 1996/97 for UK).

[1] 1998 figures are estimates.

[2] These percentages have been calculated without taking into account the expenditure for Berlin.

Sources: NATO press release M-DPC-2(98)147: 'Financial & Economic Data Relating to NATO Defence', Table 3, and earlier editions.

The European Foundation

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

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