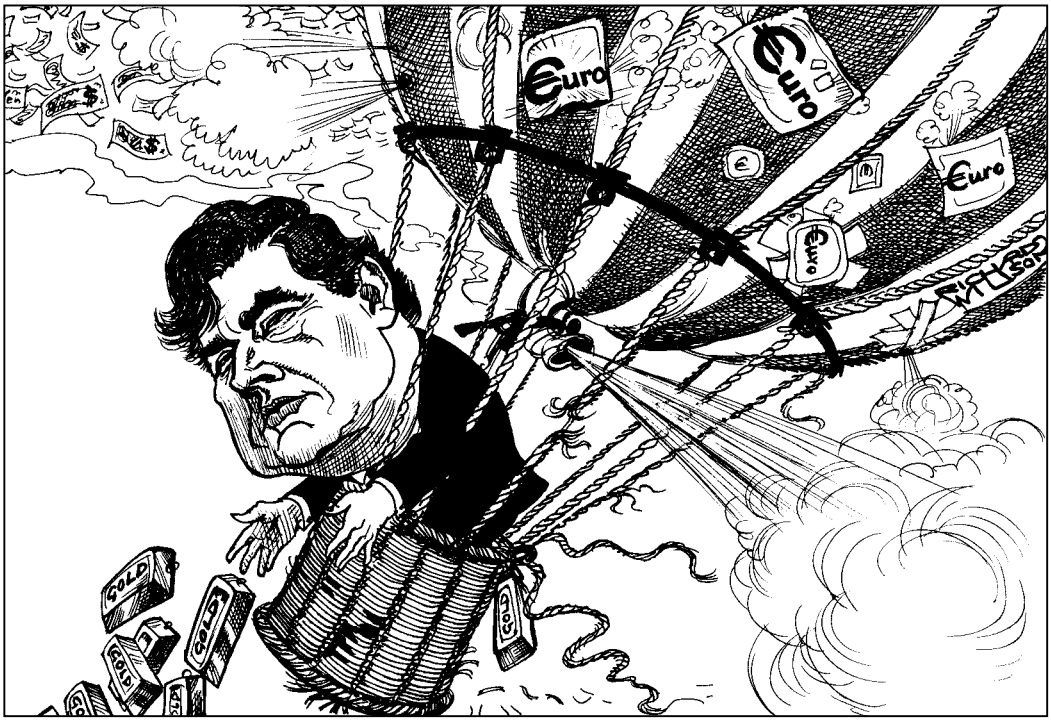
January/February 2001 Volume 8 Number 3
£2.50

THE EUROPEAN JOURNAL

The Journal of the European Foundation



Haruko Fukuda
EMU, Gold and the New Economy

&

Bill Cash, MP • Marc Glendening • Prof. Dr Wilhelm Nölling
Allister Heath • Dr Charles Tannock, MEP • Henri Lepage
Iain Duncan Smith, MP • John Tate • Sheldon Richman
Peter Oborne • Allan Lloyd • Austin Mitchell, MP
Keith Marsden • John Kissin • Dr Lee Rotherham

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

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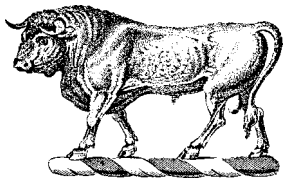
Editor: Tony Lodge
Executive Editor: Allister Heath

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

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

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Typesetting by Nelson & Pollard, Oxford



Extending eastwards – the German answer to the German question

As *The Times* pointed out on 24 January, the European Foundation has been one of the the few organisations to address the issue of Anglo–German relations in the context of the European Union. I devoted two chapters to the German question in my first book *Against a Federal Europe* in 1990. I followed this through with two pamphlets on the matter, *German and British National Interests* and *Response to Chancellor Kohl* (all three publications are available from the European Foundation) and have raised the issue many times in the House of Commons.

Ever since the Soviet-German treaty of 1990, the balance of power in Eastern and Central Europe has gradually been shifting Germany's way. In the dying days of the old USSR, on 9 November 1990, Mikhail Gorbachev and Helmut Kohl signed a bilateral treaty of friendship and co-operation between their two countries. The document makes fascinating reading. It contains in particular an annex detailing the planned development of a framework for economic, industrial, commercial, environmental, scientific and technical co-operation.

The Treaty remains surprisingly contemporary. I have been watching the developments in German–Russian relations for many years now and the situation is coming to a head, with grave implications for the future geopolitical stability of Europe. To understand way this is the case, it is necessary to realise just how bad the economic and political situation is in Russia today.

Latest estimates put Russia's economic growth for 2000 at 7% and government spending up by 28%, excluding interest repayments. The economy is slowing, with industrial output down in both November and December and will probably see another decline in January. This is confirmed by a recent surge in unemployment. Deregulation proposals have been shelved, housing has not been reformed, government expenditures have not been cut and inflation is on the rise.

This means that it is virtually impossible for Russia to repay its huge public debts. It owes Paris Club lenders around £32 billion, 40% of which is owed to Germany alone. According to the World Bank's *Global Development Finance 2000*, Germany also has a sizeable stake in Russia's total $183.6 billion foreign debt. Russia's foreign creditors and hence especially Germany therefore exert a huge amount of influence in Moscow. At the same time, the lenders do not want Russia to default unilaterally, because they would lose much of their money.

There has thus been much negotiating, especially between Russia and Germany. Russia signed a debt rescheduling agreement in Berlin on 26 July 2000, which implements an earlier multilateral agreement that was reached in Paris in August 1999. The July agreement was accompanied by a series of contracts on export credit guarantees provided by a German state-owned export credit agency, Hermes. More recently, Werner Müller, Germany's economic minister, met his Russian counterpart in Berlin on 12 December 2000. It was reported at the time that they had agreed "in principle" to convert about $14 billion of German-owned Russian debt into equity in Russian companies. One possibility under discussion is that German firms would increase their stake into Russia's giant energy conglomerate Gazprom (Ruhrgas presently owns 4% of the Russian firm.)

Given the corporatist and monopolistic nature of much of the Russian economy, large stakes in some such key companies would dramatically increase Berlin's influence over Moscow. German companies would gain access to the most recent Russian blueprints, intellectual property and technology, which Russian firms don't have the capital or economic capacity to develop. Additionally, Russian natural gas exports already account for 35% of Germany's total annual consumption, thus further increasing Russian economic dependence on that country. The ghost of Willy Brandt and *Ostpolitik* is deep in the Social-Democrat psyche.

There are other – albeit closely related – reasons for this rapprochement between Russia and Germany. Vladimir Putin is a Russian nationalist who bitterly resents being dependent on America and what he perceives as US-dominated bodies such as the IMF or the World Bank. He resents the fact that America didn't wipe out the Soviet Union's debt after the dissolution of that empire (the debt was instead passed on to Russia). He has the choice between building an alliance either with China or with Europe. There is an ultimately insurmountable problem with China. Many senior figures in the Russian intelligence services and armed forces believe that the Eastern giant has long-term plans to take over large parts of Russian territory. Europe is therefore the only practical option, and Germany the increasingly dominant power in the EU. This will be even more so following Eastern enlargement, thanks to massive investments in the area, as I detail below. Mr Putin has therefore turned to Germany. This is because from Russia's perspective, the EU's plans for a "rapid reaction force" – and therefore Germany's plans, as the two are basically one and the same – entailing the emasculation and eventual abolition of NATO seem obviously against America's national interest. Helping Germany, Mr Putin probably believes, could thus eventually help Russia by strengthening the EU and hence leading to American withdrawal from Europe.

This is confirmed by the reported recent redeployment of tactical nuclear weapons in the Russian enclave of Kalingrad on the Baltic Sea. The move had been mooted for a long time as a response to NATO's planned eastward expansion and in particular the possibility of Estonia, Latvia and Lithuania joining the alliance. It is important to realise that the return of nuclear weapons to Eastern Europe would be an anti-American move rather than an anti-EU policy. The situation is complicated by other reports that Russia is prepared to cede Kalingrad to Germany – the first change of European borders since 1945, with the exception of the Balkans.

Fighting the EU Culture Wars

by Marc Glendening

EU-scepticism may be winning the intellectual conflict, but it is losing the *cultural* war of position. The EU-statists, and their Third Way allies in Britain, understand that it is the way in which ideas and campaigns are represented symbolically, rather than their actual content and relation to reality, that increasingly determines who wins politically. Just as western liberalism lost the propaganda war to totalitarianism among large sections of the intelligentsia in the last century, so the Pan-Europeanists are today outmanoeuvring the forces of democratic pluralism. Their well-supplied battalions are seizing control of the commanding heights in a number of cultural terrains, and meeting little or no resistance.

Like all authoritarian regimes, Brussels devotes vast sums of public money in order to influence the way the EU is portrayed in the media, education, the arts, civil society, as well as through more conventional political channels. In addition to its own direct initiatives, the EU funds a series of organisations, such as the Union of European Teachers, the Association of European Journalists, the European Youth Parliament, the Women of Europe Award and numerous others. These are reminiscent of the dense network of front operations established by the Comintern in the pre-war era.

The cultural and political reprogramming of youth is, of course, a major priority in this campaign. Jack Lang, the French education minister, has said, "It is our responsibility to secure the psychological and intellectual foundations of political Europe. It is up to each member state to create within its frontiers a new state of mind which will make our citizens from the tender age, European citizens." In May 1988, the Council of Ministers passed a resolution (88/C–177/02) which imposed upon the member states an obligation to "strengthen in young people a sense of European civilisation … to make them aware of the advantages which the Community represents."

The European Commission's UK office has for some time been involved in child indoctrination, despite the repeated denials of its smooth-tongued chief representative, Geoffrey Martin. The European Parliament has pitched in with its sponsorship of the hilariously, though unintentionally, high camp *Captain Euro* web-site. This features a very Aryan looking 'super-hero', and his equally blond female assistant 'Europa', both wearing unisex blue and yellow jump suits, who do battle with an evil group of Eurosceptic terrorists led by the sinister (and distinctly non-Aryan looking) Dr D. Vider (geddit?).

The New Labour élite is enthusiastically throwing its weight behind the drive to change the identity of a generation. In a leaked memo from May 2000, Sir Stephen Wall, then Britain's ambassador to the EU, wrote: "[With respect to] education, the EU is only in the GCSE modern history curriculum thanks to the FCO pressure on the DfEE last year so I suspect there is a lot more that can be done. Something I plan to pursue in a future incarnation." That 'future incarnation' being his current job as head of the EU secretariat in the Cabinet Office.

The DfEE's website promotes the 'educational' output of the Commission and encourages schools to invite speakers from the European Movement and the Chambers of Commerce. Pro-EU propaganda has been introduced into the new national curriculum under the guise of providing children with a 'European dimension'. Schools are being instructed to organise 'Europe Weeks'. The DfEE makes helpful suggestions concerning topics that can be incorporated into research projects, including reflecting "on the meaning of European integration to ordinary people", how EU directives help the environment, and going into the community to find out "How familiar are local residents with metric weights and measures?" and "How would they cope with a new currency, and do they like the idea?"

Last year, the FCO organised an art competition for school kids entitled *My Vision of Europe*. The Minister for Europe, Keith Vaz, patted the lucky winners Saddam Hussein style as they went up to receive their prizes.

The government is also using citizenship studies, which will become part of the national curriculum in 2004, as a cover to

… continued from page 2

Vladimir Putin's desire to re-establish his country as a world power to rival the United States is so overriding that that he is apparently even prepared to return the fabulous Schliemann treasures stolen by Russia at the end of the Second World War from occupied Berlin in exchange for debt relief. This would truly be a gesture of immense political symbolism and would prove that Mr Putin is serious when it comes to cementing a political alliance with Germany.

The German-Russian rapprochement is particularly sensible given that a new voting system was introduced at Nice which will especially benefit the German government. 'Double majority' voting requires two conditions to be met for a decision to be adopted. First, a proposal must garner 258/345 or 74.78% of the votes in the Council of Ministers. Second, the proposal must be backed by countries representing 62% of the EU's population. Thanks to this second clause, Germany and two other large countries – such as France or Italy – will be able to block anything they do not like, whereas Britain will need more than two other countries to vote with her to oppose undesirable decisions. In the world of *realpolitik*, Germany will be able to count almost automatically on the votes of countries that are dependent on its subsidies (channelled through Brussels). Gehrard Schröder has basically succeeded in establishing Germany as the EU's "first among equals".

We should all heed Winston Churchill when, at the Ditchley Park conference during the Second World War, he called for a "balance of virtue" in Europe rather than a balance of power. The least virtuous circle would be the idea of any one country having a disproportionate influence on the rest of Europe. The matter is crucial to the future direction of the European Union, for the restoration of British democracy and for American national self-interest.

Bill Cash, January 2001

indoctrinate. In the meantime, the Institute for Citizenship, whose chairman is the former speaker, Lord Weatherill, has taken the initiative with its 'Speak Out!' project. This has the official support of the DfEE and Tony Blair, and receives £150,000 from the EU and additional finance from big companies such as Cable and Wireless and WH Smith.

The campaign is driven by Magdalena Larsen, a young Swede who looks more like Anthea Turner than the Rosa Clebb figure I had envisaged (and perversely had hoped to meet) before visiting the Institute late last year. She told me that the aim of the campaign was primarily to acquaint pupils with EU institutions since they are now its citizens. However, even a very brief read of the *Speak Out!* teacher's guide shows this answer to be highly disingenuous. Why then, I asked, was there a section on the single currency when Britain has obviously not adopted the euro? The line suddenly changed. "This is because we want to stimulate debate", Magdelana told me. Why then was the unbalanced introduction to the single currency provided by the CBI, with no countervailing piece by, say, Trade Unions against the Single Currency? "We want to stimulate debate", Magdalena repeated, sounding like a Stepford Wife whose internal mechanism had got jammed.

And, why did the teacher's guide state that three out of four businesses support the single currency? What was the source for this?, I asked. All Magdalena could do was to refer me to the *Guardian*'s 'EMU frequently asked questions'. I looked up the article. There was no reference given for this assertion made on 2 January 1999. Now millions of school kids are having this relayed to them as fact, thanks to the Institute.

Each section demonstrates this type of outrageous bias. The piece on the single market is written by Peter Spoor of the FCO. The contribution on human rights by Charter 88 informs us that the EU has had a "significant development on human rights in Europe". A new one on me. Why wasn't a representative of StateWatch, the left-wing civil liberties group, given the opportunity to point out the threats to freedom posed by Europol?

Which EU-sceptics were consulted in the drafting of *Speak Out!*, I rhetorically asked. Pleasant looking though she may have been, Magdalena was beginning to sound ominously Clebb-esque. She gave me increasingly 'trad' East European sounding responses: "We consulted teachers and students across Europe. This is what they wanted." Who were they and how were they selected? "They covered all opinions, they were people in touch with the Institute." I tried again. Did these teachers include, by any chance, the Union of European Teachers (an EU front operation)? "Yes", she confirmed.

Formulating a strategy to try and counter this cultural onslaught by the EU is going to be extremely difficult. Obviously, the EU-sceptics do not have access to public funds nor possess a guiding strategic intelligence.

An obvious starting point in our counter-offensive is to try and make the way in which the EU-statists are seeking to indoctrinate kids itself a major public issue. On a more positive note, we, collectively need to develop imaginative initiatives in the cultural sphere. One 'Popular Front' type operation worthy of support that is seeking to take on the Pan-Europeanists in the terrain of education and youth culture is *Youth for a Free Europe*. The two founders, John Corouble and Carishma Gillani, are respectively Labour and Tory. YFFE organised the sending out to Denmark of young volunteers during the referendum campaign. One of its objectives is to communicate the argument that the EU is an out of date, authoritarian construct shaped by the centralist impulses of fifty years ago. The vocabulary and imagery YFEE employs are high-tech and post-modern. It seeks to tap into the natural disdain that younger generations have for the political class and the elitist decision making structures that so characterise Brussels. YFFE seeks to expropriate the discourse of the future.

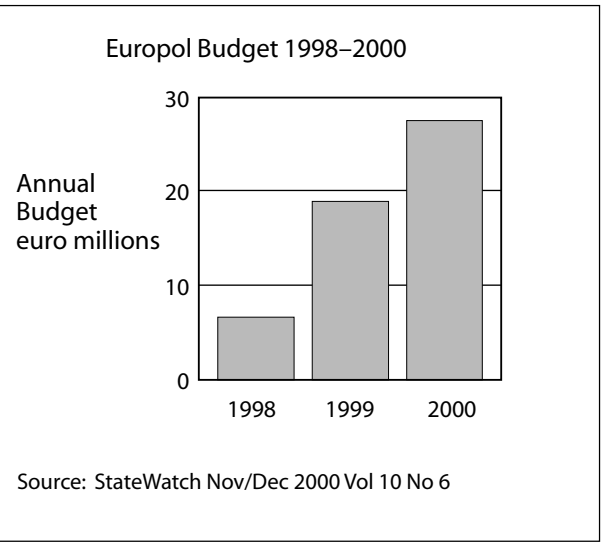
YFFE is currently a peashooter up against a massive army. However, it is one of the few organisations on our side thinking culturally. Unless the democratic national movement breaks free from its collective sentimental obsession with traditionalist symbols and rhetoric we are doomed to defeat. The choice is ours.

Marc Glendening is Campaign Director of the Democracy Movement. Youth For a Free Europe can be found at www.free-europe.org.uk

… news in brief

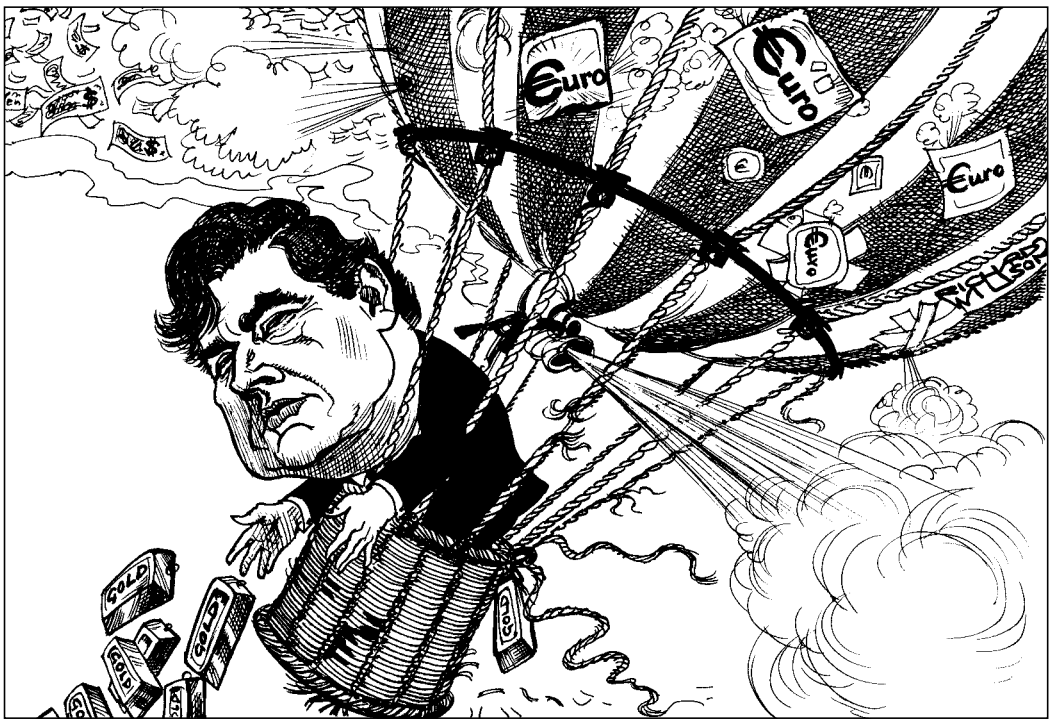
Government decides prosecutions in Serbia

Curiously, a basic principle of democracy has been overlooked in the new democratic Serbia: the principle that the government should not be responsible for criminal prosecutions. Ministers in the new Serbian government have been urged by their Western counterparts to undertake to have the former federal president, Slobodan Miloševic arrested. This is not normally the business of the government but of the judicial authorities and the police. But the new PM, Zoran Djindjic has said that his government intends to arrest Miloševic to "show our determination for law and professionalism." The new Justice Minister, Vladan Batic, shortly before his appointment was confirmed, said, "as soon as the new government is formed, criminal proceedings will be triggered against all suspected leaders of the Miloševic regime." No doubt many governments would like to be able to order arrests, especially of the leader of the opposition, but it is difficult to see how this is compatible with the basic principles of the rule of law.



EMU, Gold and the New Economy

by Haruko Fukuda



The world economy has fared quite well over the last few years. Real output growth, which averaged an annual 3.2% between 1982 and 1994, has increased to 3.6% a year since. Such large macroeconomic statistics are sometimes difficult to visualise, so think about it this way – it is as if every year another British Isles has landed on earth from outer space.

Unlike the boom of the 1980s, this growth has not been bought at the expense of higher inflation. Prices in the world economy soared by 7.7% a year between 1982 and 1991. Since 1992 they have risen by just 3.9% per year on average.

One of the reasons inflationary price pressures have been wrung out of the system was the decision by governments to allow central banks unprecedented independence in setting monetary policy. They did this because they were impressed by both the empirical evidence – in particular the success of the US Federal Reserve and the German Bundesbank – as well as by the theoretical arguments of monetarist economists who argue that there is no long-run tradeoff between inflation and output.

Despite the lack of inflationary stimulus, growth has flourished as predicted. Nevertheless only a few years ago it was commonplace to hear economists argue that nothing out of the ordinary was happening. Certainly, they said, growth rates of 3% are good, but not *that* good. They argued that we were just enjoying a standard cyclical recovery after the worldwide recession of the early 1990s.

More recently, many commentators and even central bankers have decided that things may now be different after all – that the world economy is set for a historically unprecedented era of rapid growth. They argue that massive computing power coupled with increased spending on information technology, harnessed together by the internet, is ushering in a new era of 'friction-free capitalism' – the New Economy.

Yet again, the evidence comes from the United States. Americans have more computers and make more use of the World Wide Web. In 1999 they spent twice as much on IT as the European Union; and 43% of American households are connected to the Internet, compared with only 34% in Europe. The effort seems to have paid off. After years of lagging behind other countries, US economic growth has leapt ahead. In the last quarter of 1999, in the eighth year of economic expansion, it reached an annualised 8.3%.

Perhaps not surprisingly, this has delighted equity markets. The Dow Jones Industrials Average closed at the end of November 1991 at 2,894; by late January 2001 it stood at 10,587, more than three times higher, despite having fallen back from an earlier peak. The early 1990s, when corporate America was facing an onslaught from more efficient Japanese and European competitors, seems a long time ago. Now Europe and Japan are scrambling to catch up.

However, despite the numerous successes of policy makers and free-market capitalism over the last decade, stable growth and low inflation have not brought stable financial markets.

Equity and bond markets are extremely jittery. Technology stocks with valuations based on the expectation of massive future profits are especially prone to sudden re-rating. The Nasdaq 100 – the premier global technology stock index – has risen or fallen by more than 5% on at least 15 days in 2000, compared with just 12 in its previous 28-year history. More broadly based markets such as London's FTSE-100, are also much more volatile. Twelve of its fifteen largest falls in history took place in 2000. In the debt markets, while government bonds have been relatively stable, corporate bonds have dived.

Currencies, if anything, have fared even worse. As all those whose business relies on exports know, the pound has been worth as

little as 2.2 Deutschmarks and as much as 3.41 DM in the last five years. The Australian dollar hit a record low against its US equivalent last month. Other Asian currencies, only just recovering from the 1997 economic crisis, are plunging again.

Certainly even its biggest supporters have to admit that the euro's performance since its launch – a triumph on technical grounds – has been less than successful. On 1 January 1999 one euro bought US $1.17. Towards the end of 2000, one euro could buy 82.5 US cents, a fall of nearly a third.

The reason for the euro's weakness is not that markets believe it to be an inflationary currency. If that were the case investors would not be willing to lend money to the Italian government for a return of only 5.4% a year.

Instead the most common explanation for the currency's poor performance is that investors view European companies as throttled by over-regulation and inflexibility and would therefore rather put their money in America. Since the single currency's launch on 1 January 1999 there have been over $750 billion of capital flows from the rest of the world to the US, including $275 billion of investment in stocks, bonds and acquisitions of US companies by Europeans.

Policy makers have tended to regard financial and foreign exchange market volatility with relative insouciance. In the main this is due to the extraordinary confidence markets have in the US dollar and US economic policy makers, especially Alan Greenspan, the Chairman of the Federal Reserve. What are the risks involved in such great dependence? Is the world wise to put all its trust and faith in one country, one institution, one man? During the recent US election campaign, the world appeared to be more concerned with whether Mr Greenspan had a tummy ache than with who the next President of the United States would be.

I have already touched upon the nervousness of world capital markets. Their continued success is inextricably linked with the continuing success of the US economy. Recent economic data suggests that the New Economy is after all subject to the normal laws of business cycles, with growth slowing sharply. Further concern comes from the recent rise in the price of oil, which despite new technology remains of crucial economic importance. If these trends continue, stock prices could fall markedly, reversing the direction of capital flows across the Atlantic.

This would turn the spotlight onto the growing US current account deficit, which has been largely ignored by policy makers and the markets, despite sliding into the red faster than at any time in post-war history. This year alone it is estimated to reach 5% of GDP, pushing America's external liabilities to well over $6 trillion.

I am not predicting an imminent crisis of confidence or a collapse of the dollar – I am sure it will remain a world currency. But it is fair to say that a growing number of economists are worrying about the sustainability of the US external position and currency. Therefore, it is only prudent to look for means of reducing the risks of over-dependence on one currency.

One answer, which is often given by economists, is to diversify into euro or yen denominated assets. But just as with the dollar, the value of any other paper currency depends on the policies of its issuing government. Increasingly, these policies are linked to those of the Federal Reserve. At one extreme, this takes the form of 'dollarisation', a growing trend in South America, for example. At the other extreme, countries with flexible exchange rates still cannot escape the pervasive influence of US monetary policy. Thus how much diversification do other paper currencies really offer?

This is where I see one of a number of roles for gold. Gold is unique in that it is not directly influenced by the economic policies of governments. Studies show a marked negative correlation between the performance of gold and that of other financial assets.

History shows that countries have often defaulted on their debts, or depreciated them severely – an option that is always open to a government whose liabilities are mainly denominated in its own currency. Repudiation has occurred in extreme circumstances in the past with fiat money and government securities. Gold provides a measure of protection from such unilateral actions.

It is not unknown either for countries to impose exchange controls affecting the free transfer of their currencies or, at worst, total asset freezes that prevent other countries accessing their cash or securities. Gold is much less vulnerable. Since a major reason for holding reserves is to be confident that they are immediately available in times of need, total and incontrovertible liquidity is essential. Gold provides this.

There is also a more fundamental reason to hold gold. Although gold theoretically ceased to have a monetary role at the multilateral level in 1978, when the International Monetary Fund forbade the linking of currencies to it, in practice the major economic powers continue to hold large amounts of gold because no one knows what monetary system will be in place in twenty or fifty years' time. Gold, with its key qualities of diversification and security, and with its natural role as a store-of-value, may well regain an official role. Those countries that hold it will be glad they do.

It was for all these reasons that the World Gold Council strongly opposed the sale of gold by the British Government. The ongoing auctions will reduce holdings to only 7% of our external reserves, compared with 30% to 40% for France and Germany. Whereas the British government will hold just 300 tonnes of gold in reserve when the last auction is over, Germany will hold 3,469 tonnes, and France over 3,000 tonnes. I believe this to be a shortsighted policy. Students of history will remember that when in the darkest days of December 1940 and January 1941 Churchill requested war supplies from the US, Roosevelt demanded Britain pay for it in gold. He even sent a warship to Simonstown, where Britain's gold reserves were then held, to collect it.

The benefits of IT and the Internet, together with sensible and prudent management of monetary policy, have undoubtedly put the world economy in good health. Nevertheless, risks remain from a multitude of sources, risks that I believe gold can help mitigate. In short, I would argue that owning gold is an option against an unknown future. It is a worthwhile price to pay for insurance against an improbable but, if it occurs, highly damaging event.

Before ending this article, I would like to make clear why I think Britain should stay out of the euro, because I am often asked whether staying out would adversely affect foreign inward investment into Britain, such as that from Japan. There has been much media hype about how a Japanese motor company is responding to

the relative strength of sterling by postponing further investments or invoicing component suppliers euros. But the issue is not the strength of sterling. The problem has been the collapse in the value of the euro.

Unfortunately, discussion of relative currency strength has obscured the real issues in the euro debate. Although we are not part of euroland, investment into Britain is at record levels. British manufacturing output has never been higher and Britain now produces more cars than at any time in the last 22 years. In a recent survey of their future investment intentions, the heads of the world's 1,000 largest companies said that Britain was the second most attractive investment location in the world.

In fact, the real and urgent threat to British industry is that we might join the euro. One of the main reasons why investors choose Britain over the continent is our lower levels of taxes and lighter regulation, fought for and won in battle after battle over the last 20 years. As the President of the Japanese electronics firm NEC said recently: "Britain is a very free country, and it's very easy to set up an organisation in the UK." These victories would be under threat if we were to join Stage III of Economic and Monetary Union.

Of course the weakness of the euro has posed problems for British exporters, of which car manufacturers are one example. But these companies are not representative of all investors into Britain. The car industry represents less than two per cent of total investment into the UK (and is also suffering from global over-capacity). We have not heard much about the flood of American investment into Britain, for example from financial services companies, but it is happening all the same. Companies invest where there is economic prosperity and a welcoming business environment. Britain has proved that she provides these.

Many companies seem to have forgotten our experience with the ERM. Our economy is still very different from the continent's. As we found during the ERM, fixing exchange rates with the Eurozone economies destabilises the rest of the economy. One million people lost their jobs, 100,000 businesses went bankrupt and 1.75 million people slipped into negative equity. Were we to join the euro we would risk the same fate – but this time there would be no way out.

These companies are only considering the benefits of the euro and are ignoring its risks. It is already clear that the 'one-size-fits-all' interest rate set by the European Central Bank cannot suit every country in the Eurozone. The European Commission has warned that inflation in five of the twelve euroland countries could become a cause of concern because the Eurozone's interest rate is too low for their economies. Sir Edward George, the Governor of the Bank of England, has expressed "relief" that Britain did not join the euro last year for exactly this reason.

Despite ten years of rhetoric from Europe's political leaders, there are 12 million people unemployed in the Eurozone. Its unemployment rate is twice that of Britain. Euroland's unfunded pension systems will prove to be an even more serious long-term problem. The West's ageing populations mean that there will be ever fewer people of working age to pay for ever more people of retirement age. Britain is well placed to meet this challenge since it has more money invested in funded pensions than the rest of Europe put together. Germany could be paying a sixth of national income in 2030 to fund its state pensions – three times as much as what it will cost Britain.

Britain has a choice. It can remain a 20th century economy or embrace the 21st century. The pro-euro lobby wants Britain to join a project and an economy rooted in the last century. But America has shown how growth and employment can be fuelled by new technology. Britain is already the leading country for e-commerce in Europe. We have a golden opportunity to move ahead by staying out of the euro and keeping control of our economy.

Haruko Fukuda is Chief Executive of the World Gold Council.

… news in brief

Another Maastricht signatory arrested

The curse of Maastricht struck again as the former French Foreign Minister, Roland Dumas, became the latest in a long line of politicians associated with the Maastricht treaty to have been involved in serious corruption scandals. The leading politicians at the time, Helmut Kohl and François Mitterrand, have become embroiled in serious corruption scandals, including allegations which concern them both: it has been claimed, but denied, that kickbacks were paid to Helmut Kohl's Christian Democrat Party by the French oil company Elf when Elf bought the Leuna oil refinery in East Germany. This allegation is part of a much wider scandal which has engulfed the German Christian Democrats, which Kohl led for two decades, and in which it has been shown that the party ran a series of secret bank accounts into which donations were illicitly placed. Elf is also at the centre of the Dumas scandal. Roland Dumas, life-long friend of François Mitterrand, Foreign Minister, signatory of Maastricht and, until his resignation last year, president of the French Constitutional Court (i.e. the supreme judico-political body in the land) has been accused of accepting bribes for the sale of frigates to Taiwan. Further piquancy is added to the charges in that the bulk of the dirty money paid to Dumas was in fact paid to his mistress at the time, Christine Deviers-Joncourt. Now that the case has finally come to court, Dumas is accused not only of the initial acts of corruption but also of obstructing the course of justice. The accusation against him says, "It has to be stated that, from failures to reply to culpable omissions, half-truths and outright lies, Mr Dumas has demonstrated throughout the investigation a determination to dissimulate and hide the truth which has even led him into self-contradiction when presented with evidence." [*Le Monde*, 23rd January 2001] Other signatories of Maastricht include the Italian Foreign Minister, Gianni de Michelis, who served a two-year prison term for corruption, and the former prime minister of Italy, Giulio Andreotti, recently acquitted after a long trial in which it was alleged that he was associated with the Mafia.

"The things that happen in England"

The London correspondent of *La Repubblica* has written with incredulity of the sacking of Peter Mandelson. "Blair's best friend, the strategic genius of New Labour, the most pro-European minister, Peter Mandelson has fallen for the second time for an infraction of the professional rules which would make Montecitorio (the Italian parliament) into a desert (i.e. if such rules were applied in Italy)." In other words, ringing up the Home Office to ask about a passport application would be regarded in Italy as a normal part of the political back-scratching process. [*La Repubblica*, 25th January 2001]

Has the Euro Lived Up To Expectations?

by Prof. Dr Wilhelm Nölling

Preparations to introduce a new European currency began in the early 1970s. The so-called Werner Report of October 1970 spelt out the numerous conditions required for success, but the difficulties involved meant that the idea was temporarily put to rest. Following the publication of the Delors Report in April 1989, which included detailed plans for Economic and Monetary Union, one of its principal contributors, the then President of the Bundesbank Karl Otto Pöhl, commented during a Central Bank Meeting: "In my lifetime we will not see a common currency."

However, only two and a half years later the Maastricht Treaty was signed – kick-starting the process towards EMU. Its strict timetable was supposed to lead to common efforts to establish the preconditions for the greatest currency experiment in the history of mankind. As it turned out, basic prerequisites such as political unity, real progress in productivity, the harmonisation of fiscal policy, the removal of important legal restrictions and the completion of the internal market were not met. The euro was launched regardless on 1 January 1999. The adventure had begun in earnest a little earlier, in the summer of 1998, with three countries, Great Britain, Sweden and Denmark opting out of Stage III and Norway remaining outside of the EU.

The sheer magnitude of the project was bound to elicit strong feelings. Politicians, economists and numerous citizens all across Europe began to debate the pros and cons of a single currency. Two sets of expectations evolved: category one I like to call 'positive expectations' – hope, wishes, goals, promises and advantages. The second category, 'negative expectations' is that of fear, risk, disadvantage, dangers to individuals, businesses, sectors of the economy, nation states and Europe as a whole.

An official propaganda exercise was started to talk up the benefits of EMU. The single currency would result in more solidarity, they said, as well as more political co-operation and unity, making the EU a stronger participant in world affairs. EMU would also serve as an instrument to bring about institutional reforms in Europe. Economic advantages would include the removal of transactions costs, enhanced cross-border price transparency, more competition and increased economic growth, productivity and employment. In addition, the enlargement of financial markets would mean easier access to a larger pool of capital at lower prices and the reduction of risk premiums. In order not to sow the seeds of doubt and endanger its acceptability, especially among Germans, advocates of EMU shied away from encouraging public debate and played down its real and perceived risks.

Negative expectations with regard to political and economic developments centred on the fact that even though EMU's critics accepted that the project could bring major economic advantages, they strongly disagreed that EMU was a suitable instrument to bring political progress to Europe. They denounced the undertaking as irresponsible, not least because an 'emergency exit' (of the type discussed by the philosopher Sir Karl Popper) was ruled out in the strongest possible words.

These critics maintained, based on historical experience, that a currency union would founder unless backed up by political union. Newly born and lacking in experience, the ECB would easily succumb to political pressure and would experience great difficulties in establishing efficiency, a good reputation and credibility. Since some of the major prerequisites for success were missing, the bank's leadership would be like a swimmer diving into an empty pool. The clash of a centrally administered monetary policy with first eleven, now twelve and eventually many more still predominantly sovereign nation states would permanently weaken the new monetary order and, in its wake, Europe's economy and political system. In all these respects critics such as myself assumed that the birth defects of the euro would turn out to be incorrigible and would not disappear in the course of time.

I and others of my persuasion argued and continue to argue today that the risks and dangers involved would lead to reduced economic growth, more inflation, capital flight, insecurity and social and political unrest. Instead of becoming a truly respected world power, Europe's standing would decline. Member states would constantly discuss leaving the union, thereby making a mockery of the concept of irreversibility.

In the end, as we all know, the proponents of the euro were victorious. In Germany, an alliance of a broad spectrum of political parties, unions, employer associations, banks and industry supported the destruction of the Bundesbank and the launch of the new currency. This was despite the persistent and strong opposition of the majority of ordinary Germans who were, unfortunately, incapable of being organised into a coherent resistance movement. Hence it was hardly suprising that EMU in Germany was pushed through without bothering to hold a referendum, reinforcing even further the lack of democracy inherent in the project.

So far we have had a trial period of two and a half years since mid-1998 (when it was finally decided who would go on to Stage III on 1 January 1999). I would like to deliver a short and preliminary assessment of EMU's performance to date.

It is only fair to begin by examining its positive aspects so far. If you believe Mr Prodi, the euro is already one big success story. I think we need to distinguish between wishful thinking and self-serving assertions on the one hand and facts on the other.

Since many people did not really believe that Europe's politicians would be able to muster the strength to embark on EMU, I am willing to consider this a political success. As a consequence the Eurosystem is growing, especially banks and insurance companies. The number of employees at the ECB is also growing very rapidly and stood at over a thousand at the end of 2000. Europe-wide statistics are slowly becoming more accurate and reliable as well as more readily available (which by the way makes them entirely useless for the purpose of comparison over time). Despite signs of strain caused by widening inflation differentials, the mutually agreed fixed exchange rates have survived two and a half years. Finally, preparations for the changeover of national currencies into euro notes and coins are in full swing – although the logistical and other costs involved are staggering.

The peripheral countries of the Mediterranean have benefited most from unusually low interest rates, which on the whole they did not deserve. This is the main reason why public deficits everywhere have been kept

from rising – the interest governments have to pay on public debt is lower. Overall price developments have followed the tendencies in all industrial countries since the mid-1980s. However, Great Britain and Sweden have actually done better and average price increases in Euroland are on their way up. Soon they will exceed by at least 50% the 2% inflation benchmark set by the ECB. To try to camouflage this, there have already been suggestions that the benchmark be changed by eliminating the effect of oil price increases. I wouldn't be surprised if they also start to contemplate eliminating the impact of the weak euro (it has pushed up the price of imports and hence lead to an increase in the Consumer Price Index). It is a bit like enlarging the goal of a rival soccer team by 50 or 100% to ensure success.

Although the increase in public deficits has slowed considerably, at the end of 1999, more than eight years after the Maastricht Treaty came into force, six out of the then eleven Euroland countries still exceeded the 60% public debt limit; the zones' overall debt to GDP ratio stood at more than 72%.

The euro has many undisputable shortcomings.

1 The first major failure took place in May 1998 during the launch of the ECB. This important phase was overshadowed by a breach of the ECB's constitution. The French wanted to extract a binding promise from the newly appointed President Wim Duisenberg to step down after no more than four years. What really happened during more than 15 hours of bickering and manoeuvring behind the scenes is still not fully known. However, a recent report in *Der Spiegel* revealed that most of the important documents relating to the events are missing; and there were many contradictory statements about what happened. The question "Who is lying?" could not be answered.

The shenanigans of the ECB are merely symptomatic of a wider problem. While I was preparing this article it was reported in the press that the European Parliament had refused – for the sixth time in a row– to approve the Commission's budget. Negligence when handling European taxpayers money, corruption, ineptitude and nepotism all seem to be ingrained features of the Commission.

2 The ECB has modified its behaviour and its approach to explaining policy in ways that are hard to understand. Beyond that, its effectiveness and credibility are harmed by the theory it has adopted to explain the decline in the external value of the euro. When the euro was first launched, most officials boasted of its terrific potential as a new and strong contender in world markets. Therefore, steady appreciation was to be expected whereas depreciation was definitely ruled out. After decline became the trademark of the euro, the blame was laid on the unexpectedly good and long-lasting state of the US economy and on its higher rates of return on capital. All of a sudden, the lack of basic reforms – the many unfulfilled prerequisites – were discovered and widely blamed for the depreciation of the currency. However, European decision-makers should have known that Euroland would have no hope of qualifying as an optimal currency area and that remedies would never be ready on time – certainly not within Mr Duisenberg's eight-year term. The rationalisation given is flawed because it fails to explain why the euro has declined so heavily against the yen, the currency of a country that has been economically depressed for more than 10 years. What about Britain's impressive performance? The UK's success can largely be explained by its withdrawal from the shackles of the EMS.

What is missing in Euroland is that its political and monetary authorities are not the same. This leads to permanent quarrels and to major inconsistencies in policies and violates what I consider to be the first prerequisite for a central bank to gain and maintain credibility. When Sir Edward George, the governor of the Bank of England, asked himself publicly in October 2000: "Why then has the euro weakness persisted?", he answered revealingly "Frankly, I am not at all sure that anyone really knows the answer to that question." I suggest that he should acquaint himself with my attempt to identify as the main reason the various birth defects referred to above.

3 I am struck by the audacity of the euro's defenders in claiming success on the inflation front. In December 1998 a concerted action led by the Bundesbank brought the Central Bank's money market rates down from 3.3% to 3%, thus in effect establishing the rate for Euroland as a whole. A little later, the Bundesbank Annual Report of April 1999 argued: "The price climate remained remarkably quiet. No particular risks of inflation in the near future are recognisable." The ECB's first action took place that very April. In the face of all kinds of disturbances (with the exception of inflation), the rate was lowered again, to 2.5%. There were no problems with inflation until oil prices began to feed their way through the consumer price index at the turn of the century. More than seven rather timid rate increases have been pushed through since November 1999, supposedly enough to deal with inflationary dangers. The facts are clear: inflation is on the rise all across Euroland. The German CPI is a case in point. It increased by 1.7% in 1995, 1.4% in 1996, 1.9% in 1997, 1.0% in 1998 and 0.6% in 1999. German inflation is now four times higher than it was in 1999. In September 2000, the prices of German imports were up by nearly 14%. The comparative figures are -3.2% for 1998 and -0.5% for 1999. Inflation in late 2000 stood at 6% in Ireland and around 3.5% in Spain and Portugal; and the Euroland average of 2.8% is rather higher than the 2% allowed for by the ECB. I am not blaming the ECB for this inflationary resurgence. But I take issue with their propaganda that a major achievement of the new bank was to maintain domestic price stability.

4 Advocates of the euro in Germany are guilty of falsifying monetary history. The argument, used especially by the former Chancellor Helmut Schmidt and the leading managers of what is left of the Bundesbank, is that in the past the DM was also susceptible to bouts of weakness with regard to the dollar. Of course, we all remember the DM's ups and downs. However, unlike the euro, the DM actually remained strong with regard to all other currencies and the credibility and reputation of the Bundesbank remained unshaken. The euro has weakened not only against the dollar, pound and yen but also against no less than 48 other currencies including the Zimbabwe Dollar, the Indian Rupee and the Iranian Rial.

5 The ECB started fighting market forces in September 2000. The Central Bank Council unashamedly enlisted the help of the dollar, the currency Euroleaders had wanted to dethrone and – in the long term at least – to relegate to second place. When the euro's dramatic decline continued, the ECB believed it would improve its performance by going it alone. The results show that intervention can make a difference if the conditions are

right. However, the euro's basic weakness cannot be remedied by selling a strong currency to prop up a continuously weak one. Intervention means that the ECB has admitted to its fundamental weakness and that the authorities are continuously attempting to gamble this weakness away. The attempt to induce the markets around the world to believe at last in the tremendous potential of the euro to appreciate has failed so far. It takes more to convince or outwit markets than what the partially disabled leadership of Europe is at present in a position to muster.

I believe that the external weakness of the euro reflects its structural deficiencies. Euroland's centralised monetary policy is on a permanent collision course with the unco-ordinated economic and social policies of 12 and soon 10 or 15 more member states. It has to cope with widely diverging rates of growth and inflation among the member states. I believe that a 'one-size-fits-all' monetary policy for a continent that will remain highly diverse for decades to come is bound to fail. It almost certainly will win neither the trust of international investors nor that of most of the people in Euroland itself.

Euroland's political élite seems to determined to continue the experiment. They are deliberately shutting their eyes and are refusing to admit that the euro has seriously flopped. It does not bother them at all to be responsible for a totally unacceptable, un-european and asymmetrical division of the Continent. It hardly helps that while major countries such as Great Britain, Norway, Sweden and Denmark remain outside the euro, the EU has embarked on extending itself into the unchartered waters of the East. Even Russia and the Ukraine are now among potential applicants.

It may well be that, for political reasons, we cannot ignore the challenge to integrate up to 20 countries from Eastern Europe. It may also be that the conditions of entry cannot be watered down to the point of meaninglessness. To my understanding, however, it was a mistake to promise full membership to all. We would have been wiser to offer step-by-step tailor made offers to applicants.

The combination of deepening integration on the one hand and the uncertain outcome of enlargement on the other is not conducive to the euro establishing its credentials as a currency sought after by investors.

On the last day of September 2000 we – the 'Four Professors' who tried to delay the euro by appealing to the Constitutional Court – conducted a symposium in Hamburg. We asked high level participants to help us to find an answer to the question "What remains to be done to save EMU?"

Our conclusion was that a prolongation by five to ten years of the trial period still under way would be a good idea. It would mean a temporary return to the EMS disbanded in 1999. The delay would give us time to reconsider the state of monetary and political affairs in Europe in order to find ways and means to build more stable foundations for a European currency. The response by most of the leaders we sent our manifesto was downright cynical: with the exception of Prime Minister Biedenkopf from Saxony, a well known sceptic, the respondents told us to keep quiet. We should realise at long last that the euro is here to stay, they said, and that it is a success already. What nonsense. Not only has the performance of the euro to date confirmed my very critical predictions, I actually believe that the years ahead will be really stormy for the euro.

Professor Dr Wilhelm Nölling teaches in the economics department at the University of Hamburg and is a consultant to government and business. He is a former member of the Bundesbank Council.

… news in brief

Retired Yugoslav general suggests that new president should control army

A retired general of the Yugoslav army has suggested that the new president should have stronger powers over the army than his predecessor. General Ivota Panic argues that the present Supreme Defence Council is too unwieldy and that it should be replaced with a Serbian Security Council responsible directly to the president, as is the case in many other countries. Under the current Yugoslav constitution, supreme military authority formally lies with the General Staff. In other words, if General Panic's suggestion is taken up, Vojislav Koštunica will control the army in a way in which Slobodan Miloševic never did. The title of "supreme commander of the armed forces", which it is suggested Koštunica adopt, is not currently in the Yugoslav constitution. [*Vesti*, 8th January 2001; *RFE Newsline*, 9th January 2001]

Djindjic calls for Balkan Union

The new prime minister of Serbia, Zoran Djindjic, has said that the future of the Balkans lies in integration with the European Union (EU) but that a faster and simpler solution would be to create a Balkan economic union. He said that it was a pre-requisite for EU membership that Balkan states "show maturity by first establishing mutual links within some kind of economic or customs union so that, as a whole, we attract interest." Djindjic argued that regional problems such as the ethnic Albanian issue, could be resolved only through "a single concept of development and the relativisation of mutual borders." "Many factors," he said, "favour the idea of mutual links between the Balkan states and the creation of a joint space which, at first should be economic but for which it would also be necessary to set up institutions which transcend economic integrations and are also important for mutual political relations." He added that he thought preliminary talks on such a union could start in the next few months. [*Tanjug*, 11th October 2000]

CSU attacks German government's defence policy

The Bavarian Christian Democrat party (Christian Social Union) has attacked the defence plans of the red-green coalition in Berlin as "a dangerous adventure". They accuse the German government of undermining Nato – but not quite in the sense that British Eurosceptics usually understand the problem. The Bavarians accuse the government of not doing enough in European military policy to enable the EU to take up a greater share of the "burden" within Nato. They also expressed regret for Europe's shortcomings in satellite technology for military use. The Germans said that European integration and the American alliance had to go hand in hand and accused the government of pandering too much to French anti-Americanism. Instead, they argued, the "quiet alliance" between Germany and Britain ought to be strengthened. [*Die Welt*, 10th January 2001]

Cheese protest

A cheesemaker in France who uses unpasteurised milk has pitched a tent in the centre of the town of Angers to garner support for the preservation of such cheeses. He stopped producing cheese in 1999 in protest against draconian European health regulations which, he claims, "make the milk cleaner but less healthy". Since 1st January 1998, when the new European rules came into force, he would have had to spend £40,000 on improving his cheese-making business to comply. [*Contre-courants*, 20th December 2000]

Advertisement

RESEARCH ROUNDUP

Thirty Year Rule Reveals

In July 1971, the British government published its now infamous White Paper on accession to the Common Market.[1] *"Our country will be more secure"*, it argued, *"our ability to maintain peace and promote development in the world greater, our economy stronger, and our industries and people more prosperous, if we join the European Communities than if we remain outside them."* Seeking to allay the concerns of the electorate, the Heath government solemnly promised *"there is no question of any erosion of essential national sovereignty; what is proposed is a sharing and an enlargement of individual national sovereignties in the general interest."* In effect, the government had pledged that we would have trade with Europe without government by Europe. Thirty years later, although many people still do not realise it, most legislation in Britain is determined by the European Union, either directly or indirectly. As the case for renegotiating the terms of our membership of the European Union grows more powerful by the day, secret cabinet papers released on 1 January 2001 under the thirty-year rule reveal just how much Sir Edward Heath's government was prepared to give away in the accession talks.[2] They demonstrate beyond any doubt that Heath wanted to join at virtually any cost. They also prove that he deliberately concealed evidence about plans for Economic and Monetary Union and for political unification in his White Paper. The release was accompanied by a fascinating interview[3] of Sir Crispin Tickell, a member of the negotiating team at the time.[4]

Foreign Office Fatal Conceit

Sir Crispin confirms the extraordinary arrogance displayed by Foreign Office mandarins in their attitude towards the European project. They didn't oppose centralisation, they just wanted the right people – themselves, that is – to manage the process. *"We didn't wish to present ourselves as supplicants,"* Sir Crispin explained. *"Once abroad the train we could, to some degree, control the way in which the train was going. That was perhaps one of the most important single elements in the whole negotiation… You had ambitious plans for economic and social union, economic and monetary union, and if you were going to do that in a sensible way, then you had to be able to have an influence on the different stages…"* Transferring control of the entire British fishing industry to the absurd Common Fisheries Policy – a condition of entry to which Heath acquiesced without putting up a fight – hardly seems the hallmark of a strong and confident government that refused to be portrayed as a 'supplicant'. Furthermore, Sir Crispin's interview illustrates how the Heathite establishment believed they would be able to influence the way Europe is run, which just highlights their singular lack of comprehension of the European project.

Economic and Monetary Union

In 1970, Pierre Werner, the Prime Minister of Luxembourg, delivered a detailed seven-stage plan for Economic and Monetary Union.[5] The documents released show not merely that the government knew all about this but that ministers embraced the plan enthusiastically. They believed that joining the Community entailed adopting the bulk of Werner, and that EMU would lead in turn to political union. Edward Heath was more than happy to go along with this.

"if they accept the Werner Report, they will be aiming to be well on with the unification of their economies and currencies by the late1970s…"[6]

"The Plan itself is … another though vastly more ambitious Cartesian statement of ultimate objectives, glossing over many of the difficulties of achieving them … if in 1969, we could go 'as far and as fast as the six', we can in 1970 … the Plan is likely to refer specifically to the renunciation of national sovereignties in the economic and monetary fields, culminating in the achievement by 1980 of a common currency in fact if not in name, common central financial and political authorities, evolved in a conference of members to agree the necessary additions and amendments to the Treaty of Rome itself. If the six adopt the plan we shall be asked if we are prepared to accept its objectives and to co-operate in achieving them. A negative or temporising answer will probably terminate the negotiations: a positive one will make the previously implicit and limited renunciation of sovereignty quite explicit and very much more far-reaching, and will be challenged accordingly."[7]

"The Ambassador mentioned that we were naturally ready to participate in the discussions on sterling. People should not thing we were reluctant or had anything to hide."[8]

"The key issue, in Pompidou's mind, in the forthcoming negotiations, is how to integrate sterling – with all that that implies – into the projected economic and monetary union on which the Community has now firmly set its sights. I am convinced that we too must make clear at an early stage our willing acceptance of this Community objective."[9]

Public Opinion

When asked how worried the government was of public opinion turning against membership of the Community, Sir Crispin answered revealingly *"People didn't really understand what it was about for one thing. And even in the year 2001 they don't understand it either to a large degree…"* Sir Crispin is right that the electorate failed to grasp the nature of the beast, but that was due in large part to the obfuscations and downright lies contained in the White Paper. When asked whether the issue of sovereignty was downplayed by the negotiators, he admitted that *"I'm not quite sure how much the … sovereignty issue was mentioned in the speeches but it was certainly conscious, very much present in the minds of the negotiators."* This is confirmed in many places, for example in the following: *"We ought at least to give some forethought to, for example, the implications of monetary and economic harmonisation for political institutions and sovereignty in the UK and in Europe … even if the development of European political institutions does not get drawn into the negotiations (as it might)…"*[10]

Sir Crispin reaffirmed in his interview that the negotiators saw public opinion as a constraint to be overcome and were aware of the centrality of the political dimension of the Six's plans.

"The issues of monetary union and our eventual destination were certainly very much in the minds of officials… Everyone wanted to approach these monetary issues with extreme caution and the less they came out in the open, the better… There was also the so-called Werner plan, which would have led ineluctably to a measure of economic and monetary union. But the argument in London was don't let's talk about this in public because we don't know what effects it would have on sterling… No one wanted to have a huge public debate about something that hadn't happened… The presentation of the case was partly about such emotive issues as the Commonwealth. We didn't want to feel that the New Zealanders who had come to fight for us in two world wars were going to be let down."

The documents confirm Sir Crispin's revelations:

"Major questions can already be seen under each of the following policy heads – financial (community financing), fiscal (VAT), monetary

(harmonisation), agricultural, industrial, technological, commercial (Community developments of common policies on those subjects), political, defence and even social affairs."[11]

"A large part of the public presently associates the words 'common market' with higher food prices, and so far as reactions go further, with heavy British payments across the exchanges for European agriculture, and beyond that, more nebulously, with loss of sovereignty. The achievements of a more informed public opinion cannot safely be left until the month following the return of our negotiators from Brussels with acceptable terms in 1971 or 1972."[12]

"it will be necessary, at some stage of the negotiations, to think about a better informed public opinion … it may become necessary to project some equivalent of the picture which even M. Pompidou found it necessary to project … the very absence of such a picture gives rise to fears of the (supranational) unknown which are even know being exploited."[13]

European Defence?

An embryonic European army and a merger of nuclear capabilities were arguably already being envisaged by the negotiators in 1970. Sir Crispin also demonstrates the inherent anti-Americanism of Heath and his fellow-travellers. "*Like it or not, we are geographically a part of Europe*", he explained, "*There was a strong feeling that we didn't wish to be the poodle of the United States.*" In the words of one mandarin:

"we need more forethought on the implications of membership … for defence policy … it is on present form quite likely that during the course of the negotiations, the first moves by the United States to withdraw troops may be mooted, and even pressed. Since the troops are there both as an assurance of American involvement in European security, and to give time to avoid resort to nuclear weapons, the prospect of American withdrawals will bring European defence questions to the fore in a way unknown since the last war; and France will watch our reactions closely. In the defence field however, our European forethought has not really gone far beyond the conventional doctrines of the maintenance of the NATO shield and of separate British and French nuclear deterrents. Forethought here may well take us into the field of co-operation in the peaceful uses of nuclear energy – again a subject of importance to France."[14]

Towards a United States of Europe

One document in particular illustrates that the entire future development of the European Union – including Maastricht, Amsterdam, and Nice-type treaties – was already being envisaged at the time.

"it should be noted at the outset that the Plan for Economic and Monetary Union (EMU) has revolutionary long term implications, both economic and political. It could imply the ultimate creation of a European federal state, with a single currency. All the basic instruments of national economic management (fiscal, monetary, incomes and regional policies) would ultimately be handed over to the central federal authorities. The Werner Report suggests that this radical transformation of the present Communities should be accomplished within a decade … it will arouse strong feelings about 'sovereignty', and provoke vigorous discussion…"[15]

"There must be co-operation on structural and regional policies with the aid of mutual financial assistance. There must be regular and systematic consultation with the 'social partners' (unions, employers etc), which should study and discuss with Community bodies the development of incomes in Member countries, in order to avoid 'excessive divergence'. New central bodies must be set up … this would be a process of fundamental political importance, implying progressive development of towards a political union. Two such bodies would be essential … first, a 'decision-centre for Economic Policy'; this would undertake the central direction of national budgets and would exercise the other central economic functions; it would also have responsibility for deciding the Community's exchange rate. This 'Decision-centre' would be answerable … to a European Parliament, which would itself have extended powers, and would be elected on a Community basis. The second body would… [be] organised like the Federal Reserve System … it would be necessary … that these bodies and the Member governments, pursued the same policies. These constitutional changes will require amendment of the Treaty of Rome… There must be no mistake about the final objective; the process of change is 'irreversible' and the implications, both economic and political, must be accepted at the outset… "[16]

"The long-term objectives of EMU … go well beyond the full establishment of a Common Market and the formal provisions of the Treaty of Rome (which would require amendment). With no exchange control, uniform rates of tax on goods and companies, a unified currency … and strong central direction of individual budgets, the economies of the members of the EMU would be as interlocked as those of the states of the USA. Indeed, it could be argued that the independence of the members would be less than that of the States, for the latter have more autonomy over their budgets…than would appear to be allowed to the constituent parts of the Community… State taxes are not harmonised in the USA…"[17] *"At the ultimate stage economic sovereignty would to all intents and purposes disappear at the national level… The degree of freedom which would then be vested in national Government's [sic] might indeed be somewhat less than the autonomy enjoyed by the constituent States of the USA."*[18]

According to the Foreign Office it would soon be necessary to *"assemble in conference to decide upon radical changes of a federalist character…"*[19] It was all about building a single centralised state, and the secret Cabinet Papers show that the Heath government knew.

1 British Government 'White Paper', *The UK and the European Communities*, Cmnd 4715, 7 July 1971

2 The papers of interest are available on www.pro.gov.uk/releases

3 A transcript of the interview of the *UK Confidential* program broadcast on 1 January 2001 is available on http://news.bbc.co.uk/h1/english/in_depth/uk/2000/uk_confidential

4 More fascinating recollections can be found in *Britain's Entry into the European Community: Report on the Negotiations of 1970–1972*, by Sir Con O'Neill, London, Frank Cass, 2000

5 *The Werner Report on Economic and Monetary Union*, Bull, EC S/11–1970

6 *The EEC Negotiations – Strategic Review* 23 October 1970, PREM 15/62, p. 5

7 *ibid*, p. 7

8 Meeting between M. Jobert & G. Rippon, 9 November 1970, CAB 164/771, p. 3

9 Letter from Christopher Soames to Sir Alec Douglas-Home, 22 June 1970, FCO 30/770, p. 5

10 Note from W.A. Nield to the Prime Minister, 2 July 1970, PREM 15/62, p. 3

11 *ibid*, p. 1

12 *ibid*, pp. 1, 2

13 *ibid*, p. 6

14 *ibid*, p. 3

15 *Economic and Monetary Union*, Foreign Office, 9 November 1970, FCO 30/789, p. 1

16 *ibid* p. 8

17 *ibid*, p. 16

18 *ibid*, p. 23

19 *ibid*, p. 24

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

The Orwellian Charter of Fundamental Rights

by Dr Charles Tannock, MEP

After five bad tempered days spent negotiating the new Treaty of Nice, EU leaders finally reached an agreement in the early hours on 11 December 2000. As well as the main Treaty, the heads of government also endorsed the European Charter of Fundamental Rights as a declaratory statement. The Charter – a 77 page document with 54 clauses for the EU's 372 million citizens – was drawn-up by a year long convention of national and European Parliamentarians and other EU institutions. It is supposed to bring the EU closer to its citizens through the adoption of new 'economic and social rights'. This Charter, which is already generating concern by magistrates and public administration officials in terms of the burden of extra work it will generate, is not to be confused with the European Convention on Human Rights. The Convention – which was signed in 1950 and had the support of Sir Winston Churchill, the former Conservative Prime Minister – became law in Britain on 2 October 2000 and is binding on the 41 countries of the Council of Europe. Unlike the recent Charter, the Convention deals exclusively with political and civil rights.

Before Nice, there had been repeated assurances from the UK Government that the Charter will consist of no more than a political declaration. They said it would merely be a 'showcase' of existing rights. In Minister for Europe Keith Vaz's memorable words, the Charter would be "no more binding than the Beano".

In the end, the Presidency Conclusions stated that EU leaders "would like to see the Charter of Fundamental Rights disseminated as widely as possible … the question of the Charter's force will be considered later." The British Government and senior members of the Judiciary have acknowledged that despite the Charter's declaratory status, it will be consulted and cited by the European Court of Justice in its judgements.

Internally Inconsistent

One of the principal problems, as I see it, with the European Charter of Fundamental Rights, no matter how noble its intention and no mater how much the drafting Convention has attempted to water down some of the more controversial clauses, is its internal inconsistency. While purporting to refer only to European Union institutions, the document strays into areas of jurisdiction where no EU competence currently exists – and in doing so gives rise to some rather undesirable consequences.

Take the case of criminal law. The Charter includes articles abrogating the death penalty throughout the EU and giving fugitives the right not to be extradited to countries which allow the death penalty (even democratic ones such as the United States). This could mean that Europe becomes a sanctuary for American murderers. Many of us would maintain that the imposition of the death penalty should remain a matter for the member states' Parliaments, as indeed it is a matter for individual states in the USA.

Furthermore, its anti-discrimination provisions are ludicrously wide-ranging and leave enormous scope for abuse. For instance, the indeterminate rights to marry and form a family open the door to demands for homosexual marriage (already present in some EU states) as well as the adoption of children by homosexual couples. The wide-ranging anti-discrimination clause goes beyond even Article 13 of the Amsterdam Treaty by introducing for the first time provisions against language discrimination. These might force the United Kingdom to allow the employment of nurses who don't speak English. Also, religious schools could be prohibited from selecting teachers of non-religious subjects on a denominational basis.

If the UK were forced to adopt EU laws on worker consultation, particularly over redundancies and factory closures – such as those that exist in Germany, to its competitive disadvantage – then the Thatcher trade union reforms of the eighties would be seriously threatened. The CBI have already publicly expressed reservations on these clauses.

A New Religion

Most worrying is the Orwellian Article 52. This authorises the suspension of Fundamental Rights when the interests of the European Union are at stake. We have already seen the case of Bernard Connolly where the Court of First Instance stated that the right to free speech can be restricted by reference to 'aims of general interest pursued by the Communities'. Interestingly, the Advocate-General drew an analogy in these provisions with current Blasphemy Laws. Is the European Project a kind of new religion? Are we to see a situation come about in which only politically correct statements about the EU are tolerated? Constitutions which have such wide-ranging provisions for the suspension of fundamental rights are generally characteristic of illiberal and even totalitarian regimes – not open societies.

This Charter is not only potentially damaging but unnecessary given that we already have the European Convention of Human Rights; as well as Articles 6, 7 and 13 of the Amsterdam Treaty. Interestingly, Socialist and Liberal MEP's were prepared to ignore these existing Treaty rights when I tried to overturn the exile of the Italian Royal Family in a motion in the European Parliament. Why do we need an additional document which will only serve to establish competitive jurisdiction between the ECJ in Luxembourg and the European Court of Human Rights in Strasbourg? We already see the effects of judicial activism in Britain – powers are taken from our national Parliament. We could now see unelected European judges extending this considerably if this Charter eventually becomes legally binding. All this will do is play into the hands, or should I say the pockets, of already over-paid litigation lawyers. In this context it is worth noting that Cherie Booth QC (the wife of the British Prime Minister) has set-up a specialised legal chamber called Matrix in London. It will concentrate explicitly on new cases arising from the Human Rights Act, 1998, which was used to incorporate the 1950 Convention into UK law in October 2000.

Lastly, the Charter fuels claims that the EU is hell-bent on proclaiming a Federal constitution with the Charter as its first chapter, with plenty of scope for more powers to be added later.

Needless to say, my Conservative colleagues and I voted against the draft version in the European Parliament on the 14th November, but it was nevertheless carried 410 votes to 93.

Dr Charles Tannock is a Conservative member of the European Parliament for the London Region.

Advertisement

Fortress Europe

Why customs unions lead to economic decline

by Henri Lepage

There has been a resurgence of protectionist demands from vested interest groups during the last few months. France in particular has established itself as the leading player in the anti-globalisation campaign. I believe that the reasons for this are relatively straightforward and stem directly from the way the EU organises its international trade.

To understand this, it is useful to recall that regional trade agreements can be divided into two rough categories: free trade agreements, such as NAFTA, and customs unions, such as the European Union. Members of a free trade area typically maintain their own tariffs on goods originating outside the area, whereas members of a customs union establish a common tariff on goods originating from non-member states. Crucially, the establishment of common external tariffs usually commits customs unions to setting up common political and administrative institutions. This is at the root of our current problems.

Economists like to ponder the pros and cons of pursuing a regional approach to trade liberalisation in addition to a multilateral approach (such as through the World Trade Organisation.) Given the smaller number of players involved, regional trade agreements often help promote trade liberalisation at a faster pace than may be possible at the multilateral level. They also provide impetus for those outside the agreement to work towards multilateral reforms so that they are not left behind other countries that take advantage of freer trade with regional partners.

Though free trade agreements are generally viewed as more trade friendly than customs unions, this need not always be the case. The European common market in its original incarnation was a powerful engine not only for liberalising trade and bringing more business competition within Europe, but also for forcing some member countries to reduce the grip of government over industry. This was especially the case in statist France. Even socialist governments finally could do nothing else but submit themselves to the will of Brussels and to the European Court of Justice's power to sue and fine national governments. The single market helped deregulate state monopolies and allowed for increased competition in regulated industries.

Similarly, regional trade agreements are generally understood to provide more benefits than costs if they are 'trade creating', rather than 'trade diverting'. Trade diversion as defined by economists occurs when preferential treatment causes a country to replace imports from the rest of the world with imports from a free trade association member country. The same analysis also applies to international investment decisions. Economic theory teaches that trade diversion is more likely to occur with customs unions than with free trade agreements. Yet, though intra-European trade grew much faster than trade with regions outside the EU, most studies show that over the last few decades more trade was created in total than was lost; on balance the Single Market was a success.

Unfortunately, this may no longer be the case. I believe that once a customs union is accompanied by the creation of common political institutions, a day unavoidably comes when it falls into the trap of a 'fortress' mentality. Since a customs union requires the existence of common political institutions, problems will usually start once tariffs and quantitative obstacles to trade have been reduced to zero. At first, all seems well. Differences in taxes and regulations become a major factor influencing intra-zone business competition. Corporations tend to move to member countries with the most favourable tax and regulatory structures. The consequence of a successful customs union is thus to introduce competition between legal systems.

But like all producers, bureaucrats – particularly those from countries with the highest tax rates and regulatory burden – do not like competition. When businesses move towards lower tax areas, governments lose revenue and their capacity to spend is reduced. Heavy spenders feel threatened and bureaucrats lose much of their power to influence the distribution of economic rents. Thus a new discourse sets in denouncing the danger of a 'race to the bottom' and the threat that unbridled competition poses to the future of modern welfare systems.

The call is invariably for a level playing field implying that people should pay the same taxes and bear the same welfare cost burden everywhere. The political priorities of the customs union – in our case the EU – progressively shift from free trade to creating the conditions for 'fairer trade'. While still loudly emphasising the gains brought about by a more competitive economy, politicians call for the unification and harmonisation of the rules of the competitive game – not exactly the same thing. Their claim is joined and supported by short-sighted business lobbies for whom it is less costly to fall prey to political correctness than to vocally endorse a public spending reduction agenda.

This is exactly the story of the European Union. A big change occurred following the Maastricht Treaty in 1991 and its implementation over the following years. The emphasis moved from increasing market competition through lowering quantitative obstacles to trade to 'organising' competition through common policies and harmonised regulations. A paradigm shift occurred that led to the displacement of the 'one market agenda' engraved in the 1986 Single European Act, which was intended to be completed in 1992. What took its place was a new 'level-playing-field' philosophy for which economic integration implies not only the absence of physical obstacles to trade within the EU, but also the enforcement of unified rules, standards and taxes by a stronger central European government.

As Pascal Salin, a professor of economics at the University of Paris-Dauphine, has masterfully explained, fair trade does not require competitors to pay identical taxes, or to bear the same amount of welfare contributions.[1] Why not ask for the flattening down of hills and mountains – they increase the costs of companies located in Alpine areas relative to those of their competitors located in flat lands? Isn't it unfair they should incur higher transport costs due to an accident of geography? Why not ask Spanish tomato growers to compensate Dutch farmers for the lack of sunshine in the Netherlands? After all, are not free heating and lighting unfair commercial advantages?

The legal and tax environment is part of the comparative advantages or dis-

advantages enjoyed by national businesses. The imposition of a uniform legislation all throughout the European Union may seem 'fair' to those who have more difficulties to withstand the competition from foreign products because they pay higher taxes or are subjected to tighter regulations. But it is surely 'unfair' to companies located in low-tax countries deprived of the local competitive advantage they previously enjoyed.

Under the guise of equalising competitive conditions all over the Union, the Maastricht Treaty deeply altered the nature of the Common Market. It transformed Europe into a cartel of states built around a set of common policies. The intra-European competitive process was reduced and market penetration by foreign companies was made more difficult than it would have been had the EU stuck to the original 1986 Single European Act. The Maastricht compromise thus made European institutions and politics much more prone to a 'fortress' mentality. Those who already long ago feared that the natural outcome of a customs union process would be to divert trade liberalisation efforts towards the formation of rival regional trade blocks are being proved right.

This fortress mentality was made even worse as a natural consequence of the launch of the euro on 1 January 1999. Economic and Monetary Union deprives profligate governments of one important means for compensating their mistakes and bad policies – they no longer control a currency which they can inflate away to pay their way. The only way individual nation states can raise funds is through the use of taxation. Differences in taxes and legislation hence have more bearing than ever on the competitive position of economic actors. As a consequence the public and private national interests pushing for a European neo protectionist policy have become even more vocal.

But the story does not stop here either. If managed trade among fifteen of the richest countries in the world is fairer and morally superior to unbridled laissez-faire, why stop at fifteen? Why not extend the cartel to twenty, to fifty, to the whole world? The urge to do so is all the greater since the Information Technology revolution is simultaneously reducing the ability of governments to raise revenues.

The temptation to extend managed trade to the whole world is at the root of the recent crackdown of European authorities against places such as Liechtenstein, Monaco, Andorra, the Isle of Man and even the Vatican. Recent reports have depicted these tiny 'offshore' countries as "rogue entities catering to those with assets to hide, either from the law or from the tax collector at home".[2] Their tradition of banking secrecy is targeted as being "a contradiction to the integration of markets" standing in the way of achieving the European goal of a single market, a single currency, and a single set of taxation and banking laws.

The Maastricht Treaty deeply altered the nature of the Common Market. It transformed Europe into a cartel of states built around a set of common policies

The OECD goes even further. One of its recent documents not only focuses on 'preferential tax regimes' in OECD nations and calls for their elimination, but also warns tax-havens that they will face sanctions if they do not acquiesce to various demands from high-tax nations. The threat was renewed by France's finance minister, Laurent Fabius, in July 2000, when he invoked possible "penalties against territories fuelled by financial crime".[3]

"Globalisation is under assault," argues Daniel J. Mitchell from the Heritage Foundation in Washington, DC.[4] "Fearful that international competition will make costly welfare states unsustainable, politicians from industrial countries are diligently working to set up a cartel of high-tax nations. The latest gambit from the high taxers is a breathtakingly brash effort to compel low-tax nations to act as collectors for their more greedy brethren." He adds that "the OECD has decided to resuscitate imperialism. In a startling move that tramples on sovereignty and makes a mockery of international law, the OECD is trying to force low-tax regimes to collect taxes for confiscatory regimes."

If the OECD succeeds, international investment will suffer and worldwide growth will slow since low-tax regimes play an important role in the world economy. Institutional competition tends to keep tax burdens lower and encourages a more efficient use of public funds. Almost every nation in the world was forced to lower income tax rates after US President Ronald Reagan slashed marginal rates in the 1980s. This happened not because the politicians of these other nations actually wanted to cut tax rates, but because the pressure to attract and retain capital, jobs and entrepreneurs forced them to adopt better policies. Is this what they want to prevent from happening again?

There are many outside Europe – and notably in Latin America – who still believe that the EU is a customs union success story to be emulated. Keith Marsden, an international economist and regular contributor to the *European Journal*, recently demonstrated just how wide off the mark these pundits actually are. In a study released on the very day US Senator Phil Gramm visited London to invite his British hosts to join the North American Free Trade Association "as a way of breaking up regional trade blocks and moving toward global free trade", Mr Marsden demolished the case for the 'European model'.[5]

He showed that NAFTA's average per capita GDP of $27,040 in 1999 was 20% higher than that of Euroland. In addition, NAFTA's average annual rate of growth of 3,6% of GDP over the last seven years to 1999 was exactly twice that of Euroland. NAFTA is also more open to international trade. Nearly 60% of the free trade area's merchandise imports came from non-NAFTA countries whereas only 37% of Euroland's did. And NAFTA's merchandise imports are growing at twice the rate of the EU's. The number of jobs created during the same period confirms NAFTA's superiority. Employment is up by 38% in Mexico, 13% in Canada and the US, compared with only 3% in Euroland and 6% in the UK. Workers in NAFTA countries also earn more and are taxed less than those in Euroland. A single worker with no children on an average production wage has a net income of $20,388 in the US compared to just $16,577 in Germany. For a couple with two wage earners (one on average wages, one receiving two-thirds the average wage), the figures are $35,151 and $31,199 respectively. Finally, NAFTA relies far less

on subsidies: in Euroland, the value of reported subsidies was $203 billion in 1997, compared to just $33 billion in the United States.

As Mr Marsden rightly concludes, "a bureaucratic, over centralised Euroland has performed less well and delivered fewer benefits than a more flexible NAFTA." The data marshalled by the author suggests that "free trade promotes economic integration more effectively than regulation."

It is true that Mr Marsden begins his study in 1992 and that over a longer period the disparity between the two zones he draws attention to would be much less visible. Yet 1992 is a very significant year since it is precisely when EU countries moved from the sole goal of completing the 'single market' to their new and flawed market integration philosophy aiming for "one single tax, one single currency and a common legal system". Technology cannot be blamed for the European Union's relatively poor performance since that date. European companies are often leaders or at par with their American rivals in many fields of the 'new economy' such as mobile phones and pharmaceutical products. The problem is that European innovators do not find the kind of financial support and environment available in the freer American market, with its pension funds, venture capital, securitisation and other sophisticated financial tools. The EU's innovators are penalised by the protective regulatory framework implemented by the Union when it decided to turn its back on the Single Act's free market philosophy and go the Maastricht way. Since then, Europe's standard of living has constantly lagged behind America's. All too predictably given its embrace of the customs union model, the EU has persistently made the wrong choice since Maastricht and embarked on faulty economic and labour policies.

Henri Lepage is Délégué Général of the Institut Euro 92, a Paris based think tank. The author of many books and monographs, his latest publication is Vache folle et principe de précaution: la fin du règne du Droit *and is available on www.euro92.org*

1 Pascal Salin, *Libéralisme*, Paris, Odile Jacob, 2000.

2 See for instance the report on Liechtenstein by Charles Trueheart, 'Europe's Tax havens Start to Clean Up Their Acts', *International Herald Tribune*, 24 July 2000.

3 Laurent Fabius, 'France's mission in Europe', *Financial Times*, 24 July 2000.

4 Daniel J. Mitchell, 'An OPEC For Tax-Hungry Politicians', *The Wall Street Journal Europe*, 29 June 2000.

5 Keith Marsden, *Towards a Treaty of Commerce – Euroland and NAFTA compared*, London: Centre for Policy Studies, 2000.

… news in brief

European constitution by 2004

Europe operates on the Trotskyite principle of permanent revolution, it seems. The ink is hardly dry on the Nice treaty before the next changes are being planned, just as all previous treaties over the last fifteen years have immediately been deemed insufficient as soon as they are signed. Thus, European leaders ensure that nothing is ever fixed in the EU and that the laws and institutional structures are in a permanent state of flux.

France and Germany have confirmed their desire, announced before the Nice summit, to have another treaty revision in 2004. This is partly to head off criticism, rife among pro-Europeans, that Nice was a failure: MEPs are even threatening to vote against it. However, the reason for this new click of the ratchet is also that Nice, like Maastricht, contains within it a self-destruct mechanism in the form of an appendix which calls for a "broad debate" on Europe to start in 2001. This is code for the German desire to elaborate a European constitution, a plan for which the ground is already being laid by pro-European forces in Britain like *The Economist* which have absurdly suggested that such a constitution will limit the powers of the EU. Considerable work has already been done towards elaborating a constitution: for the last year or so, the European Institute in Florence has been preparing a simplified treaty, reduced to a hundred articles or so. Although the European Commission strenuously denies it, this simplified treaty will, in time, form the procedural half of the new European constitution, the Charter of Fundamental Rights forming the other half.

As ever, there is a little Franco-German tension in this new initiative, which some elements of the press have seized on: all previous tensions, however, have been miraculously resolved at the last minute, however unsatisfactorily from everybody's point of view, as they were at Nice itself. The French Foreign Minister has thus dismissed as premature an initiative by Josckha Fischer to relaunch the Franco-German couple this month, saying that the deadline is 2004, not January 2001. The German Chancellor upped the anti by calling on the French, in a long speech to the Bundestag, to accompany Germany in its drive towards the "constitutionalisation" of Europe. Mr Schröder thus put an end to the silly fiction that the views expressed by Joschka Fischer "in a personal capacity" to the Humboldt University in Berlin last May were anything but German government policy. "Only ever further integration," said Mr Schröder, "will be capable of counteracting the centrifugal forces in an enlarged EU. We are ready for that. So is France." [*Libération*, 23rd January 2001] Mr Fischer has said that he expects a Franco-German meeting at the end of the month to be "an open discussion with all issues on the table". Schröder's speech dispelled any lingering doubts that the German Chancellor is anything other than a full federalist, in the sense not only of wanting a highly integrated Europe but also of wanting that integration to be based around the federal, rather than the intergovernmental, elements of the EU like the Commission. The Commission had been feeling rather sidelined lately but it has been greatly comforted by the German Chancellor's speech. [*Die Welt*, 23rd January 2001] It is therefore quite possible now that a full-blown autonomous federal constitution will be developed for the core states of the European Union by 2004.

European Commission ready to intervene in Czech TV dispute

Member states of the European Union are used to interference in their internal affairs by Brussels: candidate members are, in this respect, getting the "benefits" of EU membership without even being members. A dispute has currently engulfed the Czech state TV station, where journalists, egged on by the country's meddling president, Václav Havel, have gone on strike at the appointment of a new director who is believed to be politically aligned with the Right. The Commission spokesman, Jonathan Faull – the same man who picked a fight with the *Today* programme before Christmas – has indicated that the Commission may intervene in the affair, no doubt to support those left-wing agitators who want the TV to be under their control. Romano Prodi is about to make a statement on the matter and apparently intends to invoke an article in the Amsterdam treaty which commits EU members (and candidates) to "pluralist" media. The leader of the Czech Right, Václav Klaus, has recently written articles in the German press attacking the current trend of European integration, saying that it is not what ordinary Czechs had understood when "a return to Europe" was on the cards in 1989.

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The Atlantic Alliance is Under Threat

by Iain Duncan Smith, MP

Ever since returning from the inter-governmental conference in December, the Prime Minister has tried to insist that the European Union defence initiative would not undermine or be a rival to NATO. As recently as 11 December 2000 he said: "There is no way in which the force will be a rival to NATO…"

However, the latest evidence suggests that the assurances the prime minister has given are false. The facts (from the Nice agreement) are these: the EU military forces are autonomous and independent of NATO; the planning for many operations can and will be done outside of NATO; it is the EU that will make the decision whether to conduct an operation and only then might they consult NATO (they are not obliged to do so); the EU will retain full political and strategic control throughout any operation (whether NATO is involved or not).

No Control by NATO

The draft Presidency Report on the European Security and Defence Policy (ESDP) and annexes show that apart from the cosmetic statements about NATO and the EU, the document is about a wholly separate organisation. There are no formal ties between the EU and NATO, and no control by NATO at any point. One annex deals with the relationship between the EU and NATO. It shows clearly that the EU has embarked on a process which is autonomous, leaving NATO without right of refusal on EU defence operations.

The government is still insistent that the Americans support this endeavour. Yet American concern about the way the project is developing is clear. Recently the then US Defence Secretary William Cohen voiced concern over the European defence project. "The European Union will erode NATO and US security ties with Europe if it insists on separate operational planning for its new rapid reaction force", he said.

In a similar vein the then US Secretary of State Madeleine Albright warned: "I hope people will realise that it is a waste of energy, resources and manpower to keep duplicating things." Furthermore, despite Mr Blair's attempted reassurances, the French insist that the ESDP is independent of NATO. According to President Chirac: "It must, as regards its preparation and implementation, be independent of shape."

Conservatives have warned the government that it has embarked on a process which will damage NATO and reduce the quality of western defence. We support greater European co-operation and capability but from within NATO, not outside. This could have been achieved by making European co-operation part of the NATO structure. After all, six European nations which are not members of the EU defence force are part of NATO and are excluded from this EU force.

Furthermore, Robin Cook, returning from the Amsterdam Intergovernmental Conference in 1997, said: "We have prevented attempts to subordinate the Western European Union… The European Union will not be a defence organisation."

The reality, which the government won't face up to, is that it has agreed to make the EU a defence organisation separate from NATO. For it was Mr Blair who started this process at St Malo with the French in 1998, despite saying up until then that such a process would undermine NATO.

Tony Blair in Denial

After becoming Prime Minister, Mr Blair said: "Getting Europe's voice heard more clearly in the world will not be achieved through merging the European Union or developing an unrealistic common defence policy."

Now the government is in denial. Faced by serious US misgivings over this deeply flawed project, and growingopposition at home, it is trying to pretend that it has been battling the French to limit the European defence force's scope. Yet the truth is that for over two years the government has gone along with these plans without a whimper.

Tony Blair should realise that he made a serious mistake at St Malo and at Nice. He should act before it is too late and insist that this is brought under NATO command without duplication in structures or forces.

But most of all the Prime Minister should start by telling the truth about the agreements he signs, which are clear and unambiguous.

For the most cynical of reasons, in attempting to court other politicians in the EU the Prime Minister embarked on this process not with the slightest interest in improving European defence capability, but rather intent on increasing his own influence in the Council of Ministers. Spin, falsehoods and cover stories will not disguise what he has started – the weakening of NATO, the creation of the EU as a defence organisation and the division of the Atlantic alliance.

Iain Duncan Smith is Conservative MP for Chingford and Woodford Green and Shadow Secretary of State for Defence. He is a member of the European Foundation's UK Advisory Board.

… news in brief

Prodi wants end to rotating presidency

The president of the European Commission, Romano Prodi, has said that he wants to see an end to the system by which the presidency of the European Council is chaired by a different country every six months. He has said that this leads to "inefficient political tourism", as leaders have to troop off to the country which holds the presidency for their meetings. This statement confirms the decision reached at Nice (to buy off the Belgians at 4 o'clock in the morning) that in future all summits will be held in Brussels – a perfect example of European de-centralisation at work. [*Corriere della sera*, 10th January 2001]

German exports boom

Germany has discovered the delights of competitive devaluation, having preached against its use for decades. In the period during which the euro has languished on foreign exchange markets, German exports have massively increased. In the first 11 months of 2000, it has broken all records: German exports in this period exceeded one thousand billion DM (1,069,500,000,000). The figures for November 2000 are 15.3% higher than for the previous November, although imports have also risen by 26.5% over this period. The total trade balance showed a surplus of over DM 8 bn (down, in fact, from DM 15 bn in November 1999). [*Handelslblatt*, 11th January 2001]

In the Press

"Intimate Relations" reviewed by John R. Bolton *European Journal* 8(2): 23,24, November/December 2000.

"The Prince of Wales has told friends of his fears over the development of the controversial new European defence force… The Prince's concerns echo those of senior figures in Washington, both in the Clinton administration and the incoming Bush administration… Yesterday, a senior security aide to President-elect George W. Bush warned that the force will put the special intelligence links at risk, precisely the view of the Prince. John Bolton … said Mr Blair was 'flatly wrong' to claim he could take the UK into the Euro army and still keep London's privileged links with Washington… 'When it comes down to it, sympathy and history will play no role in deciding this. The US will do what it needs to do to maintain security', Mr Bolton writes in the Eurosceptic *European Journal* magazine." ***Daily Mail***, 22 December 2000

"No, No, No: Thatcher's grandchildren reject the superstate" by Allister Heath, *European Journal*, 8(1):13–15, October 2000.

"Almost half of the Conservative Party's general election candidates support a tougher line on Europe … according to a new survey… The poll was carried out by the European Foundation, a Eurosceptic think-tank chaired by William Cash, MP for Stone, and is reported in its *European Journal* magazine. Allister Heath, the group's head of research, said: 'After the next general election, a new generation of radical Euro-realists will take seats in Parliament. A greater proportion of Conservative MPs than ever before will oppose the euro and seek to renegotiate many aspects of Britain's membership in the EU.'" ***Independent***, 19 October 2000

"Nearly half of Tory candidates standing for 170 marginal seats at the next election are anti-Europe. Research by the *European Journal* found they take a tougher line on Britain's stance in Europe…" ***Daily Express***, 19 October 2000

"… the Eurosceptic *European Journal* published a survey which claimed that 46% of Tory candidates in target seats were opposed to the euro in principle…" ***Guardian***, 19 October 2000

"Nearly half of the conservative candidates in the party's target seats would never support the single currency, it was claimed yesterday… The figures, compiled by the anti-Brussels European Foundation… [show] that 46 per cent are Eurosceptic…" ***Daily Telegraph***, 20 October 2000

"A Survey of Tory candidates fighting the 170 most marginal seats shows that half are hardline opponents of the single currency… A total of 18 of the top 20 target seats will be fought by hardline Eurosceptics, according to a list published yesterday by the European Foundation which is chaired by Bill Cash, the Tory MP.

"Allister Heath, head of research at the European Foundation, said last night: 'The result is clear. There has been a decisive shift… I think it is clear that within five or six years the Tory Party will change its opposition to rule out forever membership of the single currency.'" ***The Times*** 25 October 2000

"Figures [have been published] showing that the [Conservative] party is preparing to select the most Eurosceptic candidates ever to fight the general election." ***The Times*** 18 November 2000

"EU Minimum Wage of £4.50?" by Matthew Elliott and Allister Heath, *European Journal* 8(2): 14–16, November/December 2000.

"Fears are growing over French proposals for an EU-wide minimum wage after a new study gave warning that the move could put a quarter of a million jobs at risk and send labour costs soaring… Allister Heath and Matthew Elliott, co-authors of the study, analysed the relationship between minimum wages and average earnings in countries across Europe. The European Foundation, which is chaired by Bill Cash, the Eurosceptic MP, also argues that harmonising minimum wage legislation could see the UK loose its youth rate." ***The Times***, 5 December 2000

"… there are growing fears that there could be moves to establish a European national minimum wage … this suggestion is being highlighted by Bill Cash, the outspoken enemy of creeping Europeanisation, and his gang at the European Foundation…" ***The Times***, 5 December 2000

"If French politicians ever succeed in their aim to secure an EU-wide statutory minimum wage, the rate would rise much further… Analysis done in the mid-1990s, suggested that a minimum wage of £4.50 – which some see as a likely EU-wide rate – would affect up to 40 per cent of women in employment and a fifth of all men." ***The Times***, 6 December 2000

"The European Foundation has published an economic analysis of the French plans, which were proposed in the European parliament in late October. Its authors, Allister Heath and Matthew Elliott, conclude that the likely level for such a wage would be £4.50 an hour… The think-tank which is chaired by Eurosceptic Conservative MP Bill Cash and has four members of the shadow cabinet on its advisory board, used 1997 Conservative Party figures to predict that around 250,000 jobs would be lost in the UK following the introduction of an EU-wide minimum wage of £4.50." ***People Management Magazine***, 19 December 2000

Taxing Lessons

by John Tate

Opposition to further European integration often centres upon the belief that, trapped within a tax-levying European state, public spending in the United Kingdom would rise to the European average. As public spending rose from the current 39% of national wealth to 48%, the UK would come to resemble the debt- and unemployment-ridden, quasi-corporatist economies of continental Europe. A related, underlying strand of this belief is that the UK should not participate in a Europe-wide taxation system as to do so would be to cede national self-determination.

This second concern, regarding self-determination, needs urgently to be separated from the dubious advantages of low public spending. Enhanced self-determination, welcome or not, is a plain corollary of staying out of a Europe-wide taxation system. Preserving the UK's lower rate of public spending is a meagre secondary argument for staying out, for the supposed reward, national prosperity, is dubious.

Dilapidated hospitals and schools, poor roads, and egregious railways are amongst the most visible, not to say embarrassing deficiencies of the UK in comparison with most of the rest of Western Europe. Comparing actual living standards is, of course, fraught with conflicting and necessarily subjective metrics. We may still get traction on the living standards concept, though, by examining surrogate variables, such as life expectancy; infant mortality; disease survival; doctors per head; teenage pregnancy; and family break-up. In every one of these areas, the UK lags behind almost every other European Union member. The exceptions of Ireland, Greece, Portugal, and Spain constitute the only other countries in the Union to approximate UK public spending levels – at 36%, 42%, and 41% of national wealth, respectively. Moreover, regressing GDP per head against public spending amongst EU countries reveals these variables to be positively correlated, such that a 10% change in one is associated with (though not, of course, caused by) a 5% change in the other in the same direction. The record-breaking growth of the American economy is often cited to support the counter view that lower public spending facilitates prosperity. The United States continues, however, to lag Western Europe in such core indicators as life expectancy, literacy, and disease survival. The rate of infant mortality in the US ranks twenty-first from best, whilst its incarceration rate approximates Turkey's.

Public spending levels are not the only factor behind differences in the variables that I have mentioned. Yet, as long as the police, hospitals, roads, and schools of Europe continue to be funded by governments, it would be extraordinary if the quality of these services did not to some degree alter with the amounts of money available to those governments. Certainly, the burden of proof lies with those who would show otherwise.

The way in which governments fund public spending is, of course, a separate matter. Overly numerous regressive, behaviour shaping, indirect taxes should, I submit, be the focus of any attempt to simplify and make fairer the UK tax system. The notion that lower rates of public spending are in the West correlated with higher living standards, however, is false. Flattering comparisons made by some commentators between the UK and Continental European economies are as erroneous as they are distracting from the important debate to be had on national self-determination. As a gauge of living standards, for example, the much-cited fact that the UK attracts high levels of foreign investment is just such a distraction. Foreign investment in impoverished Vietnam constitutes an even larger proportion of that country's economy than it does of the UK's, whilst foreign investment in the US constitutes a far lower proportion. Other commentators take comfort in insisting that the UK is "the world's fourth largest economy" – as if that makes crumbling roads, railways, hospitals, and schools more tolerable. The fact that by certain measures the UK economy can be made to appear the world's fourth largest is, again, a distraction – a distraction, both from the debate on self-determination, and from the genuine discrepancy in living standards between the UK and most of the rest of Western Europe.

Emphatically, European integration is not the answer to the UK's ills. The Euro-realist movement to preserve (and, given the treaties of Maastricht, Amsterdam, and Nice to regain) self-governance for the UK should not, though, blind us to observing the successes of our European neighbours. One core observation must be that, with few exceptions, EU countries that spend more than the UK on public services tend to enjoy better living standards, as gauged by the surrogate variables that I have identified. I do not argue that public spending need rise to France's 55% of national wealth. Yet, calling for the UK to eschew European government so that we may maintain or cut public spending is both distracting and undesirable. Certainly, the promise to freeze or reduce public spending is unlikely to resonate with a population tired of second-world public services, rising crime, and armed forces that are dying by a thousand cuts.

One response to the concerns that I have expressed is to say that, by more prudently managing public expenditure, governments may maintain or cut taxes whilst improving public services. The billions necessary to achieve this golden outcome would come, we are often told, from outsourcing, privatisation, efficiency savings, or even that perennial favourite: cutting fraud in the social security budget. Multiple privatisations, outsourcings, efficiency drives and fraud crackdowns later, governments remain unable to improve public services whilst maintaining (still less cutting) public spending.

Others argue that, despite the fundamental structural reform of the UK economy since 1979, market mechanisms still have not been given a fair and sustained chance to solve through affluence the social ills that we seek now to remedy with public spending. Affording the market more leeway, writers such as Patrick Minford and Robert Nozick argue, would obviate such things as the minimum wage, welfare payments, and public hospitals with a multiplicity of wealth-creating opportunities – allowing people the wealth to purchase hitherto public goods from private sources. Such opportunities are presently, according to this argument, crowded out by a surfeit of public spending and regulation.

More fundamentally, proponents of this view argue that, along with a host of private

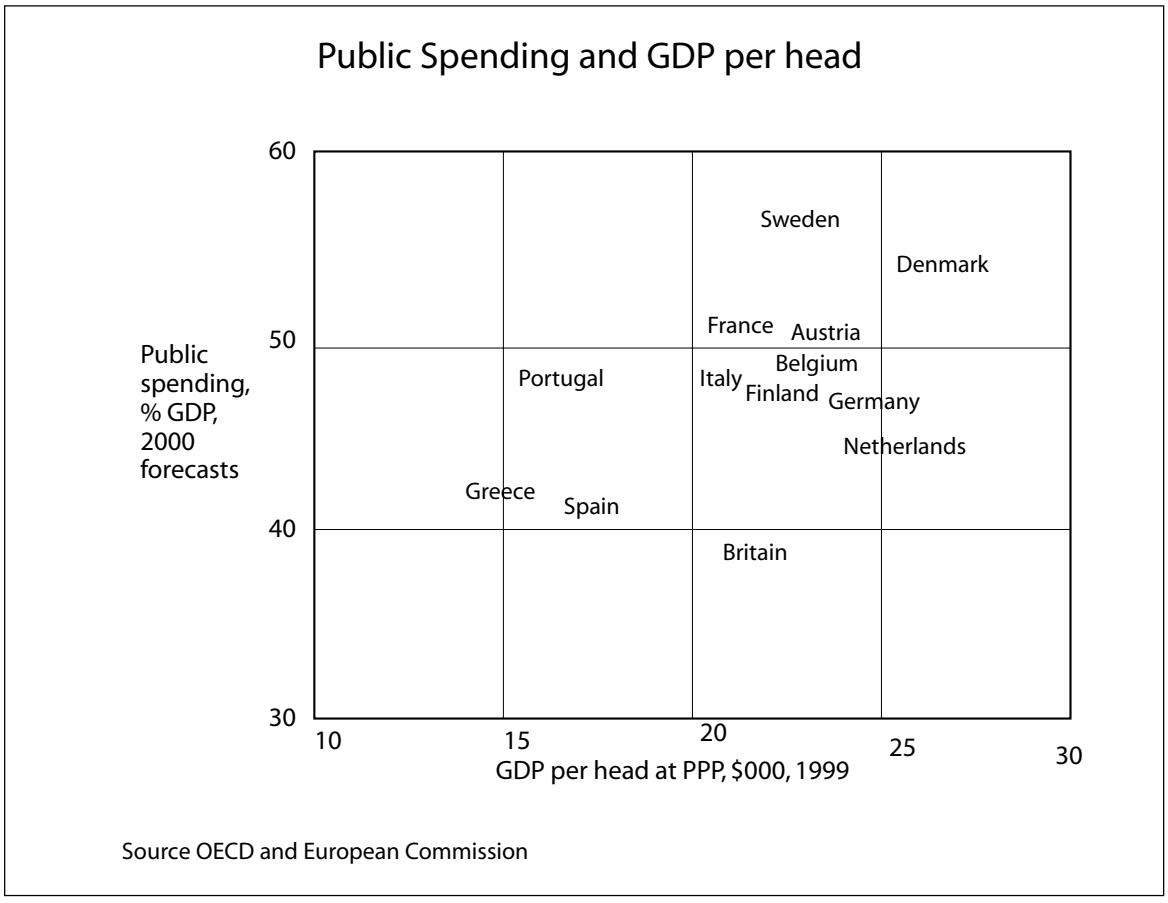
sector opportunities, public spending can even crowd out some of the very staples of decent behaviour. Charitable donations, civic participation, and self-help efforts are all impaired by state provision, they claim. Authors of most such arguments stop short of disbanding the state, preferring instead a minimal arrangement providing for the smooth functioning of markets. Anti-trust authorities, contract enforcement, and indivisible public services such as defence are, in all but the most extreme free market models, provided for; welfare-related fiscal transfers are not.

The Nobel Prize-winning economist, Amartya Sen, attacks this market solution. Sen explores the case of grassroots micro-finance and retraining initiatives, showing that unfettered markets are unlikely to provide these services to the very people who, without them, would remain in poverty. On a broader level, Sen's point is supported by the fact that many of the 20th century's best performing economies achieved prosperity using methods that most free marketeers would shun. Consider the policies used by the Tiger economies to achieve economic development: disregard for patent and copyright law; punitive tariff levels; import quotas; and even outright import substitution. I do not advocate that the UK employ these methods, but we should at least reflect before denying them to states presently in poverty.

An example closer to home is France. The continued, aggressive use of the state, including the secret service, to promote French commerce began in earnest under de Gaulle, and now augments a society that enjoys amongst the highest living standards in the world. Despite being in the public sector throughout the eighties and early nineties, the French airline, car, defence, electronics, and energy sectors continue to outperform or at worst equal their UK counterparts – all whilst the state continues to spend over half of France's national wealth. To this reality, the free-marketeer's best response is that France would have done even better with a less-fettered economy. Given the affluence of modern France, this response again loads a weighty burden of evidence upon its author. Were one to define having 'done better' as having produced, say, more profitable companies or a higher GDP, then counterpoints are easier to cite. Were one, though, to define doing better according to the living standards variables cited in this article, the case becomes far harder to make.

Beyond the debate on public spending, Euro-realists must unite to champion the simple but fundamental point that, however we decide to spend taxpayers' money, we must first control the purse strings. Shifting the debate to one of 'high' *versus* 'low' taxation (or, for that matter, to one of how democratic is the EU) is to lose sight of this more fundamental concern, and to make contingent what should be a matter of principle: the self-governance of the United Kingdom.

John Tate is a management consultant for McKinsey & Co. and a Member of the European Foundation's UK Advisory Board.



What Europe Should Learn from America

By Sheldon Richman

Everyone is excited about the new, unified European currency, the euro, but it's a terrible mistake.

To understand this, it is necessary to grasp what made freedom and prosperity possible in the West. For centuries, Europe, unlike Asia, consisted of multiple countries and legal authorities. On top of this was a transnational Catholic Church and then a decentralized Protestant religion. This resulted in a system of multiple and competing jurisdictions and divided allegiances. No one authority could claim or win a monopoly on the loyalty of people.

The overlapping jurisdictions had a fateful, unintended consequence: the system created zones of freedom within which people could engage in peaceful action unmolested by anyone. If any authority grew more oppressive than people could tolerate, they didn't have to go far to find another jurisdiction. Church law could protect someone from the king's law, and vice versa. In those zones grew trade and customs that eventually became the complex network of institutions we call civil society. Among the fruits were the rule of law, capitalism, limited government, and the richest civilization ever known.

What's this have to do with the euro? The euro is the new, single currency for Europe. For years, Europe has been heading toward unification. Had this been confined to removing trade barriers between the European countries, it would have been a boon. But instead, Europe is on its way to becoming the United States of Europe, with major power vested in a continental government. That will be an unmitigated disaster.

Without unification, if one European country enacts onerous taxes and regulations, businesses can flee to a neighbouring country. Technology makes that easier and cheaper than ever. The ability to vote with one's feet tempers national governments.

Unification represents an effort to end competition among governments. If competition is good for citizens, ending it is bad for them. Voting with one's feet will become prohibitively costly or impossible, freeing European politicians to raise taxes and impose regulations without fear.

Do Not Repeat our Mistakes

As a unified currency, the euro increases the risk of destructive inflation. As long as there were competing governments and currencies, inflation in one nation produced opportunities in others. Wealth would tend to flow from high-inflation to low-inflation countries. But if there is one monetary authority and one currency, that check on inflation will diminish. Considering that inflation is one of the most destructive things any government can do, the people of Europe could be in for a rough time.

I can hear people thinking: What's he talking about? The United States of Europe is analogous to the United States of America, and we haven't done so badly. Actually, America's experience makes my point.

The United States began with a decentralized system of governance. The locus of power was not at the national level, but at the state and local levels. The Constitution delegated only a few defined powers to the national government. The Tenth Amendment of the Bill of Rights re-enforced this principle by stating that all powers not so delegated belong to the states and the people. While state governments could be every bit as oppressive as the national government, at least the state jurisdictions were smaller and, if necessary, people could flee.

Over the years, power has flowed to Washington, thanks to politicians and judges who don't give a hoot what the Constitution says. The result has been an incredible increase in levels of taxation and regulation that have stifled our ability to enjoy liberty and raise our living standards as high as they might have been.

In their way Europeans are repeating our mistake. They will live to regret it.

Sheldon Richman is Editor of Ideas on Liberty, *the journal of the Foundation for Economic Education based in Irvington-on-Hudson, New York, and is Senior Fellow at The Future of Freedom Foundation, based in Fairfax, Virginia.*

… news in brief

Clinton signs ICC treaty

On the last day possible, outgoing US president Bill Clinton has signed the Rome treaty which brings into being the International Criminal Court. Human rights groups welcomed the step, which followed a long period of obstruction and hesitation by Washington. The US is worried that its own soldiers and their commanders could be hauled up in front of this new supranational body. The Congress is even more hostile than the administration, however: Senator Jesse Helms, the chairman of the Senate's foreign affairs committee, has vowed that he will ensure that the treaty is never ratified, as it must be by both houses of Congress. Helms is often regarded as the staunchest defender of American sovereignty, although his pronouncements to the United Nations in January 2000 made many concessions to the globalist agenda, not least his striking claim that only democratic nations had the right to sovereignty. Opinion is therefore divided now on what will happen next with the ICC treaty. Either Helms and his friends will ensure that the thing is thrown out completely, or it will be ratified in such a way that it is hedged around with provisions ensuring that Americans do not get prosecuted.

Following the steps of Mussolini in the march on Belgrade

While the Western media continue to parrot the myth that the events in Belgrade on 5th October, when the federal parliament and the national TV station were violently stormed, were "spontaneous", local observers in Serbia, including ones who support the regime change, have been more frank about the preparation and organisation which went into them. An instant book has been produced which is on sale in the Belgrade bookshops already: "October 5 – a 24-hour coup" by Dragan Bujoševic and Ivan Radovanovic (Media Center Belgrade, 2000). It details the intense opposition activity which went into staging the revolt and, in tones of admiration, explains how the main opposition leaders implemented them. "The DOS leaders," the authors helpfully indicate, "evidently read Curzio Malaparte's 'Techniques of a coup d'état.' When Mussolini set off for Rome on October 1922, Malaparte claims, nobody could stop him. That was the first part. The second one should have been similar to what Trotsky did in October 1917 in St Petersburg taking over key positions in the city." (*op. cit.,* p. 58). In other words, the US-financed so-called democratic "march on Belgrade" was in fact based on plans inspired by Mussolini and Trostsky.

BOOK REVIEWS

Ultimate Vindication: The *Spectator* and Europe 1966–79

by **Thomas Teodorczuk**, Bruges Group, 2000, Occasional Paper No. 41, 66 pp, £4.95

Reviewed by Peter Oborne

One of the keys to the victory of the 'Yes' campaign in the 1975 referendum on British membership of the common market was near unanimous support from the press. Only five newspapers were against: The *Morning Star*, *Tribune*, the *Scottish Daily News*, the *Dundee Courier* and the *Spectator*. Thomas Teodorczuk has had the bright idea of chronicling this singular passage in the history of the *Spectator*. The magazine is famous for voicing heretical opinions and challenging the conventional wisdom. That is what it is for. But rarely in its long and distinguished history has it taken such an adamantine and isolated stand against the orthodoxy of the day as it did in the years when Sir Edward Heath – "a morbidly pathetic creature", according to the paper's political columnist Patrick Cosgrave – led Britain into Europe. Teodorczuk carefully describes the events which led the *Spectator* to adopt this ultramontane posture. There was no euro-scepticism in the 1960s. Owned by Ian Gilmour and edited by Nigel Lawson, the paper reflected the establishment view that Europe represented the solution to Britain's post-imperial dilemma. Lawson's paper did not merely urge membership of the common market: Teodorczuk shows that it pushed for monetary union. "The lack of progress towards a common currency is the fundamental flaw in the structure of the European Community," pronounced a *Spectator* leader in February 1968. Gilmour's decision to sell the paper to Harold Creighton, a manufacturer of machine tools, paved the way for change. Relations between the new owner and his editor were cold. "Lawson resisted Creighton's attempts to influence aspects of the *Spectator*'s editorial policy by invoking a clause in his contract guaranteeing independence," records Teodorczuk. Eventually Creighton lost patience, and sacked his arrogant and uncompromising editor while he was campaigning as Conservative Party candidate for Eton & Slough during the 1970 General Election. First he offered the job to Bernard Levin, then to Enoch Powell.

Both men turned him down. He struck third time lucky with George Gale, an old *Daily Express* hand, admirer of Powell and a Fleet Street legend in his own right. Within three weeks Gale had reversed the *Spectator's* support for Europe. He labelled the common market "an unnatural and unhistorical and therefore ignorant folly". He saw through the mendacious claim in Edward Heath's 1971 European White Paper that membership would involve "no question of any erosion of essential national sovereignty."

He warned again and again that common market membership would cede crucial powers to Brussels. European integration, pronounced Gale, was "undemocratically arrived at and undemocratically pursued". He warned that joining would "lower yet further the esteem in which Parliament and the system is held." Lawson's cronies like Political Correspondent Peter Paterson and Jock Bruce-Gardyne, who had been appointed Foreign Editor in 1967, were dispensed with. Gale imported his own people. Patterson was replaced by Hugh Macpherson. The fact that this testy commentator was a socialist was deemed to be of no importance: the important thing was his stout anti common-market views. Macpherson was in due course replaced by Patrick Cosgrave, later to become a political adviser to Margaret Thatcher.

Gale's editorship lasted three years. It is not clear why he was sacked. Creighton himself took over. But the move made little difference to the paper's political line, which now fell under the control of Cosgrave. For the next two years, up to and beyond the 1975 Referendum, the *Spectator* became an anti-European cell. Cosgrave, still more than Gale, embraced the Powellite doctrine of 'principle before party'. Labour anti-Europeans were welcomed on board, while Edward Heath and his Tories were trashed. The paper hosted the negotiations between the Get Britain Out and the Common Market Safeguards Campaign Group which led to the creation of the National Referendum Campaign. Teodorczuk maintains that this was a heroic period in the magazine's history. He praises the paper for being "way ahead of its time" and concludes that "the *Spectator* stands spectacularly vindicated." But he is too honest not to present the other point of view.

The *Spectator* paid a high price for ideological purity. The paper became a monomoniac bore. Even the arts and books pages were infected by the anti-European virus. The louder Gale and Cosgrave banged the anti-European drum, the faster the readers fled. Auberon Waugh later declared that the paper "betrayed everything the weeklies stand for – not because of the side it took, but because of its manner in taking sides." By 1975 the circulation was hovering just above 13,000, compared to close to 60,000 today. In July 1975 Creighton sold out to Henry Keswick. The new editor, Alexander Chancellor, saved the *Spectator*. Chancellor felt that other things deserved coverage besides Europe. As one of his contributors, Christopher Booker, acknowledged: "There is a boredom induced by things such as the Common Market. This can usually be avoided by not reading about such things in the newspapers." (Booker was later to abandon this position). In the editor's notebook of 19 June 1976 Chancellor signalled that he was dropping the paper's obsessive hostility to the common market, quoting William Anstruther-Grey, a former chairman of the 1922 Committee: "The more policies you have, the more votes you lose." By 1978 the *Spectator* was pressing once again for a single currency.

Tom Teodorczuk, currently studying for a diploma in journalism at City University, needs to learn how to write. Too many of his sentences are ugly, malformed, ungrammatical constructions like this monstrosity: "The *Spectator* vainly swam against a tide of consensual opinion that dismissed its

warning signs as those akin to a minority irritant." Nevertheless he has written a well-researched and useful pamphlet. He rightly asserts that many of the *Spectator*'s urgent warnings 25 years ago look prophetic today. But perhaps the more urbane, ironic and measured euroscepticism of later editors like Moore, Lawson and both Johnsons have had a more telling effect on mainstream opinion than the magnificent, passionate and doomed diatribes of Gale and Cosgrave.

Peter Oborne is a political columnist for the Daily Express.

Can Self-Government Survive? Britain and the European Union

by **Nevil Johnson**, Centre for Policy Studies, 2000 ISBN 1-9032-1916-7, 58pp, £7.50

Reviewed by Allan Lloyd

Can Self-Government Survive? was one of two papers published by the Centre for Policy Studies in the run-up to the Intergovernmental Conference convened in Nice in December 2000. The author, Nevil Johnson, an Emeritus Fellow of Nuffield College, Oxford and a former Professorial Fellow – but not to my knowledge a member of the extensive clan Johnson currently occupying the *Spectator* – clearly sets out his stall in his introduction. What effect is the continued evolution of the EU going to have on Britain, given our historically difficult relationship with the European project – under its various aliases – ever since we joined in 1972? And what are the options open to us for the future?

The first impression is how thoroughly academic this work is, full of reason and balance. There is no doubt that Professor Johnson is deeply sceptical (in the true sense) about the construct and direction of the EU, and of our involvement in it. But the pamphlet remains analytical and coherent throughout, and is written with a clarity and simplicity often missing from academic tracts. Occasionally, however, the author is too even-handed; when he mentions the undoubted "economic benefits of membership", the partisan (i.e. political) EU-critic longs for the chance to doubt them with all the well-tested arguments at our disposal.

Astute observations abound on every page, especially in the chapters setting out the historical background and "the traditions of a self-governing nation". Here the Professor's expertise is put to good use as he explains why the very nature of self-governance is viewed differently in this country compared with the way it is understood on the continent. The administrative system in Europe sees 'the State' as a legal entity, and therefore its transfer from one location to another and from one set of bureaucrats to another is merely a technical problem, and technical problems can be overcome. The unbroken historical evolution of our Crown-in-Parliament democracy is fundamental to the British understanding of the freedom of nationhood, and so surrendering sovereignty has a far more profound meaning for us. One suspects that the continental elites simply cannot grasp this.

This booklet then examines the increasingly cumbersome management that burdens the EU as it continues down its predestined road to 'ever closer union'. An underlying theme here is the recently exposed, French driven desire for the EU to be a 'superpower', an idea which clearly appeals to the Prime Minister. The author points out that the more the EU seeks to assume political directions previously handled by national governments, the more its decision making is shown to be woefully inadequate, and the less politically accountable the whole thing becomes. What possible national interest can be best served by Britain being an irrevocably incorporated fragment of such a monster?

Turning his attention to enlargement – after all ostensibly the rationale for the Nice summit – Professor Johnson demonstrates the increasing unlikelihood that the applicant states of Eastern Europe will be admitted on the terms they have been pursuing. Politically "a Union extending from Lisbon to Riga and from Stockholm to Athens is an implausible prospect", he says with good reason. However unlikely such expansion may seem to sensible observers, it has not stopped further integration taking place at Nice. The supreme irony of this is the way it destroys the central plank of the Major Government's euro-enthusiasm. We were repeatedly told that to press for enlargement ('widening') would result in the British nirvana of "an EU of loosely associated nation states". In reality the jamboree at Nice was all about the centralisation of more political power than ever before, 'deepening' at its most dangerous. The EU moves inexorably in only one direction, whatever successive British Governments may say.

The author moves on to consider further elements of the EU's structure and philosophy. Indeed, he identifies three areas of emerging political ideology that are increasingly important to EU thinking, and at the same time alien to the British viewpoint. First, he notes a developing anti-Americanism, present ever since the end of the Second World War in France but growing in Germany. Here we are back in the realm of the EU as Superpower, with all its inherent absurdities. Secondly, there is the growing obsession with 'human rights'. This is perilous ground for democracy, as recent events in Austria have shown. It is all very well for supporters to cite the example of the USA (in curious and direct contrast to the sentiments expressed above), but the EU has neither the constitutional checks and balances nor the wisdom of the Founding Fathers. Finally, there is the issue of the so-called European Social Model, which Johnson succinctly notes "vividly underlines the desire in so many parts of continental Europe to perpetuate the social and economic environment of the 1970s into the future."

On the subject of the EU's bureaucratic structure, the author explains the technique of *finalité*, in which the language used in legal and political declarations points to ends, aims or objectives. This enables all the institutions to work in an integrationist direction, interpreting near-meaningless words in whatever way best suits *le grand projet*. As for the bureaucracy, it displays almost perfect Parkinsonian behaviour; in Johnson's words, "the familiar pathology of bureaucracy" – it expands, not only in size but also in power.

And so to the Professor's conclusion, in which he sees three options. The first he calls "business as usual", the status quo option. Although he considers this the most likely outcome, it is fraught with difficulties,

not least the continued erosion of self-government which the British people will wake up to at some point. For how much longer can the public be kept in fear and ignorance of what is happening?

The second option is described as "changing direction", and emerges as the author's ideal choice. This is broadly the notion that has been put about by British politicians for some time now of a looser association of freely trading and co-operating nations. The problem with this idea, as Johnson acknowledges, is that it is simply not on the agenda on the continent. It has been talked about for long enough, and nothing has or will come of it.

The third option is withdrawal, the "choice of last resort". However, if no other option is acceptable, it becomes the only one. Johnson points out that an orderly (i.e. negotiated) departure from the EU need not be catastrophic, indeed quite the reverse, in particular with respect to reclaiming the powers of self-governance.

This pamphlet is a comprehensive and well presented view of the United Kingdom's relationship with the European Union; an honest appraisal. In his final paragraph, Professor Johnson calls for just that virtue – honesty – to enter the political debate here in Britain, highlighting the fact that it has been sadly lacking thus far. So what of the title question, can self-government survive? The answer is, conditionally, yes. It is conditional upon the realisation that our relationship with Western Europe has to be radically reformed, and it is conditional on finding the political will to negotiate that reform, and soon. Time is short. In the words of the old Spanish proverb, "It's later than you think."

Allan Lloyd is a landowner and businessman who has previously contributed to the European Journal.

Europe: démocratie ou super-état?

by **Georges Berthu, MEP**, François-Xavier de Guibert, 2000,
ISBN 2-86839-711-5, 196 pp, FF110.

Reviewed by Allister Heath

Reader, if you live in Blair's Britain, if you are sick and tired of this government's doublespeak on Europe, if you are suffering from a particularly acute bout of post-Nice depression, I know a cure that works wonders – so read on. Take any French newspaper daily – *Le Monde* or *Le Figaro* will do – or watch any French television news, regardless of channel. What you read or see will come as a salutary reality check. The spectacle is sorry indeed: an entire political class grovelling in front of the altar of Europe, in open defiance of much of public opinion, egged on by the astonishing intellectual and moral cowardice of media pundits and public intellectuals. Perhaps the situation is not so bad on our side of the Channel after all.

It was France's turn to preside over the European Union in the latter half of 2000. The reaction of the country's political elite was all too predictable. In a nauseating display of political correctness – it's called *la pensée unique* in Paris – virtually all the leading political figures in France lined up to reaffirm their unconditional devotion to the nascent European state. François Bayrou, who runs the 'centre-right' UDF, launched his party's "Project for a European Union Constitution" on 26 June last year. Ten days earlier, *Le Figaro* reported that Jacques Toubon and Alain Juppé were hard at work preparing a "European Constitution". Those leading lights at the 'Gaullist' RPR were effectively burying the legacy of Général de Gaulle, the man they claim ever more bizarrely as their inspiration. Phillipe Séguin, formerly the head of the RPR and an ex-Eurorealist, had already endorsed the idea of an EU constitution. It was also revealed that Dominique Latournerie, the main author of the RPR's proposal, wants a Constitutional Assembly to prepare a draft to be brought to referendum in every EU country. Alain Madelin, who spearheads *Démocratie Libérale*, the most free-market of the major French parties, also supports the bulk of the process of European integration. It was left to President Jacques Chirac to put the icing on the cake. In a now infamous speech to the Bundestag in Berlin on 27 June 2000, he opined that the Charter of Fundamental Rights could provide the basis for the first European constitution.

All this proves that the 'right' in France has stopped thinking. Unfortunately, the 'left' has failed to spot the obvious electoral opportunity. The Socialist-Communist-Green coalition government led by Prime Minister Lionel Jospin wholeheartedly supports the EU project, although M. Jospin probably still harbours some reservations on the idea of an EU constitution.

So where have all the French *souverainistes* gone? The fundamental problem is that those who disagree with the received wisdom are no longer welcome in polite society and have been banished from the mainstream media. Despite all this, a highly motivated group of Eurorealist scholars, politicians and activists continues to fight on. Of those not driven underground, some have regrouped under various banners in the European Parliament.

Eurorealist thought in France spans the political spectrum. The most interesting strands include radical decentralist environmentalists who reject globalism as well as all forms of globalisation, some hard-line communists, moderate socialists (led by Jean-Pierre Chevènement, the former Interior Minister, and his *Mouvement des Citoyens*), the remarkably successful coalition of hunters and farmers *Chasse, Pêche, Nature et Tradition*, some – but perhaps surprisingly, from a British perspective, certainly not all – classical liberals, and last but not least, traditional Gaullists and conservatives. It is from this latter category that the most influential dissenting voices on Europe can be heard, especially given the relative powerlessness of France's classical liberals and free marketeers. The vitality and intellectual rigour of their writings comes as a breath of fresh air in the current stultified French climate.

One leading representative of this true Gaullist Eurorealist movement is Georges Berthu. An *énarque*, he was first elected to the European parliament on the original Sir James Goldsmith and Philippe de Villiers platform in 1994. He was subsequently re-elected in 1999. The author of numerous books and pamphlets, including the classic French-language dissection of the Amsterdam Treaty (*Le Traité d'Amsterdam contre la démocratie*, 1998), he is also a regular contributor to the *European Journal*. His latest essay, *Europe: démocratie ou super-état?,* was published a few weeks before the Nice Summit by François-Xavier de

Guibert, one of the most innovative publishers in France today. M. Berthu's book is part of their *Combats pour la liberté de l'esprit* series, which is edited by Professor Jean-Paul Bled of the University of Paris-Sorbonne, himself another leading French Eurorealist intellectual. This is the fourteenth book released under this imprint, which means literally 'Struggle for freedom of thought' and specialises in Eurorealist and Gaullist titles.

M. Berthu argues persuasively that the EU Treaties are designed in such a way as to ensure that decisions taken lead incrementally to ever closer union. For instance, although the European Court of Justice is mandated to maintain the rule of law, M. Berthu explains that it views EU Treaty 'law' through teleological lenses. Decisions are inevitably seen as a means towards bringing closer the ultimate goal of total unification. The name of the game is judicial activism. The author rejects the current hierarchical model of Europe and outlines instead an alternative vision, which he dubs "a network Europe." The relationship between member states and the centre would become horizontal rather than vertical, and Brussels would be reduced to being a provider of services for Europe's countries. Among the many more gems in this volume is a demonstration that the EU is increasingly becoming a *unitary* state, rather than a *federal* state, as widely believed.

Inevitably, readers will disagree with aspects of M. Berthu's thesis. I, for one, would argue unreservedly for free markets and free trade, a prescription with which our author appears uncomfortable at times. Such disagreements matter little. We should welcome enthusiastically this excellent work by a courageous thinker.

M. Berthu, the message from this reviewer in London is *félicitations et bonne chance*!

Allister Heath is Head of Research at the European Foundation and is a member of the European Journal's *editorial team.*

Separate Ways: The Heart of Europe

by **Peter Shore**, Duckworth, 2000, ISBN 0-7156-2972-7, 244 pp, £18.99

Reviewed by Austin Mitchell, MP

Separate Ways is a eurosceptic antidote to the mythologies of Hugo Young's *This Blessed Plot*. Based on a distaste for Britain and a belief that we would never make it in the real world, Young's euro-enthusiasm led him to tell the story as one of historic inevitability. Antediluvian Brits were misguidedly clinging to the past, vainly resisting a natural destiny clearly visible to a few all-seeing souls like Hugo, Ted and Tony, but sadly obscure to the rest of us through ignorance, selfishness and that most politically incorrect of all emotions, patriotism. Sound Chaps for Europe. Uninformed Colonel Blimps against.

The Euro shambles began when the British ruling class lost its nerve. It came to the conclusion that Britain was ungovernable and that business and unions were incompetent. Britain had certainly exhausted itself by bearing more than its fair share of post-war burdens. So while Europe grew we stagnated, a problem compounded when Wilson's Government failed to get 'growth in one country'.

The political élite therefore decided that Britain needed a Euro boost. Because its people were too complacent, insular and set in old ways to realise this, they had to be conned into taking the cure. This was a process the Foreign Office – desperately needing a new stage to strut on – was happy to embark on. Foreign Office mandarins felt that because they understood Britain's real destiny, they were justified in engaging in dirty tricks. These included the frustration of de Gaulle's proposals for a Europe of Nations and the media manipulation of the power breakfasts in 1970, bringing BBC and ITN executives into the Euro sales force. The *Today* Program and *News at Ten* were squared, and Ian Trethowan took Jack de Manio off *Today*. The CIA threw itself behind the 'Yes' campaign in the 1975 referendum. The litany of lies rose to a crescendo – all for our own good, of course. Chaps were acting in the national interest even if the nation didn't particularly want them to.

As ye sow, so shall ye reap. Having been conned by a litany of hype and lies which Europe could never live up to, the electorate felt betrayed and has remained sceptic ever since. They weren't, of course, consulted. Ted instructed his negotiators to get in at any cost, which the appropriately named Sir Con O'Neill duly did. He accepted a Common Fisheries Policy deliberately designed to grab our fish, a budget contribution system intended to ensure that we paid over the odds, and a Common Agricultural Policy to stop us buying cheap food from our old suppliers – that way we could buy Europe's over-priced food and cut our ties with trusted trading partners and allies.

This was all about religious enthusiasm, not about economic rationality. For instance, it is easier to penetrate a small market from a large one rather than vice versa. Our exports to Europe were rising more rapidly before we joined than after, while our imports did exactly the opposite. The result was a large and ever growing trade deficit which destroyed jobs here. Worse, the growth to which we thought we were hitching ourselves stalled because Europe was beginning its fatal flirtation with a single currency, forcing France and Italy to deflate to get down to Germany's low inflation rate. Having promised the electorate the best of all worlds, the euro-enthusiasts got the worst – which they then had to proclaim as improvement – beginning the diet of Euro lies and half truths we've been fed on ever since. Not unnaturally, the people felt betrayed as their leaders told them failure was success and enumerated benefits they neither saw nor felt. Peter Shore remorselessly chronicles all this, right down to the euro campaign. The same people who told us that the ERM would be so beneficial now say the same about the euro, while carefully concealing the fact that in Europe the euro is sold as building federalism.

Which brings Shore to the central problem facing euroscepticism: what now? Proclaim 'thus far and no further' against each new initiative from their remorseless repertoire and always lose out. Pretend to enjoy it despite the damage it does to our economy and political life. Or take arms against a sea of troubles, recognise that we would be better off out, and fight for that on an issue that now involves taking on a whole series of well-entrenched vested interests.

All this divides the Eurosceptic movement. Some only oppose the euro; others

dislike the Nice progress towards a European state with its own army, constitution and judicial state. Despite the fact that they dislike and mistrust Europe, the public would be frightened by this latter course of action because they have lost confidence and fear to be alone in the world. This feeling is wrong. It is the smaller states that have grown the fastest and big blocs are less and less necessary as tariff walls come down. Yet Euro politics has never been about rationality.

Peter Shore's answer is not withdrawal but varieties of Europe achieved by accepting the trend towards a multi-speed Europe. There would be a hard core, dominated by France and Germany, moving more rapidly towards the European state which is the aim of the French (provided they run it). There would also be an outer group, the new EFTA, comprised of those who want a single market and a trading relationship but no further integration. Then, coming soon at a Europe near you, you will be an outer zone of the newer states who need Europe to strengthen their fledgling democracies but are being disgracefully treated as negotiations are deliberately delayed because the others refuse to pay up for a Common Agricultural Policy for them, or for the kind of aid and support which have boosted Spain and Ireland. Something Spain and Ireland don't want for others.

Peter Shore's solution is a "fundamental renegotiation". We abolish our veto on "enhanced co-operation" in return for the power to repatriate whatever areas of policy we want. This works with the grain of the multi-level Europe already developing. If we don't get that we should get out. It would cause no great damage and there would be a lot of benefits despite the mythology of how much we need Europe so that we can be taxed, so that we can run a trade deficit and so that we can eat over-priced goods. The Foreign Office wouldn't like it, nor would those who need the European stage to strut on. The pundits would be deprived of their constant sermons on how we must be more committed. Yet it would be perfectly acceptable to the British people who want real benefits, not prospects of grandeur. With a modest degree of economic competence from our leaders it would work. The more Labour leaders discover that they have that, the cooler they'll become on Europhoria.

Austin Mitchell is Labour MP for Great Grimsby and a member of the European Foundation's UK Advisory Board.

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Is Europe Becoming a Superstate?

by Keith Marsden

In a speech to the Confederation of British Industry on 6 November 2000, the President of the European Commission, Romano Prodi, vigorously denied that the Commission wanted to create a European superstate. "Let me say this loud and clear. This Commission is not calling for a European superstate. Let's forget this fallacy once and for all", he said. Perhaps Mr Prodi offered this soundbite as a gift to his friend Tony Blair. But he must (or should) have known that his statement is flatly contradicted by a recent Commission publication – *The ABC of Community Law.* This official pamphlet (called ABC hereafter) shows clearly that the EU already has many of the laws and institutions of a single state, and that it is moving step by step in the direction of political unification. It further argues that only through 'internal cohesion' will Europe gain the power "to assert its political and economic independence from the rest of the world, win back its influence in the world and retrieve its role in world politics." These words leave no doubt that the Commission's aim (supported by some powerful Member States) is to transform the EU into a superstate to rival the only other superpower – the United States of America. Moreover, the ABC firmly rejects Tony Blair's vision of Europe as an alliance of "free, independent, sovereign states" put forward in his Warsaw speech of 6 October 2000.

The ABC was written by an eminent jurist – Dr Klaus-Dieter Borchardt, and is published by the Office for Official Publications of the European Communities. There is no disclaimer that it only represents the views of Dr Borchardt. The stated purpose is "to explain the European legal order" to the citizens of the European Community. It has the merit of describing the EU Treaties in terms intelligible to the layman, and thus makes it more difficult for politicians and Eurocrats to hide their intentions behind legal jargon or political obfuscations.

The ABC points out the crucial distinction between intergovernmental alliances and organisations (such as NATO and the Council of Europe) and the organisations comprising the European Union. The former offer a platform for close co-operation, but do not provide for the transfer or merging of sovereign rights. All important decisions require unanimity, which means that every country has a power of veto. "The feature that is completely new in the EU", says the ABC, "is that the Member States have ceded some of their sovereign rights to the EC (European Community) at the centre and have conferred on it powers to act independently. In exercising those powers, the EC is able to issue sovereign acts which have the same force as laws in individual States." It goes on to say that "the creation of the European Union (EU) by means of the Treaty of Maastricht marked a further step along the path to the political unification of Europe leading … ultimately to a European constitutional system."

A chapter headed "Fundamental Values of the European Union" states that "Unity is a recurring theme", and argues: "Present day problems can be mastered only if the European countries move forward along the path that leads them to unity." Unemployment and inadequate growth are said to be problems that "have long ceased to be merely national problems; nor can they be resolved at national level." Unity, it says, can endure only when "all Community citizens are equal before the law", implying the need for unified Community laws.

The ABC talks about "the fundamental freedoms" (of movement of people, goods, services and capital, and the freedom of establishment) guaranteed by EU Treaties. Nevertheless, it subsequently goes on to add that freedom must be constrained by what it calls "the principle of solidarity", arguing that "solidarity is the necessary corrective to freedom, for inconsiderate exercise of freedom is always at the expense of others." It is not clear how the word 'inconsiderate' would be defined. What economic freedom would be left if firms and individuals were prevented from competing openly for markets or jobs if others might be harmed in the short term? The idea that competition and free markets widen the opportunities and choices of workers and consumers, and enhance the living standards of all citizens in the longer term, seems alien to the Commission. Furthermore, many people still believe that their hard-won freedoms are best safeguarded if they retain the power to elect their own governments able to reinforce or change their laws and policies if the people wish them to do so.

The ABC rejects these notions. It insists that equality and solidarity can only be achieved by the primacy of Community law over national law, and by the harmonisation of policies. This has already been achieved to a large extent, it says. It refers to a 1962 ruling of the European Court which stated: "The transfer by the States from their domestic legal system to the Community legal system of the rights and obligations arising under the treaty carries with it a permanent limitation of their vereign rights, against which a subsequent unilateral act incompatible with the concept of the Community cannot prevail." Thus the transfer of power is irrevocable.

The ABC sets out the elements which together characterise the special legal nature of the European Union:

- the institutional set-up, which ensures that action by the EU is also characterised by the overall European interest;
- the establishment of its own legal order which is independent of the Member States' legal orders;
- the direct applicability of Community law, which makes provisions of Community law fully and uniformly applicable in all Member States, and bestows rights and imposes obligations on both the Member States and their citizens;
- the primacy of Community law, which ensures that Community law may not be revoked oramended by national law, and that it takes precedence over national law if the two conflict.

The ABC clearly uses the word Community in the sense of a supranational power. It states: "The EC has areas of responsibilities which together constitute essential attributes of statehood." But it recognises that "the EU is itself not yet a finished product", but is "in the process of acquiring a status similar to that of an individual state." The tasks of the Commission are to continue this process in various ways, including: "the gradual approximation of national economic policies in all sectors, to weld the Member States into a community." It further points out: "The direction of the integration process was intentionally not left to Member States or to international co-operation. The EC has an institutional system that equips it to give new stimuli and objectives to the

unification of Europe and to create a body of Community law that is uniformly devised and applied in all the Member States."

The main actors are the Commission, the European Council, the European Court of Justice and the European Parliament. The ABC defines their respective roles. The Commission is "the driving force behind Community policy. It is the starting point for every Community action." It is also "the guardian of the Community Treaties", monitors their application, institutes infringement proceedings in the event of any violation of Community law and, if necessary, refers the matter to the European Court. It also acts as an executive body, checking facts, granting approval or issuing bans, and imposing penalties.

The function of the European Council is "to establish policy guidelines for European integration … by taking basic policy decisions and issuing instructions." National governments are represented in the Council by their ministers and heads of state. But the ABC underlines the fact that "even though the Member States defend their interests in the Council, its members are at the same time obliged to take into account the objectives and needs of the Community as a whole." It stresses that "the Council is a Community institution and not an intergovernmental conference." For that reason, it says, "majority voting in the Council is the rule." The Commission is very forthright in describing the intention and effects of this rule: "The importance of majority voting lies not so much in the fact that it prevents small States from blocking important decisions, as such states could normally be brought into line by political pressure. What the majority principle actually does is to make it possible to outvote large Member States that would withstand political pressure."

The Commission has proposed the extension of majority rule to what it calls "especially sensitive political areas", such as taxation, social security, foreign and defence policy, where the Treaties currently require unanimity. It hoped that its proposal would be approved at the Intergovernmental Conference held in Nice in December 2000. This would have removed all significant remaining areas of national sovereignty, and left the roles of national parliaments and courts as virtual rubber stamps for EU-level policy and legal decisions, and with no powers of amendment or revocation. In the event, Nice did not go as far as some federalists had wished. Qualified majority voting (QMV) replaced unanimity in 39 Treaty areas, including some aspects of environmental, social and foreign policy, but further extension was postponed until the next IGC in 2004. Before Nice, British ministers had said they would only accept extension of majority voting when it is in Britain's interests.

When, it should be asked, is it in the interest of Britain to bind future generations to policies or measures that may cease to be beneficial if circumstances change?

When, it should be asked, is it in the interest of Britain to bind future generations to policies or measures that may cease to be beneficial if circumstances change? And isn't it fundamentally undemocratic to do so? If measures proposed by the Commission and other Council members are currently attractive they can always be incorporated into national legislation and policies. On the other hand, the incorporation of such measures into EU directives or regulations sets them in stone, and eliminates the possibility of individual states taking unilateral action to confront new challenges or satisfy the emerging needs of their citizens? Isn't flexibility always more likely to be in the interests of Britain and its citizens than rigidity?

The ABC says that the European Parliament "represents the peoples of the Member States of the Community", but notes that "it possesses only a few of the functions of a true parliamentary democracy." In particular, "it does not elect a government. This is simply because no government inthe normal sense exists at Community level. Instead, the functions analogous to government provided for in the Treaties are performed by the Council and the Commission, according to a form of division of labour." The ABC emphasises that "The Council is not legally obliged to take account of the opinions or amendments emanating from the Parliament." The Council's "main task is to lay down and implement legislation". It is also responsible for "ensuring coordination of the economic policies of the Member States", in some cases by legally binding decisions. It may also make recommendations to any member whose economic policies are inconsistent with those of its guidelines, and may issue warnings and even impose sanctions.

The European Court is "the highest and at the same time the sole judicial authority in matters of Community law." In exercising that function, the ABC states, the Court "operates in matters that in member states would be assigned to different types of courts." It acts as a constitutional court when disputes between Community institutions are before it; as an administrative court when reviewing the administrative acts of the Commission or of national authorities applying Community legislation; as a labour court or industrial tribunal when dealing with the freedom of movement, social security and equal opportunities; as a fiscal court when dealing with matters concerning the validity andinterpretation of directives in the fields of taxation and customs law; as a criminal court when reviewing Commission decisions imposing fines; and as a civil court when hearing claims for damages and enforcement of judgements in civil and commercial matters. Its authority is not confined to written Community law, which as we have seen, overrides national law. It can also draw upon what are called "the general principles of law". These include the guarantee of basic rights, the protection of legitimate expectations, the right to a proper hearing and the principle that Member States are liable for infringements of Community law. Unwritten Community law also encompasses legal custom. This is understood to mean a practice which has been followed and accepted and thus become legally established, and which adds to or modifies EU legislation.

These wide ranging legal powers leave little opportunity for national governments, firms orindividuals to pursue different courses of action in fields covered by EU decisions, directives and regulations. The ABC stresses that all legal acts of the EU apply in full in all Member States. A Member State has no power to apply a regulation incompletely or to select only

those provisions of which it approves. Nor can it set up provisions or practices of domestic law to preclude the mandatory application of a EU regulation.

The ABC concludes its explanation of the legal framework with these words: "Community law must not be conceived as a mere collection of international agreements, nor can it be viewed as a part of, or an appendage to, national legal systems. By establishing the Community, the Member states have limited their legislative sovereignty, and in so doing have created a self-sufficient body of law that is binding on them, their citizens and their courts."

Where does nationality fit into all of this? In his speech to the CBI, Mr Prodi said: "I am Italian. I was proud to be Prime Minister of my country. I will not give up my national identity, and no one is threatening that I should." The ABC, however, portrays national identity as a cultural or linguistic trait. In the briefest section of the document (a mere 10 lines in 115 pages) headed "Respect of National Identity", it says that the "variety of national characteristics and identities … lend the EU its moral authority, which is in turn used for the benefit of the Community as a whole." It also asserts: "The idea is not for the Member States to be 'dissolved' into the EU, but rather for them to contribute their particular qualities." But this is merely an affirmation of 'multiculturalism'. The rest of the document shows that national political and legal powers have been, and continue to be, transferred to Community institutions.

The Commission and some European leaders now seek to put in place the last stone that will cement the European construction irrevocably into a single superstate. That, they say, is a European Constitution. The new EU Charter of Fundamental Rights has been called an embryonic Constitution. The Charter encompasses some 50 civil, political, economic and social rights. It was approved by Tony Blair at a EU Summit in Biarritz on 14 October 2000, but British ministers have suggested that it is not legally binding. This is at the very least questionable. The ABC states: "the interpretation of Community law and declarations as to its validity are the sole preserve of the Courtof Justice" and points out that the Court has declared that "the general fundamental principles of the Community legal order, which the Court of Justice had to safeguard, included respect for fundamental rights."

The Charter was not incorporated into the Treaty of Nice, but a "Declaration on the Future of theUnion", attached as Annex 4 to the Treaty, says that the future status of the Charter should be addressed during the Swedish and Belgium Presidencies in 2001. Even if the Charter is left self-standing, it will apply still further constraints on national sovereignty. It could be used to justify further harmonisation of social security, health and tax policies, for example. However, a major anomaly remains to be considered. The Community guarantees economic and social rights that impose costs on governments (in the form of welfare payments and public expenditure), yet it does not have the resources to pay for them. One of the missing elements preventing the EU from becoming a fully-fledged superstate is the absence of direct revenue-raising authority. All national constitutions assign to governments the power to levy taxes, but the EU treaties do not. The EU financial provisions refer to a budget that "shall be financed wholly from own resources" (Article 269). But the Community has no resources other than those provided by Member States through unanimous decisions by the Council. Individual countries finance the EU budget out of national tax revenues, according to a formula agreed by all Council members. How long will it be before the Commission insists that it must have its own tax levying powers to ensure equal rights for all citizens of the European superstate? Do Britons really want to go all the way down that road? And aren't voters entitled to greater honesty from their political leaders when they make statements or take decisions so fundamental to their freedoms and welfare?

New Labour's 1997 pre-election Manifesto stated: "Our vision of Europe is of an alliance of independent states choosing to co-operate to achieve goals we cannot achieve alone. We oppose a European federal superstate." Will Tony Blair now admit that his policy of "leading from the front" has failed to persuade the Commission and other European leaders to change course, even if he can claim that he has helped to slow the process down? Or will he continue to mislead the British public (and perhaps himself) about the true nature and aims of the European integration project?

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

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Echoes of 1914?

by John Kissin

In his speech to the European Parliament on 12 January 1999 outlining the programme of the German presidency, Joschka Fischer, the German Foreign Minister, began by saying that the introduction of a common currency was not an economic but, above all, a sovereign and hence an eminently political act. By creating a common currency, Europe had decided to follow its own path into the future.

He went on to say: "*We want to strengthen the ability of the EU to act in foreign policy. Only a Union which is capable of action in foreign affairs can secure the peace of Europe and bring its growing weight to bear on the world stage.*"

One might think that this meant that the EU was to replace NATO. But Mr Fischer argued that he did not mean that, saying that collective security would remain the task of NATO but that the EU had to develop the capacity for independent military crisis management whenever it saw a need for action in which its North American partners did not wish to participate.[1]

This raises a number of issues which deserve a fuller discussion. Four of them will be discussed in this paper. They are: i) the compatibility of the intended military actions with the existing obligations which each member of the EU undertook when it signed the UN Charter; ii) the other institutional changes which would be needed to carry out the programme of which the single currency is only a part; iii) the military implications of this programme for the military security of the EU members themselves; and iv) the implications for world peace.

I The Charter of the United Nations

Under Article 2(4) members undertook to "refrain in their international relations from the threat or use of force against the territorial integrity or political independence of any state". This does not preclude action which the Security Council may take under Article 42 to "maintain or restore international peace and security"; nor, under Article 51, does it impair "the inherent right of individual or collective self-defence" But the United States would presumably wish to participate in any action taken by the Security Council, and collective self-defence, according to Mr Fischer, is to remain the task of NATO. So it is not easy to see any way in which the proposed "capacity for independent military crisis management" can be used without a violation of Article 2(4) of the UN Charter.

There would seem to be two ways round this. The first would be an amendment to the Charter under Article 108, but that would require ratification by all five permanent members of the Security Council. This does not seem likely to happen. The second way would be for all EU members to withdraw from the UN.

If neither of these occurs the creation of the proposed military force would also in effect be a decision by the EU to treat the UN Charter as a scrap of paper. This would not only undermine the peace of Europe, it would also undermine the credibility of all the commitments undertaken by EU members, both towards each other and towards non-members.

II Further Institutional Change in the EU

As Mr Fischer said in his speech quoted above, the key to efficient preventative and operational conflict management lies in a strengthened application of majority decision making, and in a united front externally, in the G8, in international financial institutions, and in the United Nations. For an enlarged Union to be capable of external action it would be necessary to go further than just the Amsterdam treaty base.[2] What Mr Fischer was saying was hardly new. As Shirley Williams had written over forty years earlier:

> *"Even in the military field, the Six are coming together The French, at least, make no secret of their motive which is to offset Anglo–American domination of NATO.*
>
> *"So the provisions of the Rome Treaty stand for more than is contained in them. This is the framework for* a single power in the heart of Europe."[3] [emphasis added]

Thirteen years later William Pickles wrote:

> *"Let us suppose, nevertheless, that at some stage a European federation comes into being. If it is to perform on the world stage the function expected of any other State; if it is to have, not merely 'a louder voice' but just* any *kind of voice in world affairs, then it must have a central government, like those in Washington, Canberra, Berne and Ottawa, and that Government must, as a minimum, have total control of foreign policy, the armed forces, currency and monetary policy. It may find it necessary to control other areas of policy too, as the US federal authorities have extended their control of inter-state commerce and branched out into many other fields, but the first four mentioned are the minimum. That means that, if Britain becomes part of a federation, there will be* no *British voice, loud or soft, on the world stage, no British Ambassadors or representatives at the United Nations or even British consuls, no British Foreign Secretary or foreign policy at all, any more than there will be German or French officials and policies of the same kind, and the same will be true in the three other fields. Individuals and groups in Britain will have a share – a fifth at most, if representation is proportional to population – in the making of decisions, but there will not be at any point any identifiable influence of Britain as such in the fields of activity of the federal authority. Some supporters of British membership of the European Communities honestly and publicly accept that fact. They believe, as they are entitled to believe, that the interests and aspirations of the citizens of this country will be better served as constituent elements of a larger federal body, and they make no pretence of there being even a possibility of 'a greater British influence' or 'a louder British voice'. But they are few, and the majority of their co-propagandists either believe or pretend to believe that we can both have our British cake and surrender it to 'Europe'."*[4]

The question of the single currency is therefore not simply whether we want to be in the slow lane or the fast lane of European integration, the question is whether we wish to reach the same destination. Do we want to surrender control of our armed forces, including our nuclear weapons, and our

permanent seat and veto on the Security Council, to 'Europe' at all? Unless we do, we are not merely in danger of being in the slow lane, we are on the wrong motorway.

III Implications for the Security of EU Members

This issue too has been discussed in the past. For instance, as Douglas Jay wrote twenty years ago:

> *"Those who sincerely believe that the foundation of another super-power is desirable in itself should ask themselves a broader question. Is the creation of a fourth super-power, rather than the strengthening of genuine international institutions, likely to promote peace and stability? History suggests the contrary. The unification of Germany in the Bismarck era of the 1860s, which with its customs union led to political centralisation, is the closest analogy and to some extent the prototype of the EEC. But that nineteenth-century unification led, ironically enough, to* three *Great Wars. German 'unity' was the condition, if not the cause, of the wars of 1870, 1914 and 1939. Without a German super-state, these wars would not have occurred. This record also shows the hollowness of the facile assumption that the creation of a fourth super-state would enhance the security of Western Europe or anywhere else."*[5]

The matter had already been discussed by Professor Pickles.

> *"Foreign policy, military policy, economic policy mean decisions on war and peace, the cost and use of military policy, which areas are expendable and which not, how much of our resources we spend on armaments"*[6]

A bit of military history, from 1914, can serve to illustrate the issues. The First World War began with an Austrian declaration of war on Serbia, followed closely by German declarations of war on Russia and France, the German invasion of Belgium, and the consequent British declaration of war on Germany. Presumably Germany and Austria thought they could win the war they started. As we know, they didn't.

It is worth noting part of the comments of Sir Maurice de Bunsen, British Ambassador in Vienna in 1914, on the state of opinion there in July of that year.

> *" the entire people and press clamoured impatiently for immediate and condign punishment of the hated Serbian race. Few seemed to reflect that the forcible intervention of a Great Power in the Balkans must inevitably call other Great Powers into the field."*[7]

The EU is recklessly ignoring the lesson of 1914. If it seeks to 'bring its growing weight to bear on the world stage' or, to put it slightly differently, seeks to throw its weight around 'on the world stage' it risks provoking other Great Powers into a response. Russia may recover. China is potentially stronger than even a united Europe. Even the United States may come to feel threatened.

Even the victims of European 'conflict management' may be able to strike back effectively. The Austrian invasion of Serbia failed quickly, with, according to Misha Glenny, disastrous results for the Central Powers. He quotes General Colmar von der Goltz, who was assisting the Turkish military, as writing in December 1914:

> *"If we were able to win over the remaining Balkan states by swiftly defeating Serbia, this would finally guarantee our superiority over Russia."*[8]

It was not to be. Serbia was not finally conquered until a year later by Germany, Austria and Bulgaria jointly. But even then 150,000 men of the Serbian Army escaped to Corfu and played a major part in what Glenny describes as *"the military breakthrough essential for the defeat of the Central Powers"*[9] and, as he quotes Ludendorff, *"sealed the fate of the Quadruple Alliance"*.[10]

While Austria's aggression against Serbia failed quickly, Germany's aggression against France was more successful, at least initially. To understand what happened, one must look at what is known as the 'Schlieffen Plan'. Schlieffen was Chief of the General Staff of the German Army from 1891 to 1907. According to Karl Ludwig von Oertzen, Chief of the Intelligence Branch of the Ministry of Defence in Berlin (presumably in the 1920s) Schlieffen was concerned with the danger of war with France and Russia, who together were stronger than Germany. His solution was to hold the line against the Russians at first, until the French were defeated, and then turn on them. *"Only the bare minimum was to remain facing the Russians; in the west the left flank was to be held back and the troops in Alsace [which was then part of Germany] were to withdraw behind the Rhine and face attack on the line Metz-Strasbourg. The bulk of the army was to deploy on the right flank, and pivoting on Metz, to drive forward against the line Dunkirk-Verdun."*[11]

Without going into conflicting theories as to why the plan failed, it is worth looking at the political implications. The area of Alsace south of the line Metz-Strasbourg was to be abandoned to the enemy, and the Eastern borders were to be protected only by a 'bare minimum' which might or might not prove sufficient, while local taxes and conscripts were used in an attack on north-east France. This is what Pickles meant by "which areas are expendable and which are not". It is precisely this ability to tax and conscript the inhabitants of a region for 'defence' without intending to defend it which allowed Germany to act as a superpower, as distinct from a defensive alliance such as NATO used to be. As we know, the Schlieffen plan failed, with disastrous consequences for the people of Germany.

It is quite clear that the so-called 'rapid reaction force' is intended to fight aggressive wars (which might be called 'humanitarian intervention' or 'peacekeeping' or 'military crisis management') against states or factions which are assumed to be too weak, or too distant, or too isolated to retaliate effectively. Apparently there is now a need to state explicitly what Mr Fischer seems not to understand, that the EU has no more right to decide to threaten, let alone use, armed force for 'crisis management' anywhere outside its borders, except in collective security measures under Article 51, than Adolf Hitler had to use armed force in Poland in September 1939. If the proposed EU force has any legitimate function, the same logic would mean that Britain and France must have been wrong to declare war against Germany.

Aggressive wars are not only morally and legally dubious (we hanged people at Nuremberg for waging them) they can also be physically dangerous for the civilian population of the aggressor state, as Mr Fischer ought to know. The ability to participate in such wars hardly seems sufficient recompense for either the loss of sovereignty or the economic damage which our membership of the EEC/EC/EU, let alone the single currency, must entail.

IV The Implications for World Peace

In his speech Mr Fischer said that even the largest of the EU member states would be increasingly less able to represent their

interests and to protect world peace in a constantly globalising world. In the multipolar world of the 21st century the EU must therefore become an independent (*Eigenständigen*) subject capable of political action.[12] Even given the premiss, the conclusion doesn't follow. Mr Fischer seems to be assuming that there is an identifiable European interest in world affairs, but that, despite sharing that interest, countries are not capable of co-operating on an intergovernmental basis to defend it. It would seem more reasonable to assume that where such co-operation is impossible, it is because perceived interests differ. Of course governments can, and often do, make mistakes, but the EEC/EC/EU has not, until now, given us any reason to think that it can produce an infallible decision making procedure either.

It is worth looking at an earlier attempt at a common foreign policy – the recognition of Croatia by the EEC in 1992. It is important to remember that the issue was not the principle of Croatian independence. As Laura Silber and Allan Little point out:

> *"Milosevic did not dispute the right or the Croats or the Slovenes to secede. But he insisted that the Serbs of Croatia had the same right to secede, in turn, from Croatia."*[13]

Whatever Milosevic's motives may have been, that was a valid point, and his motives have no bearing on the rights of the Serb minorities in Croatia or Bosnia Of course one cannot prove what would have happened if the EC had not recognised Croatia in the way it did, just as one cannot prove what would have happened to the British economy if we hadn't joined the ERM or the EEC, or what would have happened to the German Empire if it had not started World War One. But if we can't say anything about the consequences of an action even with the benefit of hindsight, then we certainly cannot make any predictions about the consequences of an action such as joining the euro, leaving the EU, or establishing a common foreign and security policy, which has yet to occur.

One cannot prove that Misha Glenny was right when he wrote:

> *"The final factor provoking war in [Bosnia] was the international community's approach to recognition. Once Croatia and Slovenia had been granted international recognition, Izetbegovic had no option but to seek the same."*[14]

or that Silber and Little were right when they wrote:

> *"The march to war in Bosnia-Herzegovina … might have been prevented if the European community had not recognised Croatia as an independent state in 1992."*[15]

But one can show that the EC made that decision with its eyes open. Silber and Little tell us that in December 1991 Britain vehemently opposed recognition, and that Hans van den Broek of the Netherlands also believed that premature recognition would be disastrous. They quote Lord Carrington, who was then the EC's peace envoy, as claiming he told the EC Foreign Mininisters that:

> *"if they recognised Croatia and Slovenia they would have to ask all the others whether they wanted their independence. And that if they asked the Bosnians whether they wanted their independence, they inevitably would have to say 'Yes', and that would mean a civil war [in Bosnia]. And I put this as strongly as I could."*[16]

Maybe the Bosnian war would have happened anyhow, maybe not. But the EC made it far more likely and it did so not on account of any misjudgement about the likely consequence of its actions, but because not even Britain or the Netherlands were *"prepared to put the Yugoslav peace process before EC unity. To oppose Germany would be to destroy the fragile hopes that the EC still nurtured to build a common security, defense and foreign policy structure."*[17] Brent Sowcroft, one of President Bush's leading foreign policy makers later said that he and his colleague Lawrence Eagleburger

> *"tried very hard to prevent the recognition of Slovenia and Croatia. The British and French agreed, but the Germans for the first time really asserted themselves in the Community. The French were very sympathetic to us but in the end the cohesiveness of the Community was more important."*[18]

As a result, according to Glenny,

> *"The decision by the European Community to recognise Slovenia and Croatia pushed Bosnia into the abyss."*[19]

Germany's motives are not clear, though I suspect that a desire to punish the Serbs for their apparent contribution to the allied victories and Germany's defeat in both world wars had something to do with it. But whether that is true or not, several things are indeed clear.

1. There need not always be a common 'European' interest in foreign policy.
2. The EC/EU's foreign policy can be (I think it must be) influenced by its own agenda of unification.
3. British membership of the EC/EU may not enhance British influence but may actually negate it.
4. The attempt to construct a common foreign policy may lead not to peace but to war.

At present the damage which the EU could do if it had a substantial military force at its disposal is only a matter for conjecture. Long may it remain so.

John Kissin is a retired economics lecturer.

1 *Frankfurter Allgemeine Zeitung,* Politik, 13 January 1999, p. 6
2 *Frankfurter Allgemeine,* loc. cit.
3 Fabian International Bureau, Research Series 201, October 1958, p. 27
4 In Douglas Evans (ed), *Destiny or Delusion,* London, 1971, p. 112
5 Douglas Jay, *Change and Fortune,* London, 1980, p. 360
6 In Evans, op. cit., p. 113
7 Despatch to Sir Edward Grey, 1 September 1914. Quoted in E. Barker and others (members of the Oxford Faculty of Modern History), *Why We Are At War,* 3rd edition, Oxford 1914, Appendix V, p. 209
8 Quoted in Carl Mühlman, *Das deutsch–türkische Waffenverbündnis im Weltkrieg,* Leipzig, 1940, p. 41, quoted in Glenny, *The Balkans,* 1804–1999, London, 2000, p. 322
9 Glenny, op. cit., p. 346
10 Erich Ludendorff, *My War Memoirs,* London, 1919, vol II, p. 657, quoted in Glenny, op. cit., p. 354
11 Encyclopaedia Britannica, 1947 edition, vol 20, pp. 78, 79
12 *Frankfurter Allgemeine Zeitung,* 13 January 1999, loc. cit.
13 Laura Silber and Alan Little, *The Death of Yugoslavia,* revised edition, London 1996, p. 147
14 Misha Glenny, *The Fall of Yugoslavia,* London 1992, p.150
15 Silber and Little, op. cit., p. 205
16 Silber and Little, op. cit., p. 199 ff
17 Silber and Little, op. cit., p. 199
18 Silber and Little, op. cit., p. 201
19 Glenny, 1992, op. cit., p. 143

CHUNNEL VISION

Fundamentalist Rights

by Dr Lee Rotherham

Mrs Fraisse has lost her little yellow book. We know this because every Member of the European Parliament was sent a circular e-mail telling us that she had misplaced it at the Women Right Committee. We take this as being the Women's Rights Committee, but judging by the level of political correctness now rampant across the EU, I wonder.

What does one find in a little yellow book? Sugar and spice and all things Nice (this is officially the only Nice pun still not accounted for – may they all now be laid to rest). Because being PC means being all fluffy and right-on and lovely and righteous, all wrapped up in a pastry of unbearable supremacy, basted in Chateau la Clique, and baked in the irksome unsufferability of Gas Mark 7.

You may sense, gentle reader, that your correspondent is a trifle less than mellow at recent developments.

It all started at the last Strasbourg session. Arriving for once at the main entrance, imagine one's surprise to discover a hundred knackered chairs all dolled up and painted to look spangly. It was all, of course, in a good cause. I translate: "He who has a chair also has a voice. And he who has a voice should raise it when it is a matter of human rights".

Yes. Congratulations, and welcome to the "Decorate a Chair in Honour of Human Rights Day". Just bring your favourite item of dilapidated household furniture, paint it grey and orange, drape it in some muslin, pop an old crash helmet on it, and behold! A gesture to symbolise support for Article 1 of the Universal Declaration of the Rights of Man (a.k.a. all men are born equal in liberty and before the law). *Action artistique et militante*, so they said. Can't quite see Hamas turning into anarcho-terrorist house furnishers, though.

All right, so they meant well. Although the forecourt looked as if it had been invaded by Stanley Kubrick's set designers, there was a genuine intent here to do some good. Which is what makes you so utterly irritated with real full-on PC nonsense, such as you find as bilgeballast in the Nice Treaty. It is good intentions by blinkered men (and women: let's not be sexist) who fail to see the utter wreck their enterprise will become. Today's freedoms become tomorrow's liberties, becoming in turn the future's prisons.

Social engineering gone mad

It is so in terms of jobs. Big big big at Nice (in the Presidency Conclusions, which journalists tend to ignore) is the whole new European Social Agenda, "characterised by the indissoluble link between economic performance and social progress". The Single Market is corrupted as the Comission is given a social conscience, nay, an overarching prerogative, to do what is deemed best for society. This is social socialism. Or, if you prefer, moral colonialism of the masses.

It is also so in terms of our true and ancient rights. The right to be innocent until proven guilty is of no account, if it transgresses these new flippant freedoms. Employers are the first to feel the new burdens on presumption of innocence being lost as the plaintiff is protected. More will surely follow, as will the list of those to be protected from perceived discrimination. Ambulance chasing solicitors will reap the rewards.

"The Agenda will have to remain progressive in character." Of course it will. The treaties will have to change, the legislation adapt, to adopt ever-closer union of the PC agenda. Lobbyists are particularly well catered for at Nice, but so are the quango breed. I invite all *European Journal* readers to write in to the Commission tomorrow and apply to serve on the new European Institute for Gender Issues. On the off-chance that you only make the reserve list, also apply for the European Monitoring Centre on Change, underlining that you feel socially excluded and underrepresented as a Eurosceptic. Sadly, being part of the majority, you are likely to be ignored.

You could laugh but for the plotline. At Amsterdam, reportedly due to Blair, we saw the introduction of the infamous Article 7 of the Treaty of European Union which allows the suspension of the voting rights of a member state – in effect the removal of the veto. Nice makes that easier, as the European Parliament can instigate the procedure, and because the unanimity-less-one threshold is now reduced.

But worse is to come. It can now take place merely when there is a "clear risk of a serious breach". Without a breach of fundamental rights even having occurred, a national veto can be removed, with all the obligations remaining.

As at Amsterdam, we link it inexorably with the simply awful Article 13 TEC, which lists the sins that a state should not commit. Quite apart from the new section actually extending Qualified Majority Voting to elements undertaken in pursuit of this article, we recall how, at the time of the Austria fiasco, the definition of xenophobia was widely used in Brussels to include simple opposition to the EU. Politicians openly equated criticism of Brussels and the EU with blasphemy against their sacred project (so too have ECJ judges more literally, though that is a different story).

It is there in black and white, in official speeches, and in official texts; opposition to the EU is a crime such as falls within the remit of Article 13, and therefore of Article 7. And now, thanks to Blair, any future Eurosceptic government (and in particular one elected to reverse the PC trend in the mould of George W. Bush) is liable to find its veto suspended.

Which is why, oh reader, DIY Ikea displays bring out the axeman in me.

Dr Lee Rotherham is secretary of Conservatives Against a Federal Europe. He has recently been selected as Conservative PPC for St.Helens South.

The European Foundation

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

Objectives

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

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

Activities

The Foundation pursues its objectives by:

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

The Foundation

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

It concerns itself with the following main topics:

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- foreign policy;
- security and defence;
- environmental issues;
- the Common Agricultural Policy;
- the reform of Community institutions;
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