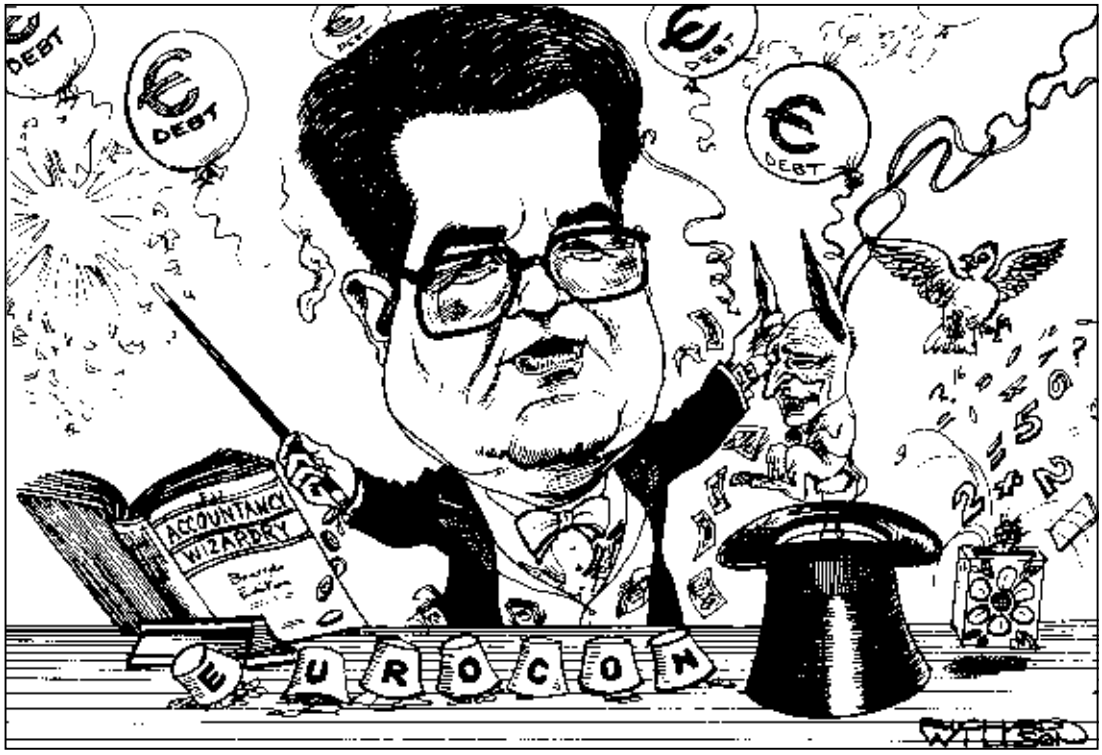
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THE EUROPEAN JOURNAL

The Journal of the European Foundation



Christopher Arkell
Still Making It Up in Brussels

&

Ronald Stewart-Brown • Dirk van Heck
Roger Helmer, MEP • Matthew Elliott
Bernard Chalumeau & Pierre Aunac • Keith Marsden
Annunziata Rees-Mogg • Matthew Glanville
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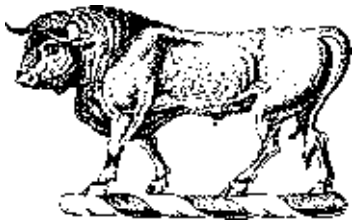
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SOLON

sō'lon, n. a famous lawgiver of Athens (594 b.c.), one of the Seven Sages; a sage; a wisacre.

The Genie is Out

For years euro-realists have been called extremists. Now, thanks to the first bit of clarity from the EU, the rest of the population can see what we were on about all these years. Finally, a couple of the British broadsheets have worked out just how important this constitution is. Let us hope that this realisation of the truth has not come too late. For Peter Hain it certainly is too late – he is now complaining that the Presidium has ignored the rest of the convention. To think this is naivety is to be generous. The Prime Minister has already endorsed the principle of a European constitution so Hain should hardly be surprised when one is written. The draft of the first 16 articles is a federalist document. The actual word 'federal' may be dropped but its not being there does not prevent the constitution from being federal.

The division of powers is, in legal terms, that of a federation. There is no other word that expresses a collection of governments with powers divided between the collective and individual states. Out of the 19 current government departments in the UK every single one would lose a degree of its competency to Europe. In some cases it would be its entire brief, in others *just* the important ones. Westminster could still debate, but it could not decide. It is not the individual examples that are worrying here; it is the very nature of the beast, its framework and legal vehicle, which are its defining problem.

The people of each EU state would not be represented where the decisions would be made. No single state would ever have more than about a 15% chunk of the European Parliament and no individual country could ever change the outcomes reached by the Union. Unusual coalitions would have to be forged, something that historically has never encouraged stability or efficacy. Aside from the lack of agreement possible and the low representation, it would not be the Parliament that was taking most of the decisions anyway. It would be the Council, the Commission and the European Court of Justice that would do that. Not one of these bodies is democratically accountable. Or indeed accountable at all.

Looking at the powers that would be handed over, the future looks frightening. It must not be allowed to turn out that way. Handing over the competencies for consumer protection and trans-European networks sounds like one thing. Handing over our control of monetary and foreign policy is another. There is nothing that explicit in this document that tells us the exact details of the power divide. To its credit, however, it is the clearest indication yet of how the Eurocrats, dominated by the NATO busting Germans and French want the continent to end up. It is just as we have predicted for the last ten years and more. Tony Blair himself acts like Janus. He advocates a US alliance for war in Iraq and at the same time advocates an EU Foreign and Defence policy driven by the same Germany and France that are against action in the Middle East.

For the first time Europe has produced a document that not only the politically savvy can understand. It is unambiguous in its aims even if it is not so clear in its definitions of competencies.

Every politician in this country, whatever party they may be from must be prepared to answer some simple, though fundamental, questions.

Do you accept (yes / no):

a) A European constitution?
b) A European foreign and defence policy?
c) Legal personality for the EU?
d) A European arrest warrant?
e) European asylum policy?
f) The pound being scrapped for the euro?
g) Europe-wide taxes?

Change of Address

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Prospective Members Should Vote Against Accession

by Ronald Stewart-Brown

Later this year the peoples of most of Central and Eastern Europe will have national referendums to decide their futures. Should they or should they not vote for their countries to join the European Union? The choice before them will be fateful.

They have now the self-government for which they strove during the dark decades of Russian domination. They have the security against new invasions that NATO membership brings them. They have the democracy for which they yearned under the one party tyranny of Communism. Their political systems may not be perfect, but at least they have the freedom to reject leaders who fail them. Why should they give all this up for the anti-democratic centralism of the new Europe now being constructed under the chairmanship of Giscard d'Estaing in Brussels? Even when indirectly controlled from Moscow Czechoslovakia, Hungary and Poland were not expected to give up the koruna, the forint and the zloty for the rouble.

The belief that accession will bring them greater prosperity is the only practical reason for voting in favour. But the arguments on which this belief is based are largely fallacious. The economic terms their governments were able to extract from the EU in Copenhagen are hardly generous, even though they were then still free to walk away from the negotiating tables. What can they expect as full members when their governments will have only small shares of the vote on the Council of Ministers and no votes at all on the European Commission?

Outside the EU the CEEC governments could choose not to burden their enterprises with all the social, employment, environment, health and safety regulation that Brussels considers it appropriate to impose on its business sector. And yet their economies could still continue to benefit from free trade with both the EU and all the rest of Europe. The fact that the whole European continent already operates as one vast pan-European industrial free trade zone is little understood, at least in the UK. This article will explain how it works.

The European Union, the four European Free Trade Association (EFTA) countries and ten Central and Eastern European Countries (CEECs) are linked by a complex network of around 60 bilateral and multilateral free trade agreements (FTAs). These include:

• **EFTA** (European Free Trade Association), consisting of Norway, Iceland, Liechtenstein and Switzerland, whose agreement provides for free trade amongst them in industrial products and fish.

• **EEA** (European Economic Area) Agreement under which three of the four EFTA countries, Norway, Iceland and Liechtenstein form an integral extension of the EU's internal market.

• **CEFTA** (Central European Free Trade Agreement), which provides primarily for industrial free trade amongst its signatories, who now comprise Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Slovakia and Slovenia.

• **Baltic Free Trade Agreement**, which provides primarily for industrial free trade between Estonia, Latvia and Lithuania.

• **Industrial FTAs** signed between the CEECs and the EU shortly after their emergence from Communism. These FTAs were later incorporated into 'Europe Agreements' establishing each CEEC's basis of association with the EU and covering other areas of their economic and political relationships in anticipation of their eventual accession.

• **A large number** of bilateral and plurilateral FTAs covering most of the rest of intra-European trade in industrial products. Switzerland's basic industrial FTA with the EU, signed in 1972, has been supplemented by a large number of bilateral agreements covering various other aspects of their trading relationship.

Note (1): Most FTAs include at least some agricultural products. Some, such as Poland's with the EU, exclude textile products.

Note (2): Most of the above agreements are inter-governmental in nature. However the EEA Agreement and the Europe Agreements are essentially supranational.

Unfortunately the many different free-trade areas created by these FTAs did not of themselves make up one single Europe–wide industrial free trade zone. Because they were separately negotiated there were wide variations between them as to the crucial 'rules of origin' whose purpose in any FTA is to exclude from duty-free status products which are not deemed to have 'originated' within the free-trade area it created.

In consequence, a product completed in one European country would attract duty on import by a second European country because it contained too high a level of input from a third European country to satisfy the relevant rule of origin in the FTA between the first two countries. This was a greater problem for the CEECs and the EFTA countries than it was for the EU, which is of course already one huge single country for trade purposes.

For example, Swiss exports of machine tools to Hungary would attract duty if more than 30 per cent of their ex-works price were accounted for by German components. Or complex electrical generators assembled in Poland would attract duty on export to Austria because they incorporated technologically advanced turbine parts that could only be procured from Switzerland. Or the Czech Republic would impose tariffs on textile fabrics imported from Italy because they had been woven from yarn that had been spun in Switzerland.

Eventually the European Commission saw that so many different sets of rules of origin were making intra-European free trade unworkable and came up with a solution. This was to propose that the EU, the four EFTA countries and ten CEECs all amend the various FTAs between them by substituting one common set of rules of origin for those they originally contained. The ten CEECs were the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, the Slovak Republic, Slovenia, Bulgaria and Romania. Of these the first eight are now scheduled to join the EU in early 2004 if their electorates agree, and Bulgaria and Romania are on track to join in 2007.

The Pan-European System of Cumulation of Origin (PESCO), as this radically innovative scheme is now known within World Trade Organisation (WTO) circles, was introduced in 1997. Complex in concept but simple in effect, it has resulted in the effective creation of a pan-European free trade zone in industrial goods. Turkey, which entered into customs union with the EU in 1996 and joined the PESCO in 1999, also participates in this zone.

The PESCO gives any industrial product with originating status in one PESCO zone country originating status in every other

PESCO zone country. Any such product may be traded duty-free throughout the PESCO zone. Furthermore, under the PESCO value can be cumulated between different European countries without prejudicing the duty-free status of end products. PESCO zone manufacturers may therefore source components and materials to an unlimited extent from elsewhere within the PESCO zone without prejudicing the duty-free status of their end products within the PESCO zone.

The peoples of the eight CEECs that are now scheduled to join the EU in early 2004 do therefore have a genuine choice. Admittedly, exporting industrial products into the EU from outside is not quite the same as exporting within it. But in reality there appears to be very little difference. Border crossing is normally little hassle for regular, *bona fide* CEEC exporters who have gone through the formality of obtaining 'approved exporter' status.

In the past the EU did employ anti-dumping measures quite aggressively against certain basic CEEC exports such as crude steel. But anecdotal evidence suggests this is no longer a significant problem for most CEEC exporters of industrial products into the EU. Textiles are excluded from some CEEC-EU FTAs like Poland's, but such countries are at least benefiting from the gradual phasing out of EU quota restrictions on textile imports under the aegis of the WTO. Whilst the EU does still retain the ability to harass trade unreasonably through anti-dumping measures and new technical standards and regulations, the WTO Agreements that concluded the Uruguay Round have made such abuses more difficult to get away with.

Certainly the statistical evidence suggests that CEEC industrial exporters have in practise been finding little problem exporting into the EU. As shown by Table I, over the last decade the three largest CEEC economies have been rapidly diverting their export efforts in that direction.

Furthermore, as shown by Table II, over the last decade the three largest CEEC economies have in aggregate more than trebled their share of the German import market and overtaken the UK's share. Many CEEC exporters are of course German owned, but their German parents would not suddenly shut them down if the CEEC peoples voted against joining the EU.

Trade is, of course, a two way street, and the CEECs as a whole have been running sizeable deficits on merchandise trade with the EU. Some CEEC economists may express concern, but presumably not the CEEC consumers who choose to buy the branded EU exports that now dominate so many of their retail markets. Such EU products will not be withdrawn from sale in CEECs whose voters opt not to join the EU.

For the CEECs' main service export industry, tourism, no obvious benefits will accrue from accession. But its main competitive advantage of low costs will be seriously undermined by the effect on employment costs of full absorption of the *acquis communautaire*.

Few Polish farmers can be relishing the prospect of indirectly subsidising their French *confrères* through the obscure workings of the Common Agricultural Policy. Outside the EU, CEEC farmers would continue to suffer, like the rest of the world, from the EU's agricultural protectionism. But their governments would remain free to use the WTO's Dispute Settlement system to attack the EU's more egregious dumping of surplus EU agricultural produce on their markets. And they could pursue the agricultural policies they considered best suited to their particular domestic interests. On the other hand the Polish and Baltic fishing industries will probably both benefit from being allocated Common Fisheries Policy quotas over former British fishing grounds.

The EU's freedom of movement of persons will of course be attractive to the bright, energetic and enterprising young CEEC nationals who will take advantage of it to work and study in richer EU countries. They are the ones who will mainly benefit from mutual recognition of professional qualifications within the EU. But the many that never return will represent permanent losses to their native economies.

In summary it is difficult to see any good political or economic argument for the CEECs to join the EU, apart perhaps from the fishing quotas that Poland and the Baltic countries can hope to be allocated in the North Sea. Politicians do not necessarily act in the best interest of their electorates, as the peoples of Central and Eastern Europe know from experience. They should think very carefully before voting to join the EU. For, once in, they will not be given the opportunity to change their minds.

Ronald Stewart-Brown is Director of the Trade Policy Research Centre and has written on trade issues for a number of publications. His briefing notes for Global Britain on the WTO, the EU's trading relationships with Mexico, Switzerland and Norway and the Pan-European System of Cumulation of Origin have all been recognised as important contributions to the debate on alternative trading relationships the UK might have with the EU.

Table I

Merchandise exports by Czech Republic, Hungary and Poland ("the three CEECs")

Merchandise exports by the three CEECs:	1990 US$ billion	1996 US$ billion	2001 US$ billion	Average growth % per annum
to EU	15.5	37.2	67.9	14.4%
to rest of world	15.2	22.5	28.4	5.8%
Total	30.7	59.7	96.3	11.0%
EU share	50.5%	62.3%	70.5%	
rest of world share	49.5%	37.7%	29.5%	

Source: *Direction of Trade Statistics Yearbook* 1996 and 2002 – International Monetary Fund
Note: Czech exports for 1990 have been estimated from Czechoslovakia exports on the basis of the Czech and Slovak Republics' exports as separate countries in 1993.

Table II

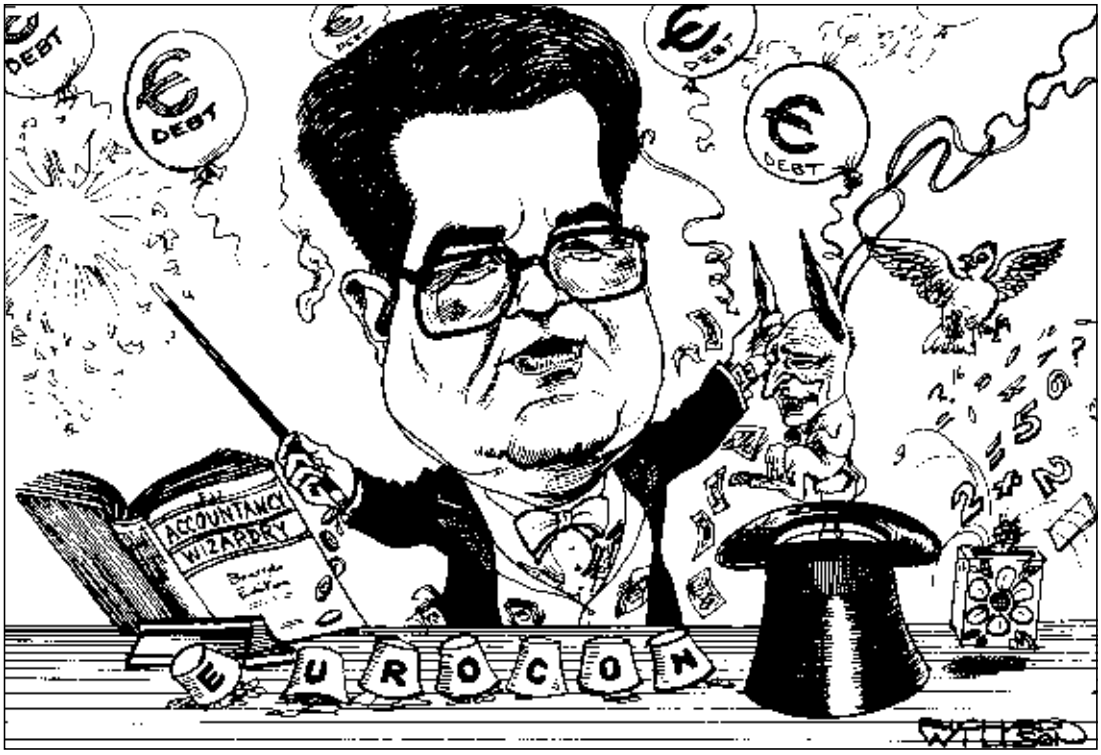
Imports by Germany of merchandise imports from Hungary, Czech Republic and Poland ("the three CEECs") and from the UK

Imports by Germany:	1990 US$ bn	%	1996 US$ bn	%	2001 US$ bn	%
from the three CEECs	7.3	(2.1%)	20.9	(4.7%)	35.7	(7.2%)
from the UK	23.1	(6.7%)	30.3	(6.8%)	34.2	(6.9%)
Total	346.5	(100.0%)	444.5	(100.0%)	492.6	(100.0%)

Source: *Direction of Trade Statistics Yearbook* 1996 and 2002 – International Monetary Fund
Note: Czech exports for 1990 have been estimated from Czechoslovakia exports on the basis of the Czech and Slovak Republics' exports as separate countries in 1993.

Still Making It Up in Brussels

by Christopher Arkell



'You couldn't make it up!' as Richard Littlejohn would say.

The European Commission is an organisation which oversees some £60bn of expenditure raised largely from the taxpayers of Member States. It wields the ultimate authority over the euro, a currency now imposed on 250 million Western Europeans. It already operates EU customs levies to the exclusion of the Member States; it supervises VAT across the EU; and it has its sights firmly set on national income taxes. Yet it keeps books of account which, if used in Britain, would get the merest self-employed trader a two year jail sentence for wilful negligence and cheating the taxman.

This is the conclusion to be drawn from the evidence uncovered in the latest accounting scandal to shame the European Commission. Once again, one of its own employees has had the courage to make public the fraudulent chaos which passes for accounting at the heart of Europe. And once again, the Eurocrats are blaming the whistleblower rather than themselves for bringing their organisation into further disrepute.

Through the goodwill of British MEP Jeffrey Titford and other concerned individuals, I have had sight of the internal reports and e-mails which underpin this article. They reveal a state of affairs as disgraceful as that which brought down the discredited Santer regime three years ago.

Ms Andreasen was appointed by the European Commission as a senior accountant at the beginning of 2002. She immediately became alarmed at the scope for error and fraud she uncovered. Essentials, such as a register of all fixed assets, were missing. Advances of money against future receipts were recorded as expenses rather than as debtors receivable - in the UK this is considered a tax fraud. She raised doubts over the bank reconciliations. Worst of all, she found that there was no coherent double entry bookkeeping system in place. As she wrote in her report to her superiors in the Commission (page 5), *"The non-use of debit/credit entries has led to earlier data being overwritten, without an audit link being created that is easy to put into use, and as a consequence it is impossible to reconstruct the earlier state of an item of data at a given point in time."*

Though the European Commission admits to employing 4,000 accountants, Ms Andreasen, an accountant trained in the tough world of commerce, regards many of them as *"unfamiliar with the practice of accountancy and the potential of financial reporting"*. Not only does the Commission not employ the right people for the job, but Commissioners have known for years that the very design of their systems was unacceptable. *"In constructing the [accounting] system, no account [was] taken of generally accepted accounting principles, mainly double entry bookkeeping, [even though it] was possible [to do so]."*

It breaks all international and national accounting standards to have part of the records on double entry and part not. Double entry must apply to all financial records comprising a ledger of accounts. Though double entry need not be used for supporting schedules, those schedules must, nevertheless, be reconciled to the ledger accounts. Failure to comply with these basic requirements renders any set of accounts unauditable and would, in the UK, invite the taxman to take the offending to trader to court faster that he could say *"Commissioner Kinnock"*.

In short, Ms Andreasen has shown that the accounts of the European Commission are worse than Enron's or World Com's. Those companies at least had sound

systems which were bent by crooked employees. The European Commission's systems don't pass even that fundamental test. They are dishonest in their very design. No figures whatsoever produced by the European Commission can be relied on in any respect, if tested by rules which apply to every tax paying businessman and citizen in Britain and the rest of the EU.

Not surprisingly, Ms Andreasen refused to accept the books as they were presented to her by her predecessor. He had the cheek to send them to her, unsigned, 17 days after they should have been adopted by the European Commission, pending scrutiny by the European Court of Auditors and European Parliament. According to the Commission's standards, that was perfectly acceptable; according to Ms Andreasen's, it most certainly was not.

Of course, the European Commission doesn't see things Ms Andreasen's way at all. Instead of thanking her for her diligence and European public spiritedness, she has been suspended from her job and a whispering campaign started against her. Commissioner Kinnock was at full blast on Radio Five, rubbishing her concerns. He subsequently claimed, in a letter published by the *Sunday Telegraph* on 15 September, that the Commission's accounting systems *"fully comply with the cash based accounting standards used for the majority of OECD countries*". This is grossly misleading. While cash accounting is a system which applies across the world in government accounts, failures of double entry bookkeeping do *not* prevail. It is this failing which Ms Andreasen wishes to draw public attention to, and it is this point which Kinnock and his eurocrats cannot rebut.

The European Commission is very rattled by this latest scandal. That is why Commissioner Kinnock and the European Court of Auditors are so loudly asserting the 'reliability' of the Commission's accounts. There is also the usual backroom pressure being exerted on the European Parliament, which is legally obliged to examine the accounts. The European Liberal Democrats in the European Parliament have prepared a document in which they consider whether to call Ms Andreasen for a public hearing in front of the EP Budgetary Control Committee. At the end of this document, there is a peculiar section giving reasons why she should *not* appear. *"If [a public hearing] goes ahead, whatever the result, Commission and Parliament may not emerge in a favourable light, it will make little difference to the progress of reform and will be used by some to denigrate Europe once more."* This is very strange; as if a prosecution brief to counsel were turned on its head to become the defence's plea to the judge. It also demonstrates with astral clarity that the eurocrats care only for their reputation, and not a jot for the waste, fraud and theft that seems the only activity effectively carried on in Euroland.

You couldn't make it up? Well, the eurocrats can, and intend to continue to do so. It will not be until 2005, at the earliest, that a new computer system is planned to replace the current one. That will be seven years after their own Court of Auditors warned them of the mess the accounts were in. And even this replacement is criticised by Ms Andreasen for opening up yet more opportunities for fraud and bad accounting.

Why should we in Britain continue to put up with this nonsense? The European Commission's 'system' of accounts is itself fraudulent. It can never, as described by Ms Andreasen, comply with Internationally Accepted Accounting Standards. If such a 'system' were used in Britain by UK taxpayers, the Revenue would have them prosecuted for cheating the public revenue. The European Community is clearly not a fit and proper body to receive any further public funds from the UK, or any other Member State. Payments of bribes and other 'illegal payments' are now non-deductible for tax purposes in the UK, and are also being made specific criminal offences in the UK. Any further payments from the UK to the European Communities may well be considered to fall into these categories.

Each of these conclusions has been put to an eminent QC, well versed in European Constitutional law. In his view a UK taxpayer could bring a case against the government requiring it to withhold all further payments to the European Union until the Commission has put its accounting house in order. Such a case would not please Mr Blair and his Euro-cronies. It would, however, encourage the majority of the UK's 30 million taxpayers to hope that we will recover our independence – constitutional as well as financial – from the crooked administocracy that controls Britain from across the Channel. Then we can all stop making the pretence that we're good Europeans, and they're honest civil servants.

You couldn't make it up? One day, perhaps, no one will have to any more.

Christopher J. K. Arkell is an accountant specialising in tax and is Editor of London Miscellany. *He has written extensively on European issues. This article was first published in the Salibury Review.*

… news in brief

Fidesz cuts up awkward

The leading opposition party in Hungary has started to get awkward with the government over a certain number of important policy issues. It has, for instance, demanded that the government explain what is going on in the former Soviet military base at Taszar, where some 3,000 Iraqis are currently undergoing secret training.

Now they have also blocked a vote which would allow the US to use Hungarian roads, railways and airspace for transporting military equipment towards the Middle East. Fidesz has said it first wants to know whether any shipments to Turkey are linked to the impending attack on Iraq, which is opposed by more than 80% of the Hungarian population. Since four-fifths of deputies must approve the necessary waiver, the vote failed to go through.

German economics institute predicts no recovery

The Ifo institute in Munich has said that it sees hardly any prospects of an economic recovery in Germany in 2003, even if there is no war against Iraq. Its boss, Hans-Werner Sinn, said, *"I think that we can no longer expect the long awaited recovery in 2003. Instead, the best we can hope for is a slow improvement."* Sinn said that the capacity for growth *"which is strengthened by investment and which leads to job creation, has moved to other countries,"* i.e. the growth has not occurred in Germany. The Ifo institute now predicts growth of 1.1% in 2003, as against the prediction of 2.3% it made in August 2002. Sinn said that Germany had to reduce the cost of its welfare state, *"which has become too expensive"*, and that labour laws had to be reformed. "*We must tighten the belt further,*" he said, *"there is no alternative."* [Interview with Sinn in *La Stampa,* 17th February 2003]

European Questions in the House
– the momentum continues

Compiled by Dirk van Heck

Nothing could be more obvious than the contradictory behaviour of the Prime Minister. While he advocates a European Defence Policy he is at the same time advocating war with Iraq. He is clearly undermining his own position.

This is all about who governs this country and the sovereignty of the British Parliament. The momentum must continue full throttle. Here is what some of our board members have been saying to make sure the democracy of the British people is not ignored.

Standing Committee on the Convention 12 February 2003

Mr Cash: First, I repudiate this constitution and certainly the first 16 articles of it. Quite apart form anything else, I do so on the ground that although draft Article 2 states that *"The Union is founded on the values of respect for human dignity, liberty, democracy, the rule of law"* and so on, it is perfectly clear from discussions so far that the one value that is certainly not being subscribed to is democracy, even in drawing up the constitution and in the Convention itself. I would argue the same with respect to the rule of law.

Another fundamental question is the accession to the European convention on the protection of human rights and fundamental freedoms. By introducing that in Article 5 and stating that the provisions shall *"constitute general principles of the Union's law"* we subsume the convention into Union law. Union law will have primacy over the law of member states, and the doctrine of subsequent enactment, stated in Lord Hoffman's judgment in the 1999 case of Simms and O'Brien, would simply be overridden. We would no longer be able to legislate in a manner inconsistent with the European convention on human rights. That would challenge the Prime Minister on, for example, his assertion with respect to the problem of asylum and immigration and its relationship to terrorism and Article 3. There are some simple but fundamental problems lurking on the ocean floor of this monumental exercise.

Furthermore, there is the question of the Union's competences. As I asked the Minister for Europe recently in a similar scrutiny debate, what is left when the doctrine of the occupied field is so overgrown with legislation that there is virtually nothing left for the member states to legislate on? The provision is intended to be analogous to the United States doctrine of federal pre-emption, whereby the states are prohibited from legislating on matters in which the union has exclusive competence.

There is an accumulation of absurdities. For example, on subsidiarity, I have outstanding a significant prize for anyone who is able to identify anything that has been referred back to a member state. From what I see in these documents, there is no evidence that there is the slightest chance of that happening now. Article 9 is astonishing. It states that *"the procedure set out in the Protocol shall enable national Parliaments to ensure compliance with the principle of subsidiarity."*

That is pure gobbledegook. Having taken away the powers of national Parliaments and effectively reduced our democratic system of government at Westminster – which, as those who bother to read the stuff will know, has defended the freedom of Europe, and has done something with the rights of freedom and democracy, which most others in one shape and form or another have singularly failed to do – that the Convention should then provide that national Parliaments should ensure compliance with the principle of subsidiarity defies belief.

I could refer to so many matters, but I shall highlight co-ordination of economic policies. This is an absurdity. If the provision already applied to us, it would be a disaster. As for a common foreign and security policy, we now have the incredible situation in which the Prime Minister, who is in favour of the constitution in principle and therefore must subscribe to its provisions, wants a war in Iraq, but France and Germany, which are driving the policy of having a common foreign and security policy and which the Prime Minister encourages by encouraging the proposals on common and security policy, are working against that objective. I do not know how Janus-like one can become, but it seems incredible that the defence of a nation can hang on such an amazingly slender thread. I repudiate the constitution and everything that goes with it.

Hansard 30 January 2003

Mr Cash: I suspect that the train will crash into heavy buffers because of the massive over-regulation that has resulted from a lack of scrutiny and accountability. That will lead to an economic decline that will generate high unemployment. I have written about the matter and make no apology for saying again that the unemployment levels that will follow in the wake of such a regrettable state of affairs will stoke up again the dreadful spectres that we have seen in the past. We will have a mixture of high unemployment, authoritarianism and a lack of democracy.

Mr Cash: I say 'No' to this constitution – no, full stop – and 'No' in a referendum. If we must have referendums, they should be held in this country and in all European countries. I do not want a Europe-wide referendum, as suggested in these fake proposals, thanks very much. This is ultimately about the supremacy of Parliament and therefore of democracy. The proposals, including all the matters relating to national parliaments and to the scrutiny process, must be renegotiated drastically so that we can achieve a consistent scrutiny process that will work in the interests of the individual parliaments and recognise the importance of political co-operation in Europe. The veto by national parliaments must be reaffirmed… We are heading towards a situation in which the European constitution will absorb this country into a federal system. As Churchill said, we should be associated but not absorbed.

Mr Heathcoat-Amory: Will the Minister answer the point that in my hearing, and as recorded in the independent Brussels Bulletin, our Government representative on the Convention said that he agreed with the French and German Foreign Ministers' contribution word for word? That more than implies that he agrees with the Franco–German plan. It destroys public confidence if Ministers say one thing there that is then denied by other Ministers here.

European Scrutiny Committee 20 November 2002

Mr Cash: The question I want to put to you

[Peter Hain] is this, in all seriousness: does this Government really believe in the sovereignty of Parliament? It is a serious charge, but I have very grave doubts as to whether you really do. I would like to ask this question in the context of the scrutiny reserve and the way in which it operates: do you believe that Parliament, if it were to decide that it did not agree with a European proposal, would be able to amend that proposal by subsequent enactment? Do you, as I put it to the Leader of the House the other day, still believe in the principle of national veto? Could you answer those questions?

Hansard 28 October 2002

Mr Cash: I also made a point of general principle in an intervention, and we must take it on board. This Parliament is having its powers eroded and, however much we are in favour of human rights, our rights are being eroded by the Government's proposals. The Government have already accepted, in principle, a European constitution, and I shall be interested to hear what the Parliamentary Secretary says about a legally binding fundamental charter of rights as put forward by the European convention currently sitting. The charter would be wrapped up in the enhanced powers of the European Court of Justice under many of the proposals that are being made for such a constitutional arrangement. If that issue is not addressed, the question of whether we will, in future, be able to amend enactments such as the Human Rights Act 1998 will effectively be overtaken by the powers granted under such a European constitution.

Mr Cash: Will the Parliamentary Secretary get down to the nub of the issue? Is the British Parliament able to amend European Court of Human Rights enactments? Is this Parliament able to amend the Human Rights Act 1998, or not?

Give a Dog a Bad Name…

by Roger Helmer, MEP

There is a fashion these days for companies to re-brand themselves – a practice which I personally find very irritating, as I can never remember what the new name represents. Who on earth are Accenture, or Lucent Technologies, or Consignia? And how long will they last?

Generally I am opposed to organisational name changes. At best they are confusing, at worst they represent a desperate attempt to draw a line under failure. Few things made me happier than the Russian decision to drop the name Leningrad and re-adopt Saint Petersburg. And wouldn't it be nice if Harare reverted to Salisbury?

So it is interesting that ex-French president Giscard d'Estaing, in his new incarnation as President of the so-called Convention on the Future of Europe, has decided that the changes to be enshrined in his new Constitution (although it is not finally drafted, never mind agreed, yet) are so far-reaching that a new name is required for the entity formerly known as the EU.

We had the European Coal and Steel Community, the Common Market, the European Economic Community, the European Communities, and then the European Union, each stage representing a new, deeper level of integration. As the European Journal covered with great detail and clarity in its December issue, the new Convention will almost certainly take integration past the point of no return, creating in effect, if not in name, a unitary state of Europe. One wonders whether each change of name was designed to blur the memory of previous failure. Certainly current opinion research indicates that the EU is unloved. Indeed one of the stated objectives of the Convention was to bridge the democratic deficit and engage the people in the project – an objective that was rapidly forgotten.

So Giscard has made a number of suggestions, including "The United States of Europe" – a name which is unlikely to commend itself to readers of the EJ, although it clearly signals the direction of the Convention's thinking. And he invited a public debate on the question.

So after careful thought, I came up with a proposal which I think fits the bill. How about "*The People's Republic of Europe*"?

As I wrote to Giscard, this would reflect both the European élites' ambition to create a unitary super-state, and also the emerging parallels between the new Europe and the old USSR – the passion for central planning and control, the overbearing institutuions, the prescriptive and intrusive regulation, the endemic fraud and mismanagement, and above all, the increasing lack of democratic accountability.

There is one other aspect that attracts me to this name. British Conservative MEPs are, for the moment, at any rate, associate members of the EPP (European People's Party) group in the European parliament. Surely my proposal, The People's Republic of Europe, would have a special resonance for the European People's Party? Surely they would be flattered and delighted by it?

I have copied my suggestion to the distinguished and portly German MEP Elmar Brok, who chairs the EPP delegation on the Convention. So far, neither Brok nor Giscard has replied. But I will keep you posted.

Roger Helmer is a Conservative Member of the European parliament for the East Midlands and a member of the European Foundation's UK Advisory Board.

… news in brief

Austrian Chancellor decides

Nearly three months after the general election, the leading party in the Austrian government has still not decided whether to ally itself with the socialists or the Freedom Party. The leadership of the Austrian People's Party was due to meet on Thursday to decide between these two policy options. So far, it seems as if the closest agreement has been reached between the two previous coalition partners, namely with the Freedom Party. Leading figures in the FPÖ have said that their party is ready to govern. Meanwhile, the Social Democrats have been complaining that the Chancellor has led them up the garden path and held discussions which he never thought would actually lead anywhere. On the other hand, a new coalition with the FPÖ will annoy a lot of people in Chancellor Schüssel's own party, since it was the FPÖ which brought the previous coalition down with its own internal bickering. [*Der Standard,* 19th February; *Die Welt,* 18th February 2003]

BRUSSELSBOURGER

A Curate's Egg

The European Union's environmental policy something of a curate's egg: some parts are good. Overall it leaves much to be desired. Nearly everybody agrees with the 'polluter pays' principle that the polluter should pay for the damage his action does to the environment. This means that (assuming CO_2 emissions harm the environment) factory owners should pay for the environmental cost of these emissions from their factories just as they pay for materials, the wages of their staff and any other cost of production. Sometimes this principle is applied correctly, other times incorrectly.

The Environment Council meeting in Brussels nearly got it right when it made its first a tentative step towards using market principles to solve environmental problems. In 2005 member states will introduce a market system for trading 'greenhouse gas emissions' between Union companies. A maximum level of pollution will be agreed, pollution permits will be issued and companies will be able to buy and sell the right to pollute. Predictably, this is restricted to CO_2 rather than any of the other greenhouse gasses or more environmentally dangerous heavy metals, but there is a possibility that it will be extended after 2008. Sadly, the receipts from the permit sale will go in to the black hole of government rather than to the people affected by the pollution.

The Waste Electrical and Electronic Equipment Directive, approved by the European Parliament in Strasbourg, is on the other hand an example of the 'polluter pays' principle being misapplied. The directive, due to come into force in two years time, forces companies to pay for the recycling of the electric goods they produce, thus transferring responsibility for the correct disposal of items from the customer to the producer. Should Wrigley's clear chewing gum off the ground? Should Ford remove the burnt-out wrecks that litter our highways? A curate's egg indeed.

Forward March!

New Year's Day marked the tenth birthday of the Single Market, which was created to abolish *"obstacles to the free movement of goods, persons, services and capital"* in the European Union. Ten years after the then European Community approved the initial package of 280 laws harmonising micro-economic policy (not to mention a decade of roughly one legislative proposal per day) the European Union is now considering the harmonisation of macroeconomic policy.

The French and German Foreign Ministers and the working group on Economic Governance at the 'Future of Europe' Convention have called for the co-ordination of economic policy to be enhanced. Joschka Fischer and Dominique de Villepin have called for Broad Economic Policy Guidelines (BPEGs) to be adopted by the Union. Some Convention members have gone further and called for macroeconomic policy to be upgraded to the level of a 'shared competence', decided by both the Union and the Member States.

Quite apart from the political question of whether any power over economic policy should be exercised by the European Union, there are economic difficulties with a common macroeconomic policy. First, the existing mechanism for economic policy co-ordination, the Stability and Growth Pact, has failed to prevent excessive government spending. Last week, the Commission described France's budget policy as *"inadequate"* and demanded that Germany undertakes *"urgent reforms"* after they breached the budget deficit threshold of three per cent. Second, just as a single interest rate in the eurozone has caused problems in Ireland (too low) and in Germany (too high), it is difficult to see how a common economic policy would suit all the twenty-eight Member States of an enlarged Union.

What is most interesting about this debate is how attitudes towards integration in this area are moulded by national economic policy. On the right, for example, conservatives from largely social democratic countries such as Denmark see European integration as a means of overcoming 'socialism at home', whereas conservatives from traditionally market-orientated countries such as Britain fear 'socialism through the back door'. The key, as Conservative Convention representative Timothy Kirkhope, MEP, said, is to focus on the principles of the great French economist Frédéric Bastiat: *"By virtue of exchange, one man's prosperity is beneficial to all others."*

Trade Not Aid

At this month's plenary session in Strasbourg, MEPs overwhelmingly approved an increase in the budget of the European Community Humanitarian Aid Office (ECHO) to €550 million from €425 million in 2002. According to the report by the French socialist MEP Marie-Arlette Carlotti that accompanied the debate, 18 million people are assisted each year by ECHO aid in more than 60 countries, through 208 partners such as NGOs and United Nations specialised agencies. Unsurprisingly, the report concludes by saying that the "*the financial resources made available are not commensurate with the size of the task*" because they do not take into account *"forgotten crises"*.

The picture of the ECHO's work painted in the Carlotti Report is very different to the conclusions of a recent report from the House of Commons International Development Committee. British MPs criticised the delays and mismanagement in delivering aid to the victims of global disasters. Nearly two years after Hurricane Mitch left almost 7,000 people dead in El Salvador, Guatemala, Nicaragua and Honduras, for example, the European Commission had failed to deliver *"a single penny"* of the £170 million allocated for reconstruction. Clare Short, Britain's International Development Secretary described ECHO as *"the worst development agency in the world"*, part of a *"monstrous Kafka novel of disgraceful administration"* with a bureaucratic culture which *"like concrete"* cannot move.

ECHO is but one part of the European Union's €4.8 billion annual aid programme which, to the detriment of those it aims to help, concentrates on aid rather than trade. Presidents and Prime Ministers meeting at EU summit in Copenhagen shortly before Christmas were lobbied by Oxfam to scrap the CAP export subsidies regime which is having a devastating impact on farmers in the developing world.

In a new report about the EU dairy industry, Oxfam demonstrates how the EU dairy regime encourages the over-production of milk and dairy products. The surplus is dumped on poor countries, using costly export subsidies, which drive down world prices, create unfair competition and destroy local markets. To paraphrase Bastiat, we should engage in trade not aid.

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Brussels Yields - Eurosceptics were Right

by Bernard Chalumeau and Pierre Aunac

Most observers have been surprised by the peculiarity of the stock market crisis, which has not ceased to play havoc since the summer despite the fact that the fundamentals, as they say, of the global situation are not all that unsound, certainly not capable of bringing about a crash on such a scale. This surprise is not a mask to conceal the truth to which they are blind; what we have here is the first great crisis of the single currency now that it is both bank and paper money. The euro, peddled by its medicine-men as a panacea to guarantee prosperity, has failed to prevent this crisis from falsifying all the experts' optimistic predictions. Eurosceptics long ago foresaw that instead of providing us a shelter against such shocks the single currency would draw us right in, by depriving the national governments of the eurozone of their traditional monetary tools, the tools they need to face up to this crisis.

For the crisis was foreseeable. In university economics departments one is taught in business economics that the sales of every new product invariably follow a course of more or less rapid growth during the investment stage followed by a decline to a steady level in the period of maintenance and renewal. The emergence of a series of new technology products boosted growth over several years. But, after the boom, the collapse was inevitable and even quicker than the growth had been. On top of that investors' loss of confidence in the balance sheets of large corporations on account of financial scandals – especially the bankruptcies of Enron and Worldcom – aggravated the crisis and drove off course the dynamic policy of recourse to massive debt.

One might doubt the accuracy of this analysis and question its explanation of the cause of our crisis today. But it should be noted that the crisis has rampaged through the USA and Europe at the same time despite the fact that the economic policies pursued in these countries have been very different, which must lead to the conclusion that this explanation is supported by the facts.

What does the future have in store for us? Should we believe, as our 'masters' seem to do, that with the bursting of the financial bubble the debt economy will revive and the fundamentals improve, bringing about a rapid return to a substantial rate of growth? Should one envisage on the other hand that business failures will spread from company to company as has been seen in Japan?

The European economies are caught-up in the toils of the euro and the Maastricht criteria to the extent that it must be feared that the crisis is worse than was foreseen. Indeed Maurice Allais has demonstrated that if the real rate of interest, consisting of the financial market rate (which is estimated to be somewhat higher than the central bank rate) minus inflation, is greater than the current rate of growth the economy is entering deflation. France, with an inflation rate of 1.8% and a growth rate which will at best reach 1.2% in 2002, for growth to return requires a real interest rate below 3%; that is to say the ECB should set its central rate to somewhere between 0.5% and 0.8%. We are far off that figure and the growth rate could well fall in 2003 to about 0.5% or even go negative!

Is it possible to hope that recovery in France, and more generally in Europe can be stimulated by one of those 'motors' that are generally thought to be able to boost international growth? It cannot be Germany, which has become 'the sick man' of the European Community. It cannot be Japan, whose economy is practically anaemic. Then must we count on the USA? That would be fanciful, given that the balance of our trade with that country amounts at best to 0.5% of GDP. It is impossible to see by what route a potential growth there could spread to us. Even more so when we must expect a redoubling of American commercial aggression of the kind that has been seen with their tariffs on steel and a downwards drift in the value of the dollar to boost exports.

The European economies are thus imprisoned in the euro. For their survival, threatened by the fall-off in activity and increasingly tough international competition, the only recourse for European companies is redundancies to reduce their costs or transfer of production to low-wage countries. Unless we extricate ourselves from the fetters of the single currency we must fear that the consequences of this crisis will be painful. If the euro lasts the consequences for employment and stability will be such that social conflict is bound to be triggered off.

The European Commission in Brussels, is entangled in its own contradictions. In the face of the rigid shackles that the Commission has created, and aware that one of the outcomes of this crisis could well be to force the eurozone states to relaunch their economies by an independent monetary and fiscal policy, has decided to put, off until the Greek Kalends, compliance with the Stability Pact limit of 3% of GDP on public sector deficits. Setting aside the remonstrances of some integrationist Commissioners and adopting the long-expressed eurosceptic denunciation of the Pact the Commission acknowledges its absurdity. All that after proclaiming loud and clear that the pact is necessary to ensure a prosperous economy in Europe!

The federalist system based on the empty dogma of the single currency is flawed. Will the Brussels technocrats now come to advocate the restoration of national currencies, the repatriation of monetary sovereignty? It is very doubtful. They prefer to deny the evidence and seek an explanation elsewhere.

Under these conditions Chancellor Schröder, threatened by the Commission's warnings, has already changed sides and gone back on his very recent promises to electors; he has tightened the tax screw. Tomorrow, despite the evident wish of Prime Minister Raffarin and his government to reduce the weight of taxation, he will be obliged to have recourse to the same recipe, passing on this hot potato to the French Regions in the next round of decentralisation. The French people overwhelmed with new taxes, those who have lost their jobs, leaders of companies driven to the brink of bankruptcy under Juppe, whose government clung resolutely to adherence to the Maastricht criteria, come what may, to get this wonderful euro, will understand…

Will this crisis be resolved in the streets?

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Why the EU is Sliding Down the World Economic League

by Keith Marsden

At the Lisbon Summit in 2000, EU leaders committed themselves to creating *"the most competitive and dynamic knowledge-based economy in the world"*. Nearly three years later, this now looks like a distant goal, if not an impossible dream. The promised reforms have mostly been shelved. Germany's GDP grew at a meagre 0.5% annual rate over the past two years, and the whole of the EU by just 1.2%.

EU governments have tried to put the blame on a global slowdown. UK Chancellor Gordon Brown even bragged to the House of Commons: *"In a global downturn deeper and more serious than that of the early 1990s, Britain is doing better than the rest of the world."*[1] This claim is contradicted by IMF data.[2] And the long term trends in Europe are not encouraging. The IMF expects the EU's average growth rate from 1994–2003 of 2.4% will lag well behind that of North America (3.3%) and the world (3.5%).

Perhaps most serious for Europe's future prospects, EU leaders have underestimated the competitive challenge from the newly industrializing economies of Asia and the western hemisphere. China has made huge strides. Its economy has grown seven fold since 1980, and its Gross National Income (GNI, formerly called GNP in the old UN system of national accounts) reached $4,951 billion in 2000, making it the second largest economy in the world behind the US, and ahead of Japan.[3] The Indian economy has also expanded rapidly – at an average annual rate of 5.9% over the last two decades. Its GNI was $2,375 billion in 2000, 75% larger than Italy's, and put it in fourth place in the world economic league. Britain has dropped to 7th behind Germany and France, with a GNI of $1,407 billion.

Brazil, ranked 9th, has consolidated its position among the major economies. And with a surge over the last four years, Russia has recovered from near relegation. It is now in tenth place, just ahead of Mexico. Other dynamic Asian/Pacific economies that have worked their way into the premier league are Korea (13th), Indonesia (15th) and Australia (16th). While Thailand (21st), the Philippines (24th) and Taiwan (25th) are pressing hard for promotion. Among regional groupings, Asia and the Pacific (excluding Japan) emerged as the leading economic power, contributing 26% of world GNI in 2000, compared with North America's 23.5% and the EU's 20%. The table above contrasts the performance of the EU, Asia and the world in some key economic indicators.

Why Asia Climbs Up the World Rankings, and Europe Slides Down

	Price index US =100	Manufacturer's share of world exports		Government expenditure	Average Annual Growth %		
	2000	2001	1990	% GDP 1999	Investment 1980–2000	Productivity[5] 1980–2000	GDP 1984–2000
EU	93	17.0[2]	18.1[2]	45	2.3[4]	1.7	2.4
Asia[1]	25	19.6	12.9	16[3]	7.3	5.2	7.2
World	70	100.0	100.0	25[3]	3.3	1.6	3.4

1 excluding Japan; 2 extra-EU exports; 3 by central government; 4 Euro zone; 5 GDP per member of labour force.

Sources: World Bank, World Development Indicators 2002, IMF, World Economic Outlook September 2002, and WTO International Trade Statistics 2002.

The EU is doing badly, but fortunately a cure exists. First, though, let's clarify the leading causes of its economic malaise.

Higher Taxes and Bigger Governments

EU governments commandeer a huge chunk of national income (45% in 2002), and are not subject to market pressures or incentives to use it wisely or efficiently. In China, the central government spends just 11% of GDP. People and entrepreneurs in most other Asian countries are left with over 80% of their earnings to meet personal and customers' needs, and to invest for future growth. The general government's take in the US is less than 30% of GDP.

The EU could reduce the tax burden substantially by offering tax credits to encourage families and firms to fund private health, education and social security schemes, and public transport systems. More competition between private and government services providers would enhance efficiency, and reduce the moral hazards endemic in 'free' provision.

Lower Savings and Investment

Gross domestic savings reached only 20% of GDP in the EU in 2000, compared with 35% in East Asia as a whole and 40% in China. No wonder that gross investment expanded at a 7.3% annual rate from 1980–2000 in Asia, but at a mere 2.3% rate in Euroland. US domestic savings were low at 18% of GDP in 2000. But by attracting large inflows of foreign capital, it was able to sustain an average annual investment growth rate of 7.5% over the past decade.

> EU welfare systems deter people from putting money aside for a rainy day

Apart from the squeeze on savings put on by high taxes, EU welfare systems deter people from putting money aside for a rainy day. Welfare reforms and abolition/reduction of taxes on bank deposits, corporate bonds, capital gains, dividends, and inheritance transfers could boost the savings habit in the EU, and make more funds available for productive investment.

Less Innovation

Euroland spent a lower proportion (1.97%) of its national income on R&D than the US (2.55%) and Israel (3.69%) from 1989–2000, reports the World Bank. The US has nearly twice as many scientists and engineers (per million people) as the EU, and Russia has 60% more. Euroland residents filed 21% fewer patent applications, and its receipts from royalty and licence fees were less than 30% of the

US's in 2000. Newly industrializing countries can draw upon the accumulated stock of scientific know-how while they are catching up. And they can avoid dead-ends. Nevertheless, Korea and Singapore devote a higher proportion of their manpower to R&D activities than the eurozone.

Europe has too many protected and subsidised enterprises. Policies that favour competition in product and labour markets spur innovation and technological catch-up, by raising incentives to improve efficiency, and lowering the costs of doing so. These effects are likely to come about mostly through within-firm productivity gains but also through reallocation of output to more efficient firms, which are often new entrants to industries with rapidly evolving technologies. The OECD has pointed out that R&D may be encouraged when innovating firms are granted some degree of market power over new products (or processes) after they innovate. Therefore the right policy environment for innovative activity is one that generates expected rents that are sufficiently high to cover the cost of innovation, while unleashing competitive pressures that force firms to strive for survival by implementing innovations.

Slower Productivity Growth

According to the OECD, labour productivity in the EU business sector has risen at a meagre 1.4% annual rate over the last decade. The pace dropped to 0.6% in the Euro zone during the last five years, while the US maintained a 2.1% average rate. G7 countries have been left trailing by Korea (4.5% ten year average). Economy-wide output per worker has risen three times faster in Asia than in Euroland since 1980, says the World Bank. Low investment, shorter working hours, and a less motivated labour force (resulting in high absenteeism) may explain the EU's poor performance. Yet with a massive influx of foreign capital and management, stimulated by lower taxes, Ireland's business productivity has shot up by 4.0% annually since 1993.

Empirical studies have shown that up to a half of business sector growth cannot be explained by increased utilisation of capital and labour alone. This part of growth, commonly labelled 'multi-factor productivity' (MFP), represents improvements in the efficiency of production. Australia, the US, Ireland and several Asian countries experienced an acceleration in MFP growth during the 1990s, while MFP performance worsened significantly in France, Japan and Spain. Liberalisation of labour market regulations can be an effective stimulus. Excessively strict hiring and firing rules raise the cost of the workforce re-organisations that are required for a better utilisation of inputs or new technologies. Relaxation of these rules would accelerate, not retard, social progress in the long run.

Ageing Population

The EU's dependency ratio for over 65s (in relation to the working-age population of 15–64 year olds) is double that of newly industrializing Asia. And an increasing number of over 50s are dropping out of the labour force in Europe. In contrast, the US economy has been boosted by a large inflow of eager foreign workers. A recent study by Northwestern University found that half the newcomers to the American labour force over the last decade were immigrants (legal and illegal). The EU may need to institute a positive immigration policy to counter the projected decline in the native population.

Declining Export Market Share

According to the WTO, fifteen exporters accounted for 89.8% of world exports of manufactures in 2001. The EU share, counted as a single entity, has fallen to 42.0% from 50.7% in 1980. Excluding intra-EU exports, on which EU members get preferential treatment compared with the rest of the world, its share dropped to 17.0% from 18.1% in 1990 and 21.3% in 1980, while the share of newly industrializing Asian countries surged to 19.6% from 12.9% over the last decade.

Disturbingly, the EU did worst where it should have shone – in high-tech products. It took only 29.2% of the world export market for office machines and telecom equipment in 2001, down from 35.9% in 1980. Excluding Japan, which has experienced a similar loss of competitiveness as the EU, nine Asian countries have grabbed 35.6% of this market, up from 12.8% in 1980. NAFTA members held their own, with over a fifth of world exports of this equipment. Mexico sustained a 20% average annual export growth rate from 1990–2001, not far short of China's 29% and the Philippines 25%. In automotive products, extra-EU sales shrank to 15.3% of world exports in 2001, a drop of 4.2 percentage points since 1980, while NAFTA's slice jumped 7.2 points to 26.3%.

Most EU countries also lost significant ground in commercial services. Germany, France and Italy shed nearly a third of their combined export market share from 1990–2001, falling to 14.9%. But North America's rose to 20.5% from 19.3%. Apart from Japan, several Asian countries (including India) gained a stronger presence in services trade. The continent's share reached 20.8%, a four point increase.

Numerous benefits flow from participation in world trade, such as new jobs and higher incomes. Exposure to foreign competition should make home companies more competitive. The EU, now, is failing this test.

All the constraints holding back the EU's exports and overall economic progress could be tackled by the policy reforms suggested earlier. But many of its political leaders and voters seem prepared to settle for a comfortable life style. Yet in an increasingly competitive environment, continued affluence cannot be guaranteed. The rest of the world doesn't owe its former colonial masters a living, or an easy match.

1 Statement to the House of Commons reported in *The Times* on November 22, 2002.

2 The IMF reports that world real GDP rose by 2.2% in 2001, and expects a 2.8% increase in 2002, compared with rates of 2.0% and 1.7% respectively for the U.K. It also says that the global slowdown was more severe and more prolonged in the early 1990s. World real GDP growth averaged 2.2% from 1991-93, against 3.2% over the 2000–02 period. See *IMF World Economic Outlook,* September 2002.

3 The GNI estimates cited come from the UN International Comparison Project (ICP), and are published by the World Bank in its World Development Indicators 2002. The ICP undertakes detailed price surveys in 120 countries, and converts the data into purchasing power parity dollars. Thus its findings provide more meaningful comparisons of the real value of national outputs and incomes than do exchange rate conversions, because they take account of differences in domestic price levels. These differences can be wide. For example, the ICP calculates that the price index of goods and services in China was just 21% of the US level in 2000.

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An Interview with Lord Lamont

Annunziata Rees-Mogg asks Norman Lamont about the economy, ERM and the EU

Q. Is it your instinct that the recessionary forces are going to gather strength or that they are going to turn round?

A. Well, if you're saying, *"do I think we're going to enter into a deflationary period?"* I think that there are some risks of that but they're not huge. My view, taking the world as a whole is that we may be at the bottom, but I think we may chug along there for quite a while. Taking America first, statistically you could say America has returned to trend growth. America's quarterly annualised growth was 5%, 1%, 3%, which is about trend; but there is this impression that the American recovery is not nearly as strong as the Administration is saying. Of course, America was technically in recession and has recovered from recession. But the bounce back was not very strong and I think the Fed's decision to cut by a half must indicate that it is uncertain about the future. The Fed operates on a very different basis from the European Central Bank. I think the European Central Bank tends to operate a little bit like the Bundesbank used to and pays more attention to monetary indicators. It also doesn't have, obviously because Europe is a new entity, as good real-time, real-world indicators as America, but I think the history of the Greenspan model is to be pre-emptive. And it seems to me that, therefore, one must conclude that Greenspan is worried by falling consumer confidence, as indicated by surveys. He is worried that this time the drop in confidence, the drop in the durables index has been so strong with no indication that manufacturing or corporate investment are going to take up the slack. That is why he has cut by half a percent, which leaves him with little ammunition left. I see America as not quite going into a deflationary scenario – but I would quite like to discuss deflation as an issue. Just looking at it in terms of where we're going, I think to me the most likely scenario is that the recovery will falter a little. That's where I would place my money.

Europe looks worse to me and I note that the IMF and the European Commission have downgraded their forecasts of growth for Europe as a whole but while some countries in Europe, including Britain, might enjoy tolerable growth. I think the real worry is Germany – that is where I am really, really worried about the situation, so I think you could paint a picture, as David Smith did in the *Sunday Times,* of clouds parting, but I think that may prove illusory. When Greenspan says the risks are evenly balanced, I think they're slightly more on the downside, and for Germany the risks are much greater.

Q. Germany and Japan?

A. Well, and Japan, yes absolutely. But Japan has gone on for so long and I really don't know a lot about Japan, and certainly don't claim to know the answer to Japan.

Q. The whole situation is really already very serious, isn't it? The banking situation is a difficult one and even strong banks like Deutsche Bank are finding it quite hard to make profits and the weaker banks have got growing bad debts, which they will have to deal with.

A. Well, that is right. Deutsche Bank has announced quarterly losses that are tied up with Allianz. West L.B. has made provisions of over £1 billion, Commerz Bank has made provisions over a billion and the State Bank in Berlin is in receivership; the City of Berlin is bust as well. The City of Berlin has asked Hans Eichel for help; it says it can't meet its obligations. I don't suppose that the Federal Government is going to bale it out, so it is in a really serious situation.

All experience indicates that unless the German economy improves, the situation will grow worse and what we are seeing now reflects what has happened in the past, and what we will see tomorrow will reflect what has happened yesterday and today. I would be surprised if we get through this period and this downturn without a major financial institution, somewhere in Europe, going under. I don't know which it will be, but that's the nature of the world. These banks have got shrinking capital because of bad debts.

Q. The ECB doesn't really have a strong leadership and can't provide a lender of last resort?

A. No, well that is where I really wanted to discuss the issue of deflation. I think deflation is not in itself necessarily a bad thing. As you very well know from the 1860s to about the 1890s in Britain, thanks to productivity in manufacturing, we had falling manufacturing prices in this country accompanied by a very considerable growth at the same time. Of course, what we did not have at that time was huge private sector or personal indebtedness. And that's when deflation can become bad. If you take Japan, deflation doesn't really hit ordinary people as much as one would have thought, but there is concealed unemployment in Japan. Nonetheless it is quite low by what we have experienced in terms of slowdown here. They've had four or five years of this, but the real danger of deflation is when it is accompanied by heavy indebtedness and that was the situation in Britain in the twenties and thirties; there was quite a lot of personal indebtedness and many people financed their purchases on instalment credit and mortgages were then foreclosed. There is much indebtedness in Germany. I saw some statistics recently, I think it was in *The Economist,* indicating that the non-financial sector private indebtedness in Germany is 160% of GDP. Well that doesn't compare with Japan which is more around the 250% plus mark, but it is still a very considerable amount. And Germany is in a situation where inflation is extremely low – it could tip over into negative inflation. In six out of the last eight months, consumer spending has fallen in Germany; consumer prices annualised over the last six months have fallen, so they are close to a technically deflationary situation and I think the nearer you get to it the more dangerous it is and the more difficult it is to stop. That is the reason that Gordon Brown has his ±1% to 2½% target, because you want to act when you're at the bottom of the range. Once you're close to zero you're in trouble. And Germany is close to it. I try not to make this a "Lamont on the euro" type harangue, but they are in a very difficult situation because of the euro; they have locked themselves into the euro at a rate that was extremely high; they have an interest rate that is possibly two percentage points too high for them. All that is dangerous enough but then, as you have said, on top of that you have what adds a lethal addition to it: a very weak banking system. They have far too many banks. They also have banks that have shareholdings in industry, not quite on the Japanese scale, but they do as a residue from the 1930s and the postwar period have large equity portfolios and they have links with insurance companies.

That seems to me to add up to something very dangerous. And then, on top of that, you have this ambiguity about the role of the Central Bank in a banking crisis. Will the Central Bank just be able to bail out a bank? Possibly, yes, but I think Maastricht is extremely unclear about this. Are they just able to put liquidity into a bank? I don't know, I think that is a very problematic question. And I don't think the European Central Bank is remotely geared up to cope with or think about this, so everything in Germany seems to me to be moving in the wrong direction.

Q. Basically they're in the euro at the wrong price, aren't they? They found themselves landed with a conversion rate from the D-Mark to the euro, which left them non-competitive.

A. Yes, well they're in the radiant which caused me so much trouble with the ERM. Of course, Germany in the past has managed, many, many times, to overcome an overvalued exchange rate through increases in productivity but then the exchange rate could also adjust at the margin, now it can't adjust at all. They are condemned to a period of what the French used to call competitive disinflation. The French had it within the ERM for six or seven years, and now it's the turn of the Germans to lie on the bed that they have created. But I think it is a very worrying situation. Most people involved in public policies say that deflation is unlikely and if you look at America, it has had a low rate of inflation for a long period of time, around a cycle. The rest of the world has been looking further back on a very marked global downward trend in inflation; and you know those of us who were in Government in the eighties and early nineties like to think that we all contributed to lowering inflation. There were tremendous global forces including technological improvements that were contributing to low inflation. When you look over the longer term one begins to wonder how significant the actions of governments were and how significant industrial developments were. We now have a situation of disinflation in many components of the RPI in this country. In America there is disinflation in goods but not in services, which gives an overall rate of inflation. It doesn't take much to get into disinflation but on the whole I would say America will probably avoid it. Britain will probably avoid it, Europe will probably avoid it but I think there is a higher risk that Germany won't be able to avoid it. The answer to deflation according to Milton Friedman is to just print the money. This may well be right, but Germany can't do that.

Q. What about the enlargement?

A. It seems to me that enlargement is a high risk strategy, a higher risk than the government recognise, that by adding on ten more countries with much lower GDP per head than the existing 15 countries. Combined with high unemployment in many of these countries it seems that there may be a large movement of jobless people westwards. Different countries are taking a different stance on this. Germany and France are sticking to the seven year timetable while the UK and Ireland are saying they will allow all citizens to move straightaway.

Q. Do you think that this is going to be a problem – though a delayed one in most countries?

A. Yes, well the delay is seven years, it could make a very crucial difference. I do think this is a problem with migration problem but will not be immediate. Everything you say is right, though of course Poland, or take Romania, which is in not the first wave – they don't produce a lot, other than agricultural goods, that are of fine quality and can be sold in the West. The agricultural settlement needs to be remade, what is on the table at the moment is iniquitous. It will give quite a hard time to Polish farmers competing against subsidised German products; it's not all one way – it can be the other.

I think enlargement, if these countries join the euro in a few years, could be enormously difficult for Germany. The basic problem for Germany, as I see it, is that the European Central Bank has an inflation target of 2.5%. There are a number of countries in Europe like Ireland, like Portugal, like possibly Spain, that are high growth, high inflation, catch up economies, possibly Finland is another, although Finland has high living standards. The candidate countries, the Czech Republic, Hungary, Poland, Slovenia, are all going to be in exactly the same situation and the problem with the ECB is that it has the 2½% inflation target but it has to drive German inflation lower to compensate for Irish, Portuguese, Spanish, Finnish, and in future the other catch-up, high growth, high inflation economies, and Germany will be even more out of synch with an enlarged Europe. So the problem we see now could become permanent.

Q. The German economy is the largest, and in some sense the strongest in Europe. It's the motor, and if you don't have the motor working properly then how does the rest of the system work?

A. Yes, well Germany is one third of EU GDP at the moment. The only country for whom the ECB seems to work well is France. It just works out that France has more or less got the right interest rate; it's not quite right for Germany or Spain.

Q. On enlargement it's looking increasingly like countries like the Czech Republic perhaps will become net contributors. How do you see that affecting their economies? Do you see it as becoming a negative that they join?

A. I haven't, I must confess, dared to realise that they would be. I am personally a supporter of enlargement. I spend an awful lot of time in Eastern Europe, but I think the terms of enlargement are wrong. I think negotiation on the basis of *acquis communautaire* is sensible, but I do observe just how these countries are doing many of the right things, which I do not believe they would do at all if there was not this sort of vision at the end of the road. I mean many of them have reservations. I talk from time to time to Vaclav Klaus and I know very well what he feels about it and on one occasion I remember when I was making a pro-EU. case to him he said to me, *"Ah yes, Mr Lamont,"* he said, *"but when I look at that Berlaymont building in Brussels I seem to see the words COMINCON written all over it."*

But I think they are, I mean this is a non-economic point, but I think a lot of these countries have huge strides to make in the field of impartial justice, the rule of law and the problem of control of the police and the secret service.

Q. It's also very much a corruption point.

A. Yes, massively.

Q. Do you think that what we are going to get is actually a divergence between the US and the UK really continuing on a rather similar trend tending to converge with each other and the EU following other trends with a reasonably high degree of convergence inside the EU but not with us and not with the US?

A. Yes, I think you're quite likely to get a continuation of the past. I

mean the UK has always been influenced somewhat by America and somewhat by Europe and I think that is quite likely to continue. Obviously Europe has done worse, but chart ten year bunds against ten year treasuries in America – they look rather similar in the chart and interest rates are similar, but I think there will be more similarity between the British economy and the American economy and Europe will go its own path. All this is very powerfully outlined in the very impressive documentation of Test One, the convergence test in Brown's document. I defy anyone to read that and believe that Britain could ever join the euro. It so clearly illustrates that from all cycles there is a large degree of synchronisation between Britain and America or a much larger correlation than there is with Germany or France.

Q. But just going back to the economy rather than going on European things, I think this is a key point about this recession, it is not a new point but I think it is one that one has to bear in mind is that this is much more like a pre-1914 economic situation.

A. This has not been brought about by inflation rising, putting up interest rates and then having a consequential recession, this is an over investment, this is a classic bubble, it has all the features of a bubble. Alan Greenspan may debate that there was a housing problem in America but there has plainly been a techbubble in America and in Britain and it is going to take some time to work its way through – I know we've had a stock market recession for two and a half years or so, but I think the striking point is that there is no consolidation in the tech area in the United States. The number of quoted technology companies doubled between 1995 and 2000 and there has been very little consolidation since. Demand for technology products is going to be much less in the next five years than it was in the last five years and until that happens I don't see how you can entirely break out of this cycle. Many technology companies are still overvalued. I think the market keeps attempting to burst out of this – we get extraordinary volatility, we get 5% up one day, 4% down the next, but by attempting to rise 5% in a day the market is illustrating it has not really taken on board the lesson. The lesson is that in this world of permanently low inflation the returns from equities are going to be of the order of 5 or 6% in future – not the sort of returns we have had in the past. People just aren't willing to accept that at the moment, but they will have to accept it.

Q. This gets back to historic methods of valuation.

A. Exactly. It has been pointed out to me that bonds in America have outperformed stocks for five, ten and fifteen years. That is the measure of how they have fallen. Gold has outperformed stocks in America for five years.

Q. Yes, gold has come alive again, hasn't it?

A. The other thing I think you may get in the United States is that unemployment will not fall. I don't think it will recover as fast as people think, and in fact I think unemployment may rise because what we've seen is the biggest recession in corporate profits this side of the Second World War and there have been productivity gains but those productivity gains have been passed onto the consumer because companies have had no pricing power. Now, however, I think companies are going to be determined to recapture productivity gains for their own balance sheets and that must mean that they will get rid of people and I certainly don't think unemployment will fall and it may even rise. Real wages in America have been falling and I think will fall further.

Q. I find it worrying that the pound is being pushed up really almost against everything; certainly against the dollar. If this trend continues we could find ourselves in a squeeze, couldn't we?

A. Yes, I agree that is worrying, I suppose just reflecting our stronger position *vis à vis* Europe, as we've become just a little bit disenchanted with America, but I don't see what you are going to do about that.

Annuziata Rees-Mogg is Editor of the European Journal. *Norman Lamont was a Conservative MP from 1970 to 1997. He was Chancellor of the Exchequer from 1990 to 1993, and held that post at the time of the UK leaving the Exchange Rate Mechanism. He now sits in the House of Lords as Lord Lamont of Lerwick.*

… news in brief

Fischer reaffirms Germany's position

Following the common statement adopted by the EU in Brussels on Monday, the German foreign minister, Joschka Fischer, has insisted that there has been no change in Germany's opposition to the war. He was responding to attacks from the Christian Democrat opposition leader, Angela Merkel, that the EU declaration, which did not rule out the use of military force against Iraq, represented a change of policy by the German government. Merkel said it was essential for the EU to co-operate with the USA. A CSU politician, Michael Glos, said that Brussels had *"sunk Goslar"* – it was in Goslar in January that Schröder had unambiguously ruled out German support for an Iraq war in the Security Council. Glos said that Germany's *"special path"* was not entirely at an end, but that since Monday Germany was *"being steered back into the European boat"* (sic.) Glos said that this change was due to the influence of Joschka Fischer. [Die Welt, 18th February 2003] Reports suggest that Nato may ask Germany to send its 'Fox' armoured personnel carriers to Turkey: these are particularly useful for chemical and biological warfare; Germany has 114 of them, and its soldiers are well trained to use them. Germany may therefore find that it is forced to send troops into something which will appear indistinguishable, to most people, from actual participation in the war. [Katja Riddersbusch, *Die Welt,* 20th February 2003]

Brussels delays agreement on EU energy tax

Meeting on Tuesday, European Finance Ministers have been unable to agree on a minimum level of tax on energy. The spokesman for the Ecofin council said that the next meeting on the matter had been put off until March, but that there would be bilateral discussions between now and then. The idea of imposing a minimum tax on energy has been on the agenda since 1997, and it was agreed in principle at the Barcelona summit last year. Taxes are to be harmonised on diesel, gas, electricity and oil. The disagreement concerns mainly what exemptions to grant. When the oil price rose in 2000, transport companies protested and numerous governments, including France and Italy, responded with tax cuts. However, the EU allowed these only until 2002. The German finance minister said at the meeting on Monday that any rise in the oil price as a result of an attack on Iraq should be met with a co-ordinated tax policy. Germany is keen to get an agreement on the minimum energy tax because it has high taxes on energy itself. [*Handelsblatt,* 18th February 2003]

The Accession Countries and the Convention on the Future of Europe

by Matthew Glanville

Since March last year, more than a hundred MEPs, MPS, Government ministers and officials have been meeting regularly in Brussels to discuss the institutional structure of the EU after it enlarges to 25 countries. The remit of the Convention on the Future of Europe has been described as nothing less than *"to refound the EU for the next fifty years"*. Certainly the vanity of its President Valéry Giscard d'Estaing is flattered by such epoch making phraseology; phraseology he does nothing but play up. However, so far the Convention has seen few ideas that even begin to match the grandiloquent vocabulary of some of its members and the President himself.

Rather, Convention observers have been bombarded by a series of pleas for elements of the status quo or greater power disguised as far-reaching and broad-minded proposals for reform. The Commission has become so excited by this game that it has produced no less than three papers. Of the other institutions the European parliament has submitted a paper; the European Political parties have submitted constitutions; some of the national governments have prepared plans, even if in the British case the plans are being held rather oddly at arms length. The only major group not to submit a version of a constitution for Europe has been the national parliaments either jointly or singly.

How the pleas for power from these conflicting institutions will be bargained out is not yet clear. The Draft Constitution produced by Giscard in October left most of the contentious questions unanswered, preferring to wait the reports from the working groups. The most significant development has been the acceptance of a written constitution by all the national governments and most of the Convention members. We are no longer talking about treaties, but explicitly a written constitution for Europe.

Whatever the content of this constitution, the British Government has already shown itself to be on the horns of a dilemma: either it argues for the finality of the constitutional settlement or it plays up the idea that the constitution represents only a limited tidying up of the treaties.

From the Government's point of view, both approaches have their benefits; and the government has used both to defend its actions concerning the proposed constitution. By taking a maximal view of the constitution and defending it on the basis that it offers certainty, clarity and assurances that the movement towards closer harmonisation will go no further, the government can present the constitution in a populist, line in the sand, tone. In this light achievements like the removal of the term 'ever closer union' from the treaties can be portrayed as grand triumphs offering an end to the movement towards more integration.

Such finality should surely be confirmed by asking the people in a referendum

The other approach adopted by the Government, when they first raised the subject of a written constitution for Europe, was to play down the whole exercise, claiming that a constitution of itself was not terribly significant. If the Government does try to sell the Constitution as a great watermark within the debate about European integration it leaves itself open to criticism that the people in a referendum should ratify such a fundamental change in our relationship within the EU.

It seems that the 'once and for all, line in the sand' interpretation is increasingly being put on the Convention by the government. This allows them to portray the resulting Constitution as offering certainty and concrete safeguards over subsidiarity. Such finality should surely be confirmed by asking the people in a referendum. Conservatives have already made the point that this government has held more referendums (on Welsh and Scottish devolution, a London assembly etc.) than any previous administration so why should it deny the people a voice in this historic settlement? It is now official Conservative policy to call for a referendum on a new constitution.

It is unfortunate that the Government is unlikely to hold a referendum in this country. However, we have the certainty of referendums in many of the candidate states and the likelihood in some of the existing members. The Danish Prime Minister has already said *"I expect that the new treaty will be so far-reaching that a referendum would be necessary."*

Depending on the results of elections on the 22nd of January next year, it is possible that the Dutch Government will have to call a referendum on the whole principle of enlargement. The French Government may well have to call a referendum if the new constitution calls for changes to the national constitution. Of the enlargement countries, Malta, Poland, Hungary, the Czech Republic and Slovakia have all to greater or lesser degrees, tentatively fixed dates for referendums next year. It is likely that some of the other formerly Soviet block countries will also have to hold referendums. The constitutions that were written after the fall of the Berlin Wall tend to have very firm strictures on changes to the national constitutions, which require a referendum to confirm any significant changes. The candidate countries face the prospect of two referendums on the EU in the next four years, firstly on membership and then on the Giscardian Constitution.

None of the results of these referendums is entirely predictable and it would not be surprising if at least one country failed to ratify membership under either the existing terms or those of a Giscardian Constitution. Whether such a country would be forced to try again as with the Nice referendum in Ireland, or whether they would be able to renegotiate is currently up in the air. Unlike previous referendums on membership none of the candidate countries would be either members already or members of the EEA. Legally the case would be clear they would remain outside the EU. Politically it seems likely that some form of association agreement would be patched up. It is interesting to speculate whether any of the pre-accession aid would be paid back in the event of a candidate decisively rejecting membership.

If the status of any accession countries that fail to ratify membership is unclear the status of current members that fail to ratify the constitution is even more difficult to fathom. Giscard stated in October that any member state that failed to ratify the new Constitution *"will not be part of the new system"*. Instead they would continue to operate presumably under the old treaty structures whilst negotiating a series of derogations in the same way as countries have over the single currency. The Commission's 'Feasibility Study' on the constitution offers another insight into the fate of countries that fail to ratify any new constitution. Failure to ratify would, it claims, lead to some form of renegotiation. In case of failure to ratify and an application to withdraw, negotiations shall commence *"in order to conclude an agreement governing their future relations"*. The Commission's separate submission to the Convention also acknowledges that countries might fail to ratify a new Constitution and seek to withdraw. We don't know how these ideas will manifest themselves in the final conclusions of the Convention but they do indicate that the Commission, and others, are taking the idea of withdrawal and or renegotiation seriously. A failure to ratify at any stage of the process for either existing members or candidates and the consequent renegotiation would only serve to loosen the proposed federal structure. Each state that fails to ratify and is seen as surviving without full membership of the EU demonstrates the possibility of a successful but much freer EU.

The question then becomes if there is a way to provoke a referendum in this country and inform the debate in others. It is unlikely despite the efforts of the Conservative Party that the Government will risk a referendum on the Convention. However, by calling for a referendum and being seen at the front the Conservative Party can stimulate the debate within the candidate countries. Many of the euro-sceptic groupings in these countries cry out for international recognition and support. They look to the Conservative party as the main international representative of sceptical opinion.

Within the Convention itself the European Research Group along with the Democracy Forum Group are working on an alternative form of European Association based on treaties; not a constitution. The document calls for a much looser form of European association and for national parliaments to be much more involved in decision making. Titled 'A Europe of Democracies' this text is being launched internationally in conjunction with the Democracy Forum and other pan-European eurosceptic groups in February. The aim is to provide an answer to the federalist question of 'what is your alternative?' – a question that will be raised in all of the referendum campaigns. Within many of the accession countries opposition parties do not have the resources or the international contacts to create coherent alternatives. Hopefully this document can act as a focus around which international opposition to the constitution can coalesce. With a broad front of support it could be instrumental in swaying the campaign within some of the accession countries. Were one of them to fail to ratify, it would be a definite step towards the looser, more flexible Europe that many of us would like to see.

If anyone would like copies of the draft Europe of Democracies text, please ring Matthew Glanville on 0207 219 3464.

Matthew Glanville works for the European Research Group. Its Chairman, Rt Hon. David Heathcoat-Amory, is one of the UK Parliamentary representatives on the Convention on the Future of Europe.

… news in brief

Malta divided

Trade unions and the opposition are fighting the government in Malta over EU membership. The former are against and the government is in favour. There is to be a referendum on EU membership on 8th March. The current leader of the opposition Labour Party, Alfred Sant, stopped the whole accession process while he was Prime Minister from 1996 to 1998. He has said that he will not recognise the result of the referendum, which is merely consultative. Although the EU is not particularly concerned if Malta votes 'No' – it will save the cost of translating everything into Maltese, for a country with merely 400,000 inhabitants – the Commissars are worried that an early 'No' vote in the series of referendums might have a contagious effect on the other countries. Günther Verheugen, the Commissar for enlargement, visited the island trying to drum up support: Mr Sant just retorted, *"Verheugen can come here with his graphs showing how much better off we will all be. But we can show him pictures of the bombs which the Germans dropped on us during the war."* The deputy leader of the opposition added, *"If you are a big country and you give up two thirds of your sovereignty, you can wield it at the European level. But we are giving up everything without knowing how we will get it back again."* Opposition comes from various quarters: Catholics are suspicious of the EU's louche morals, hunters like to shoot migratory birds and the general population does not want to be flooded with Sicilian immigrants or German and British holidaymakers buying up property. The fact that Malta has negotiated derogations on these and other matters has not mollified the opposition. Relations with Libya are also an issue. [Arnaud Leparmentier, *Le Monde,* 11th February 2003]

Welcome to the New Europe

Ten countries signed a declaration of support for the position taken by the USA and Britain in the Iraq crisis: Albania, Bulgaria, Croatia, Estonia, Latvia, Lithuania, Macedonia, Romania, Slovakia and Slovenia. They have been branded *"the new Europe"* by Donald Rumsfeld. But how new are they? Albania is governed by the party of Enver Hoxha, for forty years one of the worst Stalinist dictators in Europe; the President of Bulgaria is a former communist; the president of Croatia was the last communist President of old socialist Yugoslavia, while his Prime Minister was the Ideology Secretary in the Yugoslav League of Communists; the President of Estonia is the former President of the Supreme Soviet of the Estonian Soviet Socialist Republic; the Prime Minister of Lithuania is the former First Secretary of the Central Committee of the Lithuanian Communist Party; the government of Macedonia is in the hands of former communists; the President of Romania rose to prominence as head of the Communist Youth under the Romanian dictator, Gheorghe Gheorghiu-Dej, before becoming a member of the Central Committee of the Romanian Communist Party under Nicolae Ceausescu; the President of Slovakia was a member of the Central Committee of the Communist Party of Slovakia and for 20 years a senior local communist boss; while the current President of Slovenia was for years deputy to his predecessor, who had been the communist head of Slovenia since 1986. Prior to the open letter by the *"Vilnius 10"*, moreover, three countries, Poland, Hungary and the Czech Republic joined five current EU members in signing up to the war on Iraq: the Prime Minister and President of Poland were both Communists until the bitter end; the Prime Minister of Hungary used to be an agent for the Hungarian equivalent of the KGB.

The Euro Leads Europe into Economic Problems

by Petr Mach

When politicians in the European Union persuaded the public about the benefits of the single currency, they argued that the euro would increase economic growth, cut unemployment and bring monetary stability to all countries.

Today it is obvious that the launch of the euro failed to prevent a continuous decrease in the growth of European economy, and that the introduction of the single currency is proving to have a different impact in each member state of the euro-area. The fast-growing Ireland now has higher inflation than prior to the euro, and the stagnating Germany is on the verge of deflation. Such divergent effects are caused by the economic diversity of the European monetary union, in full accordance with the theory of optimal currency areas. *Excessive inflation or unemployment is a standard side effect of any monetary integration of heterogeneous economies.*

A country that gives up its own currency for the euro loses the monetary exchange rate as a natural tool for balancing to join the flows of money between the domestic economy and other countries, so that the amount of money in the economy becomes an uncontrollable quantity. Any increase in exports or investment inflow translates into an increase in the amount of money in the economy, whereas a decrease in exports or outflow of capital within a currency area leads to a lower volume of currency. When the amount of money is growing, prices tend to reflect the trend flexibly by moving upwards, which has been the case with Irish inflation. When the monetary stock decreases, the lower aggregate demand is reflected by a decrease in production due to the downward inelasticity of certain prices, that has been the case in the German recession.

When the German export lobby pushed for the launch of the euro a few years ago, it hoped that the membership of weaker economies of the southern Europe would contribute to the depreciation of the single currency, with a weaker euro boosting German exports. But today the German economy is paying the price of the euro introduction. If the stagnating German economy could use the mark today, the mark would depreciate and help to bring Germany back to the growth track. The relatively fast economic growth of Spain, Greece or Ireland hinders the depreciation of the euro, which would be so beneficial for the German economy.

Moreover, the German deflation combined with uniform interest rates means that the real interest rate in Germany is higher than in the rest of the euro-area, which further inhibits Germany from escaping the recession. The European Stability Pact says that a country with a deficit above 3 per cent of the GDP should pay huge fines to Brussels. If Germany paid such penalties, it would have not only have negative fiscal but also monetary consequences: further outflow of money from the country would only add to the deflation crisis. In this sense, the European Commission President Romano Prodi was right in saying that the Pact is stupid. But even without the fines, Germany gives away a vast amount of money annually for the subsidies to poorer EU members, since Germany has long been a net contributor to the EU budget. Now that Germany no longer has its own currency, the German monetary stock can decrease each year in any case.

Today the European Central Bank's inflation goal is 2 per cent. However, this is only an average, and the inflation varies significantly from country to country. The low inflation goal means that some regions – and today it is Germany – are very much prone to deflation followed by some economic contraction and unemployment growth. In general, we can say that *the more the economic development varies in different regions of a currency area, the higher the average inflation rate must be in order to prevent the single currency from causing deflation or recession in some of the regions.* As a result, we often hear about the need to ease the inflation goal of the European Central Bank. If this happens, under pressure from Germany, the hallowed independence of the European Central Bank will die sooner than anybody would have expected.

The unfavourable consequences of the euro should be a warning to those who favour further enlargement of the Euroland. The Czech Republic, for instance, is a growing economy experiencing an inflow of capital. This inflow leads annually to an appreciation of the koruna by about ten per cent. If Czechs started to use the euro instead of the koruna today, it would mean not only an end of currency appreciation but also a return of the annual 10 per cent inflation that used to be the result of a capital inflow combined with a fixed exchange rate up to 1997. The launch of the euro in the Czech Republic would not only lead to a faster price growth but also to the inflation being determined and regulated from the European Central Bank in Frankfort. And the Czech Republic would have little influence on its policy.

Romano Prodi may be right when he says that the Stability Pact is stupid, given its rigidity. But to be consistent, he ought to extend his judgment on the euro project as a whole.

Petr Mach is an economist at the Centre for Economics and Politics in the Czech Republic and a PhD student of monetary theory at the University of Economics in Prague.

… news in brief

Finland debates NATO

Some 80% of Finns want to remain neutral: they have a 1,300 km border with Russia and are afraid of upsetting Moscow. Finland's neighbour, Sweden, also remains neutral.

But people in Finland are starting to call for a change to the status quo, especially as NATO extends eastwards to include the Baltic States. George Robertson went to Helsinki on 30th January on a *"fact-finding mission"*. The debate was kicked off by the ardent plea for NATO membership by the country's former president, Martti Ahtisaari, last November. The prime minister refuses to say where he stands but he says he is happy that the debate has been opened. The Iraqi crisis has not helped the pro-NATO cause: Finns see the Alliance as dominated by the United States, and there is considerable opposition to an attack against Iraq. Nothing is due to happen until next year, when a report is due to be published on Finland's defence needs by whichever government wins the election in March. [Antoine Jacob, *Le Monde,* 31st January 2003]

FACTS

by Annunziata Rees-Mogg

From the Information Centre of the Hungarian Parliament: *"Everybody voted 'yes – Aye' [to changes to the Hungarian Constitution to allow for accession to the European Union] and nobody voted 'no – Nay'. On the other hand it is true that four MPs pushed by mistake the 'Nay' button (they wanted to push the "Aye" button). They officially asked the chairwoman of the Parliament to correct this mistake, so the official final voting result that everybody voted: 'yes – Aye'"*

Whilst in Poland… The Minister responsible for preparation to the EU referendum presented his plans to the National European Integration Council. He intends to open EU Information Centres in every gmina. The memorandum stipulates that about 5,000 graduates will find a job in these centres. The project is called "The first job" and the graduates are to be trained in February. Each gmina is to organize at least one meeting on the EU by the end of April. The government also plans to organize EU information events in supermarkets and to prepare a special information programme for the army.

And in the Czech Republic… Four months before the planned referendum on EU entry, the Foreign Ministry has realised that it forgot to include tax in its calculation of costs of the information campaign preceding the plebiscite, HN reports. Instead of the announced CzK 200 million the state will have CzK 40 million less for projects. Unfortunately, they did not realise that the sum from the budget does not include taxes, the paper quotes the ministry's Jana Adamcova as saying. *"We found it out when discussing the bids, which included taxes,"* she adds. Now the ministry hopes to gain at least part of the missing money from donors. Mrs Adamcova says she believes that at least CzK 20 million could be obtained from firms. In this event the ministry would not have to reduce the campaign significantly. Due to lack of money, the ministry has already rejected the production of information brochures that were to have been supplied to all Czech households. Instead people will find only 'Euro-newspapers' in the form of leaflets in their postboxes.

London is the richest part of the EU. According to a press release by the EU Commission, the *"GDP per capita expressed in terms of purchasing power standards, ranged from 47% of the EU average in Ipeiros in Greece, to 241% of the average in the Inner London region of the United Kingdom."*

The EU Commission has also decided to extend its brief to cover the future of Europe's 4,000 universities. It started a debate entitled *"how to turn European universities into a 'world-class reference'"*. It argued that centralised planning was needed because *"The European university landscape is primarily organised at national and regional levels. It is characterised by a high degree of heterogeneity, which is reflected in organisation, governance and operating conditions. However, European universities face common difficulties and a common need to adapt to an evolving context. Given their central role, creating a knowledge-based Europe is a source of opportunity for universities, but also presents major challenges."*

On 19 February the Commission adopted a 'Green Paper on procedural safeguards for suspects and defendants in criminal proceedings throughout the European Union' and has decided to transmit it to the Council, the Parliament and the European Economic and Social Committee. This initiative is part of the work of the European Union to create a genuine European area of justice. Antonio Vitorino, member of the Commission responsible for Justice and Home Affairs, said, *"Having minimum common standards is the best way of ensuring homogeneous protection of individual rights throughout the Union."*

The starting point for the Green Paper was the European Convention on Human Rights supplemented by the case law of the European Court of Human Rights. Since the TEU provides that Member States should comply with the ECHR, this means that Member States should in principle see the Commission's proposals as merely giving *"visibility"* to standards that they already adhere to.

The European Commission has announced its proposed rules on a statute for and financing of European political parties. This proposal lays down minimum rules for the recognition and transparent management of political parties at European level. No policy conditions are attached to the funding requirements, which the Commission claims means that, *"'Eurosceptic' parties will qualify for funding in the same way as any other party, as long as they respect the principles of freedom, democracy, human rights and the rule of law."*

This leaves it unclear as to what the position would be if a national party, for national reasons, advocated withdrawing from the European Convention on Human Rights. To qualify, a party must be present in at least three Member States. This means that any eurosceptic parties would have to form improbable alliances.

Euro-Trainspotting

by Giles Conway-Gordon

Toot, toot! Peep, peep! All aboard! As a referendum on UK participation in the euro looms, we will again hear a crescendo of voices from politicians and officials claiming once more that the euro-train is leaving the station, that the latest model has an exciting new engine, the euro, and that the UK, as ever, is in danger of missing the most important ride of its life.
Observations over the last few decades make it clear that there are in fact three models of the euro-train. The first two are the political and the economic models of the marque. The political model is the oldest. The prototype of the political model, which appeared shortly after the last World War (in the form of the European Coal and Steel Community), was built to a predominantly French design by Jean Monnet. The inspiration for this prototype was the perceived need for a structure of collaborative political institutions between the European powers in the aftermath of the war. Above all the new organization should so solidly tie the participants to the principles and structures of democracy and liberty that any re-emergence of the authoritarianism that had led to the horrors of the War would be impossible. The ECSC prototype was succeeded by the 'Treaty of Rome' class in 1957; the 'Single European Act' class in 1986; and the most recent and powerful class, the 'Maastricht', in 1992. The euro, a new engine for the political model of the euro-train, was introduced in 1999 and entered general service, as we know, in January last year.

The distinctive feature of the political model of the euro-train is that, ever since entering service, it has run steadily in reverse. From the start, the model has travelled diametrically away from its advertised democratic destination and is now clearly headed for a terminus which increasingly resembles the centrally-controlled political structure which characterized the former USSR, complete with government by fiat, a subservient parliament and an all-powerful, venal and unaccountable nomenklatura. Curiously, even the results of the elections to the European Parliament bear a strong practical resemblance to the sham elections held in totalitarian states; a turnout of 30% would not appear to deliver much more democratic authority than one of 99.9%.

In fact, as the years have passed and the Treaty of Rome has been succeeded by the Single European Act and the Maastricht Treaty, each new step, so far from improving and increasing democratic accountability in Europe, has reduced it. In a process which can fairly be described as power-laundering, the fundamental democratic rights of Europe's electorates have been steadily annexed by the European Commission. In exchange Europe's citizens have been fobbed off with the travesty of democracy which the present structure in Brussels represents. The current proposals for resolving the political deadlock in Brussels by eliminating the national veto and imposing majority rule are simply a natural further step in this process and another burst on the accelerator. So with each step the political model of the euro-train has picked up speed in its journey towards its anti-democratic destination.

The economic model of the euro-train had as its laudable original destination the creation of a flexible, dynamic economy of 300 million consumers through the free movement of people, goods and capital throughout the member countries. The model got off to a very promising start as a free-trade area in the shape of the Common Market. The abolition of the vast panoply of protectionist barriers and tariffs and restrictions and controls which hamstrung trade, investment and employment in Europe after the War led directly to the massive beneficial growth in intra-European trade, investment and employment which started in the sixties.

In the eighties, however, the economic model started to slow. The Brussels' staff, perhaps fearful that the great success of the Common Market, if left unchecked, would expose their doubtful utility and leave them without jobs, began to introduce the flood of 'harmonizing' regulations which are now stifling businesses and creating unemployment across the Eurozone. What was, in the Common Market, a liberating commitment to a true level playing field, encouraging free competition and the efficient flow of capital throughout Europe, has been replaced by a regime not of harmony, as is claimed (you have to have at least two voices for harmony), but of a rigid uniformity which is very effectively eradicating jobs and investment. Insanely enough, the conference convened last year to address the need 'to reduce red tape, improve flexibility and make Europe the world's most dynamic economy' proposed to achieve this by introducing – what else? – more regulations. Unsurprisingly, unemployment in the EMU area is now rising back towards 9 per cent. So the economic model too is now, at gathering speed, moving backwards.

But it is the third model of the euro-train which is of most interest and significance to the present discussion. This is the model which attracts the keenest attention of our political and official masters and which they are referring to when they deplore the UK's reluctance to commit itself to Europe and the euro. This is the model of the euro-train they really don't want (us) to miss. The third model is the model reserved exclusively for the directors and staff of the European Commission, though senior politicians and officials of the member countries use it very regularly as guests. The third model is the 'employee conditions and benefits' model or the 'perks' model; in short it's the great Brussels gravy train.

Partly, of course, the comforts of the 'Employees' euro-train are straightforwardly financial: very generous salaries, which are subject to a preferential tax rate of 15 per cent (and boosted by the dubious transfer calculations recently uncovered), generous pensions and benefits and, not least, a regime of wide-ranging expense allowances which, though also extremely generous, are nonetheless routinely and massively fiddled.

The real benefit, though, is the incomparable job satisfaction and career opportunities which come with the exercise of virtually uncontrolled political power free from any significant democratic accountability. For the Brussels' staff, of course, each European treaty has naturally served to justify a fresh bout of power-laundering as they gain authority to regulate new areas of the lives of Europe's citizens. These rights, the infamous *'droits acquis'* (none of them subject to any significant democratic process, whether in origination, legislative review or ratification) now cover 85,000 pages of text. The principle of subsidiarity, fundamental

to the operation of any democracy worth the name and particularly relevant in a structure like the European Union, was the subject of brief and positive public discussion about ten years ago. Thereafter it was rapidly suppressed, shouldered aside by the adoption of the new principle of 'harmonisation', the perfect justification for an endless program of oppressive bureaucratic interference. Small wonder that the Commission staff (17,000 of them at last count, when the entire British Raj was run with fewer than 1,500) fight tooth and nail against any attempt to control the gravy train and bring their activities under genuine democratic control or subject the Commission's finances to proper auditing. According to the most recent report of the EU's Court of Auditors, for the eighth year in a row only 5 per cent of the EU's expenditure could be certified as legal and regular.

But who can question, too, the corrupting influence the gravy train exerts on the domestic politics of the UK and other member and candidate countries? Any senior politician whose domestic career looks precarious has only to cast an eye towards Brussels to see the glorious vista of an exciting, more rewarding and more congenial political reincarnation. For the *enarques* in Paris, of course, Brussels has long been simply a conveniently close offshore affiliate of the Tresor and the Quai d'Orsay. But, to cite only recent examples, the Brussels' siren song has found a ready ear in Ireland, where the Irish vote against the Nice Treaty in June last year was instantly deplored by Bertie Ahern and, outrageously, has now been re-run under new regulations. It was the same story in Denmark. Even in Switzerland there was no shortage of would-be eurocrats to condemn last year's popular vote against a closer relationship with the EU.

The problem is very clear and very simple: it is that the senior politicians who are responsible for guiding their countries in the momentous decision to surrender or reduce democratic control of their own affairs in favour of 'Europe' have a strong personal interest in cosying up to the Commission. You are a senior politician facing a serious hiccup in your domestic political career. What better way of demonstrating your europhile credentials to the Commission and smoothing the path to a possible euro-satrapy than to indulge in a vociferous bout of pro-European cheerleading. Do these men really believe that an extremely dubious economic advantage (see not only the 'No' campaign but Martin Wolf's recent critique of the economic argument for UK entry into the euro in the *FT*) really justifies the final surrender of democracy in the UK? It is difficult to believe that some element of personal ambition linked to Brussels is wholly absent from their calculations.

Right now, of course, you are Tony Blair, running out of political road at home with Gordon Brown breathing down your neck and the scales falling rapidly from the electorate's eyes. If you could just succeed in pulling a final, massive confidence trick on the British public and deliver the UK into the EMU; just imagine how grateful the eurocrats would be to nobble the last major independent European democracy and establish a pan-European command economy. It should put him firmly ahead of the field in the running for next President of the Commission.

So, when the cries of *"All aboard!"* start echoing, the glossy brochure for the once-in-a-life-time, not-to-be-missed, euro-trip emerges from Numbers 10 and 11 Downing Street and the official travel agents start their hard sell, we must find out exactly which train they have in mind and where it is really going. One thing we can be sure of: there will be no return tickets.

Giles Conway-Gordon has spent most of his working career as an investment banker in the UK and Europe; he is presently Chief Executive of Optima Asset Management.

Advertisement for the
Campaign for an Independent Britain
meeting on Saturday, 5th April, 2003

Joining the EU would Limit Individual Freedom

by Petr Mach

In June 2003, the voters in the Czech Republic will go to the ballots to express whether they wish their country to join the European Union. The advocates of liberty will have to consider the impact of such a step on the amount of freedom in the country.

From a liberal standpoint, it seems that the best solution would be to have a free access to the EU market, without paying or receiving money from the EU budget and without having to implement EU regulations. As there is no such alternative, we have to choose between membership and non-membership. The challenge in the referendum will be to decide which alternative would be closest to the ideal. What is the EU membership actually about? The main attributes of the European Union are *a common budget, single market, common legislation and a shift of sovereignty from nation states to the European Union.*

1 Common Budget

The Czech Republic will pay at least CZK 25 billion to the common budget, with the Czech government hoping that it would get back at least the same amount from the EU, so that the country does not get a rotten deal. Given that the EU takes 5 per cent of the budget for its own administration alone, it is very unlikely that in the long run the Czech Republic should receive more than it gives. If the EU accepted countries of which most are poorer than the Czech Republic, the country would soon end up being a net contributor. Sooner or later it would not only pay the price of the Brussels bureaucracy, but also that of French or Polish farmers and Greek or Slovak roads. The common budget is an instrument of supranational redistribution, which as yet has never brought anything positive.

2 The Single Market

The Single Market, rid of customs and import quotas, would undoubtedly be beneficial. But the trade liberalisation between EU members is only apparent. Instead of import quotas, the EU sets outright production quotas for each member country. The slogan about free trade in an area with population of 0.5 billion is a humbug. Trading only what the central authority allows to be produced is not a free trade. Moreover, the EU market is more closed outwards than today's Czech market and stronger barriers encumber its import of non-European goods. It is also known that the agreed enlargement conditions would not bring a truly free trade between the CR and the rest of the EU, at least during the 'transitional period'.

3 Common Legislation

The common legislation means directives and regulations issued in Brussels, each of them virtually limiting freedom in some respect. The EU will tell us how much potato starch we may produce and how many pigs are we allowed to rear. It will set compulsory sizes for cages in our poultry farms, noise limits for blenders, length of guarantee period for goods. It will decide whether we are allowed to sell aspirin and what minimum taxes we should pay. The Czech legislators will have negligible influence on such legislation; we will fulfil the wishes of others. Sometimes we hear that by joining the EU we have nothing to lose, as we have already implemented more or less all of the European legislation. But we should realize that we have not yet implemented the legislation that has not been created, and that if we preserve our national sovereignty, i.e. not join the EU, we will be able to cancel the already-implemented bad laws or decrees whenever we want.

4 Loss of National Sovereignty

Joining the EU means losing national sovereignty. By becoming a member of the European Union, the Czech Republic will undertake to accept legislation issued at the European level. This entails several pitfalls for the freedom of the individual. First, the shift of sovereignty from nation states to the EU means suppressing competition between states. But only the competition of fiscal and regulatory laws allows efficient decreasing of the amount of taxation and regulation. Second, the enlargement of the domain of central political decision-making hinders any change in policy. The supranational European Union means essentially a paralysis of democracy. National elections will become a mock, since no matter who wins the elections in the Czech Republic, the European representation will remain average. What will be the sense of elections if the crucial regulatory and fiscal parameters are set in Brussels? Third, we are aware that any government measure that goes beyond the guarantee of an individual's right to life and property is a violation of such rights. Only the free exchange is a relationship that is advantageous for both parties. Political redistribution and regulation is always advantageous for ones at the cost of the others. In a supranational European Union, individual rights of some nations will be sacrificed to those of other nations. And throughout history, such state of affairs has always led to serious international conflicts.

It is beyond doubt that the membership of the Czech Republic in the European Union would weaken individual freedom and brings more socialism to this country. Until the European Union transforms into a free trade area based on voluntary co-operation, the advocates of liberty will have only one rawtional alternative: to preserve national sovereignty and promote liberal principles within the Czech Republic.

Petr Mach is an economist at the Centre for Economics and Politics in the Czech Republic and a PhD student of monetary theory at the University of Economics in Prague.

… news in brief

EU close to agreement with Switzerland

The EU is close to reaching an agreement with Switzerland on the taxation of savings. The Greek finance minister said that they had never been so close to an agreement as now. In January, the EU ministers agreed on a directive for cross-border taxation of savings. For the time being, Austria, Luxembourg and Belgium are being allowed to continue to levy tax at source without participating in the "*information exchange*" which the EU is trying to force Switzerland to join. The EU is determined to get Switzerland to sign up to an agreement, because it wants to prevent EU citizens from escaping its own taxes by opening accounts there. [*Handelsblatt,* 18th February 2003]

Estonia – A Domino that Should Not Fall

by David Wilkinson

Estonia will vote on September 14th on joining the EU. The question on the ballot paper includes the necessary repeal of the article of the constitution that asserts Estonia's effective independence.

The strength of the eurosceptic 'No' vote in this referendum is crucial. The Central European accession referendums are arranged with the most likely to vote 'Yes' going first; presumably in the hope that those more doubtful will be swayed. Estonia and Sweden, the latter's referendum being on abolition of the krona, vote on 14 September. Latvia follows a week later; and if Esonia votes 'Yes', my money will be on a vote in Norway discussed sometime around spring 2004.

Malta's vote has been arranged to be much earlier, in March, and could possibly be 'No'. But her situation is very different. She is not a post-Communist country and because of her geography could keep the status quo with no difficulty at all. Since the former premier Karmenu Mifsud Bonnici arranged Lord Lamont's visit three years ago, the Campaign for National Independence has maintained a strong campaign against EU entry.

At the end of this summer, however, we could well see the EU expand east of Berlin. The 'deepening' of the EU, the further centralisation of power that we have seen since Maastricht to accompany expansion to the East, will continue. Those who resist the European single currency and a European single constitution will be at a further strategic disadvantage – even more if EU expansion wipes out eurosceptic politics in those countries. Fortunately, we have allies in Estonia and these allies are now calling on us to stand together and fight for our vision of the future.

Two questions are pertinent: "Why should I help?" and "What good will it do?"

"Why should I help?"

For the Sake of Estonia

The first reason must be that it is best for Estonia: that we should have faith in those people who believe in the principles of sovereignty and democracy and who have made an honest assessment that joining the EU is not in Estonia's best interest. We believe that Estonian euroscepticism, like the British variety, has the better vision for the future.

Even if you think there will be a 'Yes' vote, a strong eurosceptic vote will ensure that in the post-accession period an influential eurosceptic contribution to politics will continue. That eurosceptic campaign issues were seen as important before the vote and that eurosceptics are seen to be relevant after the vote is good for policy and democracy. Eurosceptic politicians in mainstream parties will be more viable if there is a significant 'No' vote.

There are two main reasons why a 'No' vote would be best for Estonia: economic and constitutional. The Heritage Foundation ranks Estonia as the sixth freest economy in the world. Well-educated and entrepreneurial people are Estonia's main asset. Although, as presented, the single market appears tempting, it does not in fact provide the free and open world trade that Estonia needs. And, as in Britain, the bureaucratic burden will hamper business.

The constitutional argument against joining is perhaps more important. A 'Yes' would require Estonia to abandon the independence and sovereignty currently enshrined in her constitution. Estonia is unusual in that sovereignty is not assumed but expressly enshrined in her constitution.

For Fairness

The EU referendum is grossly unfair. The Estonian Government will provide a huge budget for its own 'Yes' campaign. Yet it has allocated not a single kroon to the 'No' side. Other pro-EU organisations will also have funding, thanks to the money the EU takes from us all in taxes. To bring at least some sense of balance to this shortfall of democracy we must raise money to fight the 'No' campaign.

What Happens Next to Euroscepticism?

Whether or not Estonia joins, after this latest round of expansion, eurosceptics of all nations will have to face the EU's next step towards statehood: the European Constitution. We need to have formed strategic eurosceptic alliances before that happens. We need a concerted, modern, international and determined opposition to the EU's attacks on our freedoms.

If we suffer total defeat in these accession referendums a crisis will be exposed in euroscepticism. In his interview in *These Tides,* the Czech Shadow Foreign Secretary and European Foundation Advisory Board member, Jan Zahradil, explained why he could not campaign for a 'No' vote in the Czech referendum but had to accept his country's absorption into the EU. In short, he must accept this "marriage that is not for love" because the eurosceptic movement has not created a viable alternative in real politics; one that could actually be put before the electorate. This is why we face defeat after defeat across central Europe and precisely why we must make a stand where we are building these real alternatives. We must prepare for the future.

In Estonia, Research Centre Free Europe takes a leading role and is already a valuable ally across central Europe.

Those who have said that enlargement will benefit the eurosceptic cause are wrong. They were wrong when they said it before the last round of expansion. Even if they were right, and things could have been worse, what help are new countries in tipping the balance if there is no effective eurosceptic politics? For example, although an element of euroscepticism remains in Finland and Austria, this has insufficient power to exist within mainstream politics, let alone exert influence on the policy of those countries. Even in Sweden, the government wants the euro.

What Happens Next to Europe?

Estonia is not the final domino in the row of referendums; nor is Latvia. Reportedly because of events outside Europe, opinion polls in Norway have shifted towards voting 'Yes' to EU membership. This has led Prime Minister Bondevik to say that he believes there will be a referendum between 2005 and 2010. If all of the enlargement countries vote 'Yes', the Norwegian electorate could more easily be swayed by the intimidation of 'isolation'. There may also be a second Danish referendum on the euro; although the current government seems reluctant to set a date, mainly owing to the eurozone's economic problems. There is the possibility of a second vote in Malta if they should reject joining first time.

"What good will it do?"

We Can Win

It is possible to win. Opinion polls not so long ago showed the 'No' side ahead; even now we are not far behind.

Estonia's 'No' is a sophisticated 'No'. Professor Ivar Raig, the well-known Dean of the Economics Faculty at Audentes University of Tallinn, leads Research Centre Free Europe. He is a free market thinker and a renowned fighter for independence. He was an Estonian Delegate to the Supreme Soviet of the USSR and more recently has sat in the Estonian Parliament. In the last few years he has made significant contributions to eurosceptic events in Britain and Scandinavia. Free Europe is a circle of accomplished intellectuals. It is a think-tank performing a similar role to those played by the European Foundation and Business for Sterling although perhaps with more access to the political establishment.

Others involved in the role performed by Democracy Movement in UK include a young economist from Tartu, Dr Uno Silberg, who will be familiar to many British and Scandinavian readers. In Estonia, young educated professionals are more eurosceptic than almost anywhere else.

Bangs For Your Buck

The Estonian 'No' campaign will make every pound count. Estonia has a modest population. A small amount of money will be enough to put a leaflet through every letterbox. Malta has a powerful 'No' campaign; in Poland there are significant forces of euroscepticism; the Swedish 'No' has about £4 million of state funding. But nowhere outside Estonia will your money count for so much.

In the Euro referendum, Danish 'No sayers' had only one Krone for every ten that the 'Yes' side had to spend. But they still won. Our side in Estonia does not yet have that one Kroon and that is why we need your help now.

British people have stood beside Estonians before. The British Government supported the Estonian fight for independence with arms. Admiral Sinclair, the commander of the British fleet and some of his officers were decorated by the Estonians for their contribution to the war in 1919; sinking Bolshevik ships, raiding their naval ports and shelling the Red Army.

More recently, while many of their 'neighbours' recognised Soviet annexation of Estonia, Britain and the USA did not. We did not hand over their gold to Moscow and, with the restoration of independence, Margaret Thatcher recognised that all pre-existing treaties and free trade agreements should apply, as well as visa-free travel. Joining the EU will not give them such a good deal.

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Loyalty Shows

If the campaign is seen to be drawing international help, it will be seen as much more realistic and more modern in its hopes for Estonia's future. When international help arrives the 'isolationist' argument of the europhiles is neutralised. We should show solidarity with fellow *souvereignistes* in Europe. As Margaret Thatcher said of the europhiles back in 1991, "They are not more 'European' than we are. They are just more federal."

Why is this Referendum So Important?

If the essence of what we are about is the struggle for a better way for modern nations to interact in the 21st Century, then the purpose of our participation in a referendum campaign, and our hoped-for victory, is to bring closer a future in which we all enjoy a better Europe than that which the EU provides.

Estonia will vote on September 14th at the end of a summer of possibly dismal referendum results. But at the end we could have one victory. If we all put in something we could help to build a eurosceptic movement that will not only be relevant in Estonia after the referendum – win or lose – but also help to ensure a future for internationally co-operative euroscepticism.

Why not come and visit Estonia? You can become involved and see the campaign at first hand.

Whether or not you can visit, we ask you now to donate a few pounds a month until October. By then the votes will have been cast, but the battle for freedom and democracy will continue.

David Wilkinson is a member of the board of Research Centre Free Europe and editor of These Tides.

Treasurers of the fund are Stuart Coster (Campaigns Manager at the Democracy Movement) and Robert Oulds (Director of the Bruges Group). A list of Patrons is on www.free-europe.info and includes Lord Pearson, Lord Harris, Christopher Booker, Roger Helmer MEP, Dan Hannan MEP and Jens-Peter Bonde MEP.

You may only be able to give the price of a pint or two of beer each week – about £15 a month – but please complete the form alongside and return it to Messrs Coster and Oulds, c/o The Bruges Group.

LETTERS TO THE EDITOR

The Time has Come *from Lord Deramore*
Dear Madam,

The December 2002 issue reached me yesterday morning when the death of Lord Jenkins of Hillhead was announced. It contains an article by Lord Chalfont in which he quotes part of a speech made by Lord Jenkins two years ago. Lord Jenkins had said that he believed there were only two coherent British attitudes to (membership of) the European Union. One is to participate fully, the other is *"move towards an orderly and, if possible, amicable withdrawal"*. Lord Chalfont concludes his article with the words *"The constitution of the treaty envisaged by the Convention on the Future of Europe may signal the end of our last chance to abandon this disastrous folly. Lord Jenkins second option may then become an inescapable imperative."*

My belief is that Britain should never have signed the Rome, Maastricht, Amsterdam or Nice Treaties, nor the Single European Act. Membership of the EEC/EC/EU has proved to be damaging to Britain's national interest. The European Union is an undemocratic, corrupt, bureaucratic and wasteful organisation doomed to failure from its earliest misconception. Now it is shaping up to be a Superstate which will abolish Britain as a sovereign democracy. The time has come to cease futile attempts to change the tiger's spots and devote all our efforts on the task of withdrawal.

Yours sincerely,
Lord Deramore

Rock Solid *from Simon Roué*
Sir,

Dr Charles Tannock's piece on Gibraltar in the November *European Journal* rightly raises the disgraceful way in which the peninsula is being treated by the current Labour government. The way in which Jack Straw dismissed the poll of Gibraltarians defied belief. It is vitally important that as much assistance is provided to their cause as possible, and frankly it seems ridiculous that Labour has any doubts about wanting to keep the Rock firmly in the British fold. After all, it would give the people of Gibraltar the opportunity to have an 'all ape shortlists at the next general election'. It would be an improvement on some of the current candidates on offer.

Yours sincerely
Simon Roué

'Please Missus, may I have my ball back?'

by Roger Helmer, MEP

We can all remember when, as children, we hit a ball over the garden fence and had to go round to the neighbours and ask politely if we could come in and get it. Usually, there was no problem. But just sometimes an exasperated neighbour might make difficulties.

I was reminded of this childhood embarrassment by an event that took place in Brussels recently.

The parliament is considering a Directive on temporary agency workers, which would give them all the same benefits as full-time employees. All very well, you might think. Except that it will knock the bottom out of the agency worker business.

Temporary work is a great way back into the workforce for those who have been temporarily out of it – women who have taken time out for family reasons, men who have been unemployed or sick. This ladder back into the employment market will be kicked away by the Directive. We in Britain have as many temporary workers as the rest of Europe put together – but this Directive will make the British labour market less flexible and competitive, and it will cost jobs.

This is not just my view, by the way. It is also the view of our Labour government. And the little boy asking for his ball back? British Employment Minister Alan Johnson came cap-in-hand to the European parliament's Unemployment Committee, to ask, please could we be let off?

Mr Johnson is not just a Labour Minister. He was also, until recently, Secretary-General of a major trade union. You couldn't ask for a man with more worker-friendly credentials. He explained to the Committee that our British market for agency workers was working well. It was OK with workers, employers, and agencies. It contributed to British competitiveness. Please, could the Committee not impose this damaging measure on us?

They listened politely. They understood our problem. Perhaps they could give us a couple of years to *"adjust"* to the new system. But it was a done deal, and under the system of majority voting, there is just nothing we can do about it.

So this is the state that our once-great, independent, democratic nation has been reduced to. Our Labour government thinks this is a bad and damaging measure that will cost jobs and make us all poorer. Didn't we elect them to Westminster to make this sort of decision? Yet they are forced to accept a different outcome imposed by faceless, unelected and unaccountable foreign bureaucrats. This is a classic example of the way in which Brussels undermines our democracy and our prosperity.

I recently raised this issue in debate with East Midlands Labour MEP, Phillip Whitehead. He argued that the measure would be helpful to stop the 'gang-masters' who exploit groups of illegal workers – but of course we already have rules against this practice. As so often in the EU, we should be implementing existing rules, not introducing sweeping new Directives which will do widespread damage.

And this is the final irony. Our Labour government is determined to fight on against this measure, and has asked MEPs to vote against it. We Conservative MEPs will do so – not because Labour asked us, but because it's the right thing to do. But Phillip Whitehead and his Labour MEP colleagues are all set to vote FOR the Directive, because they have an ideological commitment to excessive employment regulation.

It may be New Labour in Westminster, but it's Old Labour in Brussels. Even the Labour government has to rely on Conservative MEPs to stand up for British interests in Brussels, because Labour MEPs certainly won't.

Roger Helmer is a Conservative Member of the European parliament for the East Midlands and a member of the European Foundation's UK Advisory Board.



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BERLIN

The name Berlin was first recorded in 1244. The city that is now the capital of Germany was founded near the beginning of the 13th century, in response to its good geographic location and it soon flourished owing to its mercantile capabilities. By 1250 Berlin had expanded into Brandenburg, east of the Oder River. It's growth continued over the following centuries and during the late 17th and early 18th centuries Berlin this expansion saw a large number of Baroque-style buildings erected as well as several enormous stone buildings, such as the Charlottenburg Palace.

During the first half of the 18th century, Berlin grew in all directions. Frederick II the Great, King of Prussia, modernised Berlin, promoting economic development and encouraging more construction throughout the city. During the 1700s Berlin attracted many preeminent philosophers, such as Voltaire, Hegel and Friedrich Schleiermacher, the co-founder of Berlin University. By the 18th century, Berlin's cultural contribution to architecture, arts, and sciences was substantial. The centre of Berlin was given its distinctive neo-classical style by the architect Karl Friedrich Schinkel and by 1750 the Prussian State Opera on Unter den Linden was one of the most respected opera houses in Europe. In 1838 the strategic importance of Berlin was hugely increased by the opening of the Berlin–Potsdam line, which put the city at the centre of an expanding rail network.

The Europe-wide revolutions of 1848 reached Berlin where the uprisings were, to some extent, influenced by Marx and Engels, who had just written the *Manifest der kommunistischen Partei* (*Communist Manifesto*), in the explicit hope of precipitating social revolution. There was a bloody clash between soldiers and citizens within the city. Later in the century Berlin became the hub of the Wilhelmine German Empire, with the government under the leadership of Otto von Bismarck, who brought about the first unification of Germany as one state in 1871.

The First World War halted Berlin's growth, however, following the War, Berlin became the capital of the Weimar Republic. The inter-war years proved to be hard times for Berliners, with hyperinflation and high unemployment. These struggles contributed to Hitler's success. In 1933 the Nazi regime came to power and the persecution of the Jews began, initially by taking away their rights as German citizens. As with many European cities, Berlin was very badly damaged in the Second World War. Large scale reconstruction has continued ever since, changing the skyline beyond recognition of what it was just twenty years ago.

At the 1945 Potsdam conference Berlin was divided into occupation zones due to the allies' fears of Nazi resurgence. In 1948 the Western powers decided to unite their zones into a single economic unit. In protest the Soviet Union established a separate municipal government and blocked the entrances to West Berlin. Between 1949 and 1961 thousands of East Germans fled from East to West Germany, as whilst the borders were closed, visiting relations on the other side of Berlin was still permitted. In response to the mass illegal migration that took place, the East German Authorities built the Berlin Wall in order to seal off East Germans' access to West Berlin.

Berlin was reunified when the Berlin Wall fell in 1989. Owing to its symbolism of division, the wall was completely removed by the summer of 1991. During the 1990s, massive construction projects transformed central Berlin. High rise commercial construction, such as that in the Potsdamer Platz on the site of the former wall, restored the city's role as a bustling urban center. Berlin's economic recovery was further aided by the Federal government's return from Bonn where it had been during the years of partition. A new Reichstag was built and the movement of the government employees has aided the increase in prosperity levels. The city's renovation is now virtually complete and it is, once again, a leading European city.

EATING

Carpe Diem
Arch 576-577, between Uhlandstrasse and Grolmanstrasse, Charlottenburg
Tel: (030) 313 2728. Fax: (030) 313 2628.
Prices: DM40/EUR21 Wine: DM30/EUR15.
Style: A variety of inexpensive, tasty tapas. The main dishes, such as the paella Valencia or the grilled octopus, are also a delight.

Hamlet
Uhlandstrasse 47
Tel: (030) 882 1361.
Price: DM60/EUR31. Wine: DM35/EUR18
Style: The cuisine covers traditional, French and Arabian tastes, such as vegetable plates or couscous dishes. The diversity of the food varies from a range of ethnic backgrounds and social groups.

Dachgartenrestaurant
Platz der Republik
Tel: (030) 2262 9933.
Price: DM80/EUR41. Wine DM45/EUR23
Style: Located inside the new futuristic Parliament building. From within the Reichstag's glass dome, it offers an amazing view over the heads of the debating ministers to the zoo and the historic Brandenburg Gate. The menu offers healthy yet traditional cuisine, such as light fish and delicious venison dishes. Booking is essential, especially in the evening.

GOING OUT

Knaack-Club
Greifswalder Str. 224, Prenzlauer Berg. Rock David Byrne to Nirvana
Nightly from 10p.m.
Style: Disco and Clubs

Tranenpalast
Reichstagsufer 17, Mitte
Tel: (030) 238 6211
Style: Rock, Soul and Jazz

Deutsche Oper Berlin
Bismarckstr. 35, Charlottenburg
Tel: (030) 343 8401
Style: Classical Music

SHOPPING

Flea market
10623 Berlin-Tiergarten | S-Bahn Tiergarten
Open: Sat & Sun 11.00–17.00
Brief Description: One of Berlin's biggest and most touristed. A fashionable market with a variety of stalls selling everything from fancy buttons and a variety of handcrafted items to funky second hand clothes, jewellery and records. Because of its more prominent location near the Zoo Station and the Technical University, it tends to be a bit on the pricey side.

ARTS and CRAFTS

Trödelmarkt (Flea Market)
Open: Saturday and Sunday 1000–1700.
Brief Description: interesting objects can be found at this Arts and Crafts Market

The Europa Center: Shopping Mall
Diagonally across the Kaiser-Wilhelm memorial church: Tauentzienstraße 9, CharlottenburgKurfürstendamm/ Zoologischer Garten.
Brief Description: there are almost 100 shops and numerous restaurants. A spacious cinema complex is situated as well in the 123.5 m high building, opened in 1965. The upper floors house a lot of service complexes.

LOOKING

Berlin Wall East Side Gallery
Gedenkstatte Bernauer Strasse 111
Tel: (030) 2246 41030
Open: Wed-Sun 1000-1700
Prices: Free
Brief Description: although much of the Wall has succumbed a few sections remains. The *East Side Gallery*, along Mühlenstrasse (S-Bahn Ostbahnhof), emerged in the post-Wall years as a poignant symbol of new hope as it was covered with inspiring artwork. Today, its future is in doubt and the faded state of the paintings is symbolic of how far Berlin has come since 1989.

Schloss Charlottenburg and Museums
Schloss Charlottenburg Luisenplatz
Tel: (030) 32 0911
Open: Old Palace: Tues-Fri 0900-1700, Sat and Sun 1000-1700 (last tour at 1600);
New Wing: Tues-Fri 1000-1800, Sat and Sun 1100–1800; grounds: 0600-2100.
Prices: Old Palace: EUR8/DM16; New Wing: EUR4/DM8; grounds: free; other exhibits: EUR2/DM4 each, although combination tickets are available.
Brief Description: The *Charlottenburg Palace* was built as a summer residence for Sophie Charlotte, the wife of King Frederick I, in 1790. Visits to the *Old Palace* are by guided tour only; prices and hours vary for the *New Wing*, the *Orangerie*, the mausoleum and other parts of the complex. The museums and galleries that are in and around the palace include the *Egyptian Museum*, with its famous bust of the Egyptian Queen, Nefertiti and the *Berggruen Collection*, which includes 64 artworks by Picasso as well as a representative collection of his contemporaries.

Jewish Museum
Lindenstrasse 9–14
Tel: (030) 25 9933 Fax (030) 25 99 34 11
Open: Daily 1000–2000
Price: Eur5/DM10
Brief Description: The striking design of this Daniel Liebeskind-designed memorial to Jewish life in Berlin is based on a shattered Star of David. Even before the permanent exhibits recalling the life and history of German Jews through the centuries were installed, visitors came to experience the evocative spaces within this incredible structure.

GETTING THERE

Plane
Major airlines**:** *Lufthansa* (*LH*) is Germany's principal airline (tel: (01803) 803 803 (24-hour call centre); (01803) 000 074 (arrivals and departures); website: www.luft hansa.com).
Other airlines flying to Tegel include *Air France, Alitalia, Austrian Airlines, British Airways, buzz, CSA Czech Airlines, Deutsche BA, Iberia, KLM, LOT Polish Airlines, Malév, Olympic Airways, Swissair* and *Turkish Airlines*.

Train
Deutsche Bahn (German Railways) (website: www.bahn.de), the national service provider, runs comprehensive and efficient rail services, including high speed *InterCityExpress* (*ICE*) trains. There is a telephone number for national rail enquiries (tel: 01805 996 633);
Tel: 0870 243 5363, information and reservations are also available from the UK website: www.deutsche-bahn.co.uk).

Automobile
Germany is covered by an excellent and extensive system of major roads (prefixed 'B') and motorways (prefixed 'A' for *Autobahn*). There are no tolls or speed limits on the *Autobahnen* but a maximum of 130kph (81mph) is recommended.
The *Allgemeine Deutsche Automobil Club* (*ADAC*) (tel: 01805 101 112; fax: 01805 302 928; website: www.adac.de) provides breakdown services throughout the country.
Duration**:** From Hamburg – 3 hours 15 minutes; Dresden – 2 hours 25 minutes; Frankfurt am Main – 5 hours 50 minutes.

Coach
With: *Eurolines* international coach services are operated by *Bayern Express & P Kühn Berlin GmbH*. Buses on both international and domestic routes arrive at the *Zentraler Omnibusbahnhof (ZOB) am Funkturm*, located on Masurenallee near the western end of the Ku'damm and the Messe Berlin. For information, tel: (030) 301 0380
Website: www.deutsche-touring.com *or* www.bex-berlin.de). Information and tickets are available from the *ZOB-Reisebüro* (tel: (030) 301 0380; fax: (030) 301 3820).

CHUNNEL VISION

The Grandest Conspiracy of All

So astronauts from Apollo 13 pogo hopped their way around a film studio in Nevada; JFK was blatted by Fidel's mafia hairdresser; and the Bilderbergers befuddle the brains of Brussels by pouring aluminium into the local water supply.

Perhaps we can top all of these conspiracy theories, and no need to borrow Mel Gibson either.

Time to pull out the green biro for this one. What if Tony Blair was really an undercover sceptic? The intellectual progeny of Tony Benn?

Of course it is completely barking. This prime minister is the complete antithesis of the Grand Old Cardigan. New Labour is the nemesis of Socialism. And yet…

Cast your mind back to before the days of Sedgefield, and the 1983 election manifesto to which our young Blair signed up, and campaigned on locally. It spelled out the unravelling of NATO, and outright withdrawal from the EEC. These policies are patently a million leagues from where New Labour stands. But its positions today will by ineluctable force drive both of these aims to their fruition.

So you think NATO is safe, just because of a couple of little Balkan scraps? Think again. NATO is more than just a means of getting the Americans involved in any European turf struggle. It's about harmonisation through STANAGS (standardisation agreements), so that if you run out of bullets and a Swedish supply truck rolls up, their rounds fit your gun and you don't have to resort to lobbing packs of Rivita instead. It's about contingency planning, with Headquarters mapping out the Whos, Wheres and Hows. It's about clubbing together, circling your wagons, and sharing the odd bit of helpful info too.

Quite apart from the cutbacks that have taken place in the Strategic Defence Review (some of which were reversed on the very eve of Kosovo), the development of an EU defence identity in the medium term threatens all of these NATO roles. A planning unit Headquarters now exists in Brussels for the EU rapid reaction force, while a Euro-Sandhurst, satellite system, intelligence identity, EuroPentagon, and the rest, are on the cards. By dribs and drabs, the contents are leaking from the NATO bucket and dribbling into the EU defence identity.

This much is known. But withdrawal from the EU, ah well, this is where the barefaced feebleness of New Labour is fulfilling the policy aspirations of the Old.

As was inevitable from the moment the whole parade started, the Convention on the Future of Europe is going to present a series of proposals which are fundamentally integrationist. These will dominate the negotiations in the IGC itself, like North Korean artillery. Valery Giscard d'Estaing has stated that he sees the resulting treaty as the framework for the EU for the next twenty to fifty years; but our Val also has ambitions for his own chapter in future school history books. The result is that the domineering majority in the Convention, who want in groups to integrate a little here and a little there, like rabbits nibbling at the lettuce, will snack with the openly federalist wolves. The European treaty will be sold as a compromise between the two, a federation of nation states, 'simplified', falsely democratised, and to quote the *Simpsons*, *"embiggened"*.

Of course, the eurosceptic alternative will also have been laid out. But the intergovernmentalist model will have been murdered, and the Council of Europe (which could so profitably take up the slack in so many areas, such as anything educational or cultural) will be carted off like some old granny. Yet the payback from this will be immense.

The model that will emerge will be static and unimaginative. It will fail to provide for those who prefer a little sauce to their bland diplomacy. It will consequently alienate those who do not like what they see on offer, who sense quite correctly that in this one-size-fits-all straitjacket of political monotony, they cannot be accommodated. It forces possible applicant states, like Malta, Norway, Iceland, and others with particular traditions and distinctions, to either bow to the unyielding *acquis*, or decline the invitation. In so doing, it makes rejection an easier choice. So the type of Europe which will emerge will be divisive.

The Convention will also fail in its principle mission. Laeken established the Convention at a point when the EU's leaders saw, quite rightly, that they had left the mass of the ordinary people behind. They were losing referenda; MEP voting turnout was avalanching; while the man down t'pub would merely see in the EU either a threat or a joke. The Convention was meant to correct this, by reconnecting with the disenfranchised. Instead, it has turned into a pawnshop for even more powers to be handed over, greedily to be seized by squabbling institutions. It does not cross the minds of those in Purple that they have lost the battle for the hearts and minds of their clients, and that their one option for legitimacy might be to surrender some of their ill-gotten powers back to national parliaments. Repatriation is verboten.

Symptomatic has been the reaction to the suggestion, made by delegates across the board, both federalist and sceptic, that the principle of *"ever closer union"* should be dropped. It was, after all, a hangover from the 50's, a coelacanth from the dinosaur days when Europe was but a glint in Monnet's eye, and which could be dropped as a sign of good faith. Initially, there was widespread approval. Then came talk of replacing it with a reference to a sense of sharing a communal spirit. And finally, of course it had to stay. Like a regenerating zombie the principle refuses to die.

So with the new Treaty comes a choice for New Labour: to accept, or to veto. But British ministers at the Convention have already made it clear which way they will turn. They promised already on so many areas that would hold the pass, only to turn to full flight: on a written constitution; on the collapse of the pillar structure; on QMV; on incorporating the Charter and making it justiciable; on making subsidiarity meaningful; on granting the EU legal personality; and on giving the Union control over intellectual property rights. Whence came the promised veto? Thunderous silence. So these will slip onto the IGC table almost as *faits accomplis*.

With these naked failures, the EU becomes what a generation of British politicians promised it would never be. We will have a country called Europe, the line is crossed, and the UK is forced at long last to question whether it is really worth it; *si le jeu vaut la chandelle*.

An outrageous treaty consented to by a cowardly government tips this balance utterly. As for the rest, that merely takes a referendum, or an election pledge just like Blair made twenty years ago.

Dr Lee Rotherham is secretary of Conservatives Against a Federal Europe and an adviser on European affairs.

The European Foundation

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

Objectives

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

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

Activities

The Foundation pursues its objectives by:

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

The Foundation

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

It concerns itself with the following main topics:

- industrial and commercial policy;
- economic and monetary matters;
- foreign policy;
- security and defence;
- environmental issues;
- the Common Agricultural Policy;
- the reform of Community institutions;
- the developing world.

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