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Martin Essex
Worry About the EU, Not the Euro

&

Graeme Leach • Richard Northedge
Keith Marsden • Tony Brown • Matthew Elliott
Jacob Rees-Mogg • Caroline Haubold
Austin Mitchell, MP • David Buik
Prof. Roberto de Mattei • John Grimley
Struan Stevenson, MEP • John Laughland
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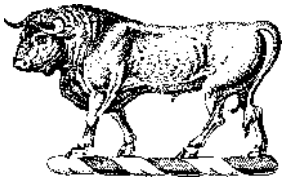
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Is the British Parliament Finally Waking Up to the Realities of Europe?

The House of Commons European Scrutiny Committee issued a new report. The recommendations are the strongest that the Committee has ever made. The most important aspect is that this is the first time a respected, all-party parliamentary select committee has given suggestions that call for realism.

The in-depth nature of this report shows that the Committee has thoroughly looked into and thought about the issues that the unwieldy Brussels' bureaucracy has caused. Without being whipped by any party they have been able to reach sensible, practical solutions to some of the problems. The remaining question is: Will Blair listen now?

The suggestions have been sent to the Government but Blair's babes and blokes have no obligation to take up any of them. Indeed, owing to the structure of the European Union, it would not even be up to the British Government to decide alone.

The part of the report that sticks out most is the unanimous proposal that *"ever closer union"* be removed from the European Treaties. The European Scrutiny Committee is a Labour dominated select committee. It is a massive leap for this group to have begun to say things that the eurosceptic and eurorealist movements have wanted for years. It is a shame it took them so long to catch on. It is a very significant step.

"Ever closer union" has always been a disturbing, open-ended statement that fits perfectly with the federal vision of Monnet, Schuman, *et al.*. It is not a vision for Europe that the British have ever desired. The committee has asked for this phrase to be erased. Not one member voted in favour of it remaining. That says a lot for the level of distrust this band of MPs has for these three words.

The report, entitled *Democracy and Accountability in the EU and the Role of National Parliaments,* calls for a reconnection between the EU representatives and those for whom they speak. It stated, "*We do not regard it as appropriate for a treaty to commit the peoples it covers to such a vague and open-ended process. Removing the phrase from the treaties would help to reduce the perception that the EU is engaged in a one-way process towards greater centralisation regardless of what citizens want.*"

The group of scrutineers is not omnipotent, but its judgement is taken very seriously throughout Europe. It has, however, produced a report that will be read and inwardly digested by the Labour hierarchy. The report's suggestions are wide ranging, not least by recommending that the current proportional representation voting mechanism for MEPs is replaced by first past the post. At present the UK has 87 members out of a total of 626. Each of these is selected from a party list. The election is based purely on party and not personality. The whole of Scotland is one huge constituency, which jointly elects eight members. For the first time a Commons committee perceived the dangerous degree of separation between the elected and electors. Proportional representation has never been British electoral practice, except for in the newly devolved assemblies where it is yet to be proved a success.

It is, however, common on the Continent. Italy has it, along with a new Government every year. Germany and Austria both use it – and live with the inevitable coalitions that it produces. The UK has always had first past the post. Thus you vote for a person, as well as a party, with the effect that the electors have more knowledge and choice as to who to represent them.

The report was drawn up in response to the dawning realisation that there is a serious problem with the status quo. Even the fact that this was realised is important by showing that Parliament is finally waking up. Only a quarter of those who are eligible in fact vote in British elections for the European Parliament. Far less have any idea who their MEPs are. The report looked at ways in which this lack of participation and growing feeling of dissatisfaction could be corrected. The chairman concluded, *"National parliaments have a much closer relationship with their peoples than any EU institution does, and they can therefore play a crucial role in bridging the increasingly obvious and damaging gap between citizens and EU institutions.*" Unfortunately, Blair still has a big enough majority so that he does not have to take notice of the Committee. But this report could be thrown back in his face if he ignores it.

It is amazing that it has taken so long for it to be realised that the relationship of citizens and decision-makers is heading for the divorce court. The report addressed the democratic deficit by calling for the Council of Ministers to meet in public when making laws and called for all legislation to be scrutinised by national parliaments. It stated this was a *"fundamental aspect of accountability"*.

Taken in isolation, the Committee's recommendations cannot alone change where Europe is heading, but they can influence future decisions of the Government. The decisions this government makes are going to determine whether Europe continues to alienate its people or whether we have a successful union of nation states with real democracy, accountability and proper national parliamentary control.

The UK and Euroland: two simple convergence rules

by Graeme Leach

This article provides a simple framework within which to analyse the degree of economic convergence between the UK and Euroland. The analysis shows that *unless two rules are satisfied, the UK economy will never converge with that in Euroland.*

A simple conceptual model shows that sustainable convergence is not possible without *simultaneous* convergence in:

1 **The Structural Unemployment Rate** (or **NAIRU**) – the unemployment rates at which inflationary pressures emerge.

2 **The Monetary Policy Transmission Mechanism** (or **MPTM**) – the response of consumers and companies to interest rate changes.

Both (1) and (2) are crucial for sustainable convergence. For example, even if two countries have the same NAIRU rate, economic problems will emerge if they have different transmission mechanisms – the obvious example being where one country has a large exposure to variable-rate debt and the other to fixed-rate debt. Alternatively, even if the two countries have the same transmission mechanism, they can engage at different times or speeds if their NAIRU rates differ. Inflationary pressures would emerge earlier in the economic cycle – and interest rates would need to rise – for the country with the higher NAIRU.

The NAIRU

In 1968 Milton Friedman put forward the notion of a 'natural' rate of unemployment to encapsulate the idea that a 'normal' level of unemployment exists, even when the labour market is in equilibrium. This concept was developed during the 1970s in Tobin's concept of the non-accelerating inflation rate of unemployment. According to this model, deviations from the NAIRU can only be maintained at the cost of continuously accelerating (unemployment rate is below the NAIRU rate) or decelerating (unemployment rate above the NAIRU rate) wage increases – leading to wage-price spirals.

If different economies have a different NAIRU, then inflationary pressures will emerge at different stages in the economic cycle – sooner or later, depending on whether the NAIRU is higher or lower in the countries concerned.

Whilst the NAIRU has fallen during the 1990s in the UK, in the EU it has increased over the same period. For example, according to its *World Economic Outlook*, the IMF has estimated unemployment fell by 1.3 percentage points in the UK in the 1990s, while it rose by 2.7 percentage points in Germany over the same period (*IMF World Economic Outlook,* October 1999).

More recent work by the IMF suggests that the NAIRU has fallen a little on the continent in recent years but that it is still significantly higher than in the UK (*IMF Country Report No. 01/203,* Selected Euro Area Countries, November 2001).

The NAIRU is not directly observable – in contrast to the unemployment rate published monthly, which uses claimant counts or surveys of the working population – and so must be estimated using modelling techniques. This means that the estimates carry uncertainty and statistical inexactness. For this reason, NAIRU estimates should not be seen as a point number, but instead as a zone. The empirical estimation of the NAIRU is fragile at the individual country level but, providing consistent methodologies are employed, this does not preclude cross-country comparisons aimed at identifying structural differences in labour markets. Studies undertaken on this basis show the NAIRU remains lower in the UK than in Germany, France, Italy or Spain. There is also a consensus that the NAIRU has risen substantially in the EU over recent decades.

The danger for the UK is that we might converge with EU NAIRU rates, but for the wrong reason – because the NAIRU rate in the UK increases, owing to the greater labour market regulation introduced in recent years.

The MPTM

The importance of the Monetary Policy Transmission Mechanism can be seen in the various ways in which it can impact on an economy:

- An increase/decrease in interest rates leads directly to a decrease/increase in consumption and investment.
- An interest rate adjustment leads indirectly to a change in consumption via wealth effects emanating from equity and property markets – in accordance with the life cycle hypothesis of consumption.
- An interest rate adjustment leads indirectly to a change in investment via Tobin's Q – higher equity prices increase the value of Q (the ratio of a firm's market value to the replacement cost of capital) and make it easier to issue equity to finance investment.
- An interest rate adjustment leads to a movement in the exchange rate which changes the balance between domestic demand and imports.
- Interest rate movements alter the disposable (wages and income from saving) and discretionary (available income for spending after paying for mortgages and borrowing) income of consumers.
- Interest rate movements impact differentially, depending on the proportion of liabilities and assets at fixed or variable rates of interest.
- Interest rate movements impact differentially, depending on holdings of equities and bonds by consumers.
- Interest rate movements impact differentially, depending on the population profile and generational holdings of saving and borrowing.

There is considerable economic literature† showing that interest rate movements have a different impact on the UK economy than across Euroland.

The thesis that the UK has a significantly different monetary policy transmission mechanism is based on single and multi-country econometric modelling, together with the obvious evidence of differences in housing and financial markets. The case against is based on a very small number of studies, with serious empirical deficiencies and results highly sensitive to initial conditions.

Recent IMF research in its *Working Paper*, shows clear evidence that:

1 The impact of changes in stock prices on consumption is bigger in economies with market-based financial systems – such as the UK – than in economies with bank-based financial systems – such as Germany.

2 Stock market effects on consumption are increasing over time.

3 House price wealth effects on consumption are increasing over time. (*The impact of changes in stock prices and house prices on consumption in OECD countries,* IMF Working Paper WP/02/01)

Finally, one issue that needs to be addressed is the possibility that euro participation, in itself, will result in the convergence of the MPTM and NAIRU rates. In other words, joining will trigger a convergence process.

The difficulty with this approach is the time scale involved. At present there are very substantial differences in NAIRU rates and little evidence of convergence or de-regulation – witness the recent introduction of the 35-hour week in France. The theory also fails in the context of the monetary policy transmission mechanism. Since the introduction of the euro there has been an increase in inflationary divergence across Euroland. Inappropriate monetary policy in Ireland, for example, has fuelled inflationary pressures.

One school of thought suggests that the financial structure of a country reflects the legal system and so variation in financial intermediation is a consequence of dissimilar legal structures (see La Porta *et al.* (1997) in *European Monetary and Fiscal Policy*, SCW Eijffinger and J. De Haan, OUP, 2000). If this is true, as long as the legal systems of EU countries differ, then so too will the impact of ECB interest rate changes. Countries, such as the UK, with a common law system, generally support greater investor protection and the most developed equity markets.

The UK and Euroland remain ships passing in the night.

† See *The UK and Euroland, Ships Passing in the Night*, Institute of Directors, September 2000. *UK Mortgages and the Euro*, No Campaign, May 2002.

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… news in brief

Stoiber turns on Poland

Addressing the "East Prussia Congress" (*Deutschlandtag der Ostpreußen*) in Leipzig on 23rd June, the Bavarian Minister President and Christian Democrat Chancellor-candidate, Edmund Stoiber, has called on Poland to rescind the decrees which expelled Germans from Danzig, Pomerania, Silesia and East Prussia in 1945. *"57 years after your flight and expulsion,"* he told the 80,000 people who attended the function, *"you still carry your homeland with you in your hearts… Germany is a great, many-faceted nation of culture. And East Prussia belongs indivisibly to it with its rich tradition and culture."* Stoiber of course acknowledged the evil which Hitler–Germany had done to Poland and the Soviet Union, but he also recalled the suffering of the Germans once the Red Army moved West. Some 2 million East Prussians out of a total of 15 million Germans were expropriated and expelled. More than 2 million died.

But although Stoiber spoke constantly of reconciliation – while harshly attacking the hostility of the Czechs to any suggestion that the Beneš decrees be rescinded – and although he praised the more open attitude of the Poles, his speech elicited sharp reactions from Warsaw. This was because, while praising the firm stand the European Parliament had taken on the issue of the Beneš decrees, Stoiber effectively told the Poles to rescind their decrees too. He said that all Germans from the East, including those from East Prussia, must be accorded the *"right to their homeland"*. He said, *"The post-war period in Europe will be ended only when the injustice of expulsion is contractually expunged, for the reconciliation and common good of both sides … What must be done to transfer the decision of the European Parliament into political reality?"* he asked. *"If the European Parliament's report says, 'Enlargement of the EU must close the wounds of historical events,' then we must address the question of the decrees by which the Germans were expelled and deprived of their rights. As long as these remain in force, the wounds remain open."* He added, somewhat threateningly, *"**It is in Poland's own self-interest to distance itself irrevocably and in a spirit of reconciliation from this aspect of the past**"* [in bold in the original text].

Stoiber went on to quote a CDU paper that said, "The decrees on expulsion are unjust. They contradict the spirit and values of the European Union and of international law. Expulsion and ethnic cleansing must nowhere be part of the existing legal order." He undertook to see that this would happen – i.e. that the decrees would be rescinded – if he becomes German Chancellor on 22nd September. He went on, *"**East Prussia, like Silesia and Pomerania are on the way to becoming European regions**"* [in bold in the original]. He said that these regions should be *"ever more opened, ever more Europeanised"* and, in effect, called for the affairs of these regions to be run jointly by Poles and Germans.

"The situation of East Prussia is certainly special," said Stoiber. *"East Prussia is divided. You will naturally ask what will happen to the **Northern part of your homeland, the area around Königsberg**"* [bold in the original]. He praised the fact that BMW had opened a factory in Königsberg (the Russian enclave of Kaliningrad, between Poland and Lithuania), saying that Herr von Kuenheim, the CEO of BMW, had taken the decision both for business reasons and also *"because of his East Prussian heart"*. He said that Königsberg belonged to Europe and could not be excluded from the process of European integration. He praised the great traditions of tolerance which, he said, were associated with the rise of Prussia (sic!) and undertook to make 5th August a national day of remembrance for the expellees if he is elected Chancellor. He concluded his speech by committing himself to *"the defence of German interests"* and *"on the basis of an enlightened patriotism, to a positive attitude to the German nation."* [Pressemitteilungen der Bayerischen Staatskanzlei, www.bayern.de/Presse-Info/Reden/2002/rede_020623_Deutschlandtag_Ostpreussen.html]

Worry About the EU, Not the Euro

by Martin Essex



Heresy it may be in the eurosceptic camp to declare that whether or not the UK adopts the euro is relatively unimportant, but this writer is firmly of the belief that the euro is a distraction from thinking about the real problem with the European Union – its structure and where it is heading.

The trouble is that the euro has come to symbolise Europe. When people say they do not want the UK to adopt it, and do not want to scrap the pound, it is almost always a coded way of saying they do not like the direction in which the European Union is heading – towards a superstate, or a federal structure, or a United States of Europe.

The euro itself is not such a dreadful concept. Adopting it means adopting a single interest rate. Although it is true that a single interest rate cannot be perfect for every part of the EU, and a single interest rate is unlikely to be the right one for both Dorking and Darlington nor, for that matter, for both New York and the Rocky Mountains.

Yet we rarely hear complaints that the US Federal Reserve is keeping rates too high for Detroit because the Americans accept that there is one interest rate for the whole of their country. They accept the Federal structure. They believe in it.

In the UK, by contrast, we hear complaints that the Bank of England is keeping rates too high for Newcastle. If we adopted the euro, perhaps the ruling interest rate would still be wrong for Newcastle, but in that sense nothing would change.

Moreover, there are significant advantages in being part of a large currency zone, which is why so many countries, as varied as Argentina and Vietnam, have adopted the dollar as a first or second currency.

It is true that foreign investors are still very keen to invest in the UK

It is true that foreign investors are still very keen to invest in the UK and much nonsense is talked about how the Japanese, for example, would pull out if we do not adopt the euro. In fact, there are many more important factors for them – such as Britain's tax regime, the quality of its workforce, the language and so on. Senior executives at companies like NEC and Mitsubishi Electric are adamant that they will not pull out of the UK if the British decide not to adopt the euro.

In addition, the UK has made enormous strides in the management of economic and monetary policy in the last few years. In the 1970s, the UK was the sick man of Europe – destined for the second division. But under successive Conservative and Labour governments, management has improved by leaps and bounds. Now the Government knows what to do in the event of an economic slowdown: cut interest rates and boost spending. If the economy appears to be overheating it knows it should raise rates and cut spending.

Arguably, this has been one of the greatest achievements of the last 50 years and joining the eurozone soon would put it in jeopardy. In the short term, adopting the euro may be neither particularly good for the UK nor particularly bad. In the long term however, there has to be convergence between the UK economy and those of the rest of Europe. At the moment there is none. London and Newcastle may not need the same interest rate but at least their economies move together; London's and

Berlin's do not. Few people believe that Gordon Brown's five economic tests can really determine the right time to join.

Put simply, it would be a disaster to enter now because the pound is too strong, the mortgage market is different and there has been no real convergence. And that is because the UK still has so many more ties to America than the continent has. As a result, the UK economic cycle is still much closer to that of the US than to that of continental Europe.

More importantly, the people running the UK economy have considerably more credibility than those running Europe's. Many believe that Gordon Brown should be congratulated for giving the Bank of England its independence and for his stewardship of the economy. He has had the good sense to continue along the path laid out by his predecessor, Kenneth Clarke. He has paid off debt. He has been a skinflint when the economy has been doing well, and has begun spending now it has slowed down. Surely only a cynic would suggest that he has been driven by the electoral cycle rather than the economic cycle.

To put it another way, by guarding the front door against the euro, the UK may be allowing Europe in by the back door

He may be a dour man but he is probably sceptical about Europe and many, perhaps most, British citizens would rather have Gordon Brown running the economy than most of the people now running Europe, who are often distinctly unimpressive. The idea that they should determine UK taxes and public spending is frightening.

Focusing on the euro is, however, a distraction from thinking about and discussing the issue that really matters: the direction in which the European Union is heading. To put it another way, by guarding the front door against the euro, the UK may be allowing Europe in by the back door.

To give just one example, not so long ago the UK came close to having a withholding tax thrust upon it, meaning that someone putting their savings into an account in another EU country would have had to pay tax on the interest. This would have cost the UK millions of pounds and thousands of jobs because it would have forced the eurobond market out of the country, perhaps even out of the EU.

Other legislation is already creeping in by the back door and is having a devastating impact on small business. For example, there is the parental leave directive, giving parents 13 weeks off work when they have a baby. There is the working time directive, imposing a maximum 48-hour working week, breaks during the day, extra holidays and so on. These may be individually welcome but taken together, could have a dreadful impact on small business.

The debate should be concentrating on the EU and its structure

The debate should be concentrating on the EU and its structures; yet that is a debate, which almost no one in Britain seems willing to have.

Gerhard Schröder, the German Chancellor, and Lionel Jospin, the former French Prime Minister, both have visions of the kind of Europe they want, and were working towards those objectives. The UK, by contrast, has no clear vision for Europe and its place in it. As usual, the British prefer to take decisions only when they are forced to because they prefer that to having a 'grand plan'. The British prefer to muddle through. Just look at the Dome, or Wembley Stadium.

As a result the UK has allowed Europe to be run by second-rate people and has allowed a Europe to be created that is essentially undemocratic. There is an enormous civil service, bloated, extravagant and inefficient, which is not accountable either to the people of Europe or to their elected representatives.

Talk about the Commission being responsible to a genuine European parliament and to national ministers might not be a bad idea. Even if there is opposition to a European army, or a centralised economic policy, it may be that making the European Commission more accountable and more democratic would be steps in the right direction.

Now is the right time for the British to plot out a future direction for Europe the same way as the Germans and the French. At the moment, too many Britons are saying that they are happy with things as they are and that nothing should change.

Perhaps they are right. Perhaps the UK has the best possible structure at the moment and we should all endeavour to keep it unchanged. Yet, arguably, the days of the nation state are drawing to a close and those who do not like the current European structure should start drawing up alternative blueprints for the future rather than simply opposing other ideas.

It may be, for example, that decentralisation is the answer rather than centralisation; that more power should be in the hands of the London authority, the Welsh assembly, the Scottish parliament and a new set of English regional authorities.

It may be that some decisions, such as transport, should be made at the local level; that some, like defence, should be taken at the national level; and that some, like policing should be taken at the European level.

It may be too that the UK should reconsider the alternatives; for example, becoming a member of the North American Free Trade Agreement. That idea was ridiculed when it was first suggested but it is no stranger a concept than the Commonwealth.

More organisations, like the Group of Eight (G8) might be the best way to move forward – bodies that are truly international rather than simply European. Bodies that accept the successful Anglo–American way of economic problem solving rather than the discredited demand-management policies still popular in much of Europe.

It might pay to focus less on the euro and more on the structure of the EU; considering how the UK would like to see it develop and where the British want to be in a generation's time.

The UK should think about which decisions should be taken at which level and whether it is possible to come up with alternative international structures. The success of bodies like G8 is that decision making is straightforward; there is no need for constant compromise and fudge. The EU and other international organizations should be modelled in such a way.

That is the road the British should take, not the one we are on at the moment. The British should bang the drum for the Anglo–American model of economic management, letting market forces impose a discipline and reducing the role of government, wherever it may be based.

Martin Essex is a writer and commentator on economics and finance.

The Euro-Cure: a solution for the housing crisis

by Richard Northedge

No one ever said that adopting the euro is not without advantages: the debate is simply about whether the advantages outweigh the drawbacks. So let us praise one of the lesser-appreciated advantages of joining the single currency – the solution to London's housing crisis.

Once the financial-services industry vacates the Square Mile, the Capital's inner city will be available for redevelopment to provide homes for everyone who currently complains that they cannot afford to live close to where they work in central London. The fact that some may no longer have jobs in central London is one of those minor details that can be tackled later.

The financial-services sector has a special place in the single-currency debate. Not because this is the group that might be expected to understand the issues best (don't bank on it, as they say in Threadneedle Street), but because this is the only specific sector named in the famous five tests as having to emerge a winner from adopting the euro. Workers in other sectors are merely bracketed into the fifth test: whether it is good for employment. Workers in the City however are singled out in test number four asking what is the impact on our financial services industry. And many who work in the sector, when they get round to thinking about the consequences of Britain being part of the euro, must realise that at a personal level, the impact will be rather negative.

Voting for the euro, for thousands in the Square Mile, would be like the proverbial turkey raising his wing to vote for Christmas. Foreign-exchange brokers received a preview of their future when the 12 continental countries condensed their pesetas and punts and their markas and marks into the euro, but dealings of most of those currencies was minor and sterling-euro business continued to keep London busy. If the pound goes too however, then the cross-channel business will disappear leaving euro holders a choice of changing into only yen or dollars.

But once sterling is no longer an option for currency traders, why trade in London at all? Frankfurt or Paris – or a thousand locations where a computer can be plugged into the network – would have as much a claim to be the base for euro trading as the City. And many of those venues are cheaper or less regulated. Nor is it only foreign exchange traders who should worry. London has already seen how easily the bourses in Frankfurt and Paris have grown at its expense: how much more so if UK-registered shares are priced in the currency of Frankfurt and Paris? Why then will stockbrokers, investment bankers or fund managers need to be in the Square Mile? Almost all London's securities houses are now owned by companies headquartered in Germany or France – or by American groups that already have offices on the continent and which would be keen to rationalise their European operations.

Voting for the euro, for thousands in the Square Mile, would be like the proverbial turkey raising his wing to vote for Christmas

Ownership of London's futures market has already gone abroad and now the City's share settlement and clearing organisations are considering following.

After ownership, the decision-making moves, then the management and today's electronic era allows the back offices that provide the mass employment to move too. And the centre of the Square Mile itself, the Bank of England, would face near-redundancy if Britain joins the euro. It has already lost the role of banking supervision to a financial regulator in Canary Wharf, the Treasury's gold that once filled its vaults has been largely sold, and if interest rate decisions are to be transferred to a European Central Bank (ECB) in Frankfurt, then there is no need for the monetary policy committee either. Printing euro notes and reporting on Britain's regional economy to the ECB does not require a huge City presence. London does not have to be a loser from this consolidation, of course. But in the grand rationalisation that the euro would permit, the City would certainly lose some operations – perhaps many of them – and would thus lose the must-be-there quality that ensures a successful centre continues to succeed.

And it is harder for London to be a winner from this consolidation because while Britain has eagerly welcomed foreign ownership of investment banks, insurance companies and even markets, other countries have been less willing to allow City companies to expand abroad. It does not matter that the Germans own our investment banks, the French our insurance companies and the Americans our securities houses so long as the jobs remain in Britain: it does matter if the jobs disappear or are transferred abroad. But for those who continue to have jobs, there will be acres (or should that be hectares) of empty offices to turn into housing.

If only Gordon Brown had added a sixth euro test: that there will be a clear and unambiguous case for solving the housing crisis. The Barbican proved that tower blocks are chic so long as they cost enough; the Square Mile has plenty more tall buildings to convert into penthouse apartments. People will queue for a home atop the 'erotic gherkin' or to gaze down from the Bishopsgate Tower onto the deserted streets of what was once Europe's leading financial centre.

The prime property, however, will be the redundant Bank of England building, and whoever lives there will know that without the euro, it would still be merely a bank. It is just a shame that it will be so far to travel to work from this backwater in the middle of the Square Mile.

Richard Northedge is a respected financial journalist and a regular contributor to The Business.

What is the True State of the British Economy?

By Keith Marsden

Britain's Office for National Statistics (ONS) has long been respected for its independence, integrity and professional competence. But it is now being accused of presenting a distorted picture of Britain's economy.

The ONS says that real GDP growth was zero during the first quarter of this year, the same as in the last quarter of 2001. It also reports that gross value added at constant prices – another measure of real output – fell by 0.1% in each of the last two quarters. Thus the economy is technically in recession, or at best stagnant. So instead of being the much-trumpeted leader of the international growth league (among major economies), Britain now finds itself languishing at the bottom.

Obviously this finding does not please the government. It has promised to eliminate 'boom and bust'. It has also just launched a massive public spending programme requiring a rapid and sustained increase in tax revenues. It must therefore be delighted that Anatole Kaletsky, the influential deputy editor of *The Times*, has questioned the validity of the ONS figures.

In an article printed in *The Times* on 28 May 2002, Kaletsky makes six main claims.

First, British businesses now specialise in high-value services and products, and have abandoned lower-priced manufactures.

Second, this restructuring has occurred at a time when international prices for financial and business services have been soaring.

Third, the prices of foodstuffs, commodities and the mass-produced consumer goods that Britain buys from the rest of the world have been falling sharply.

Fourth, Britain has thus enjoyed a big gain in its terms of trade by moving upmarket. Fifth, instead of showing an increase in prosperity when foreigners decide to pay more for Britain's services and products, Kaletsky claims that ONS data just show an increase in inflation and no change in output.

Finally, he asserts that *"only one question about trade is relevant to economic welfare: are British exporters receiving more money from abroad and putting this into circulation around Britain? If they are, then Britain's wealth is growing. That, surely, is the true definition of economic growth."*

To support his case, Kaletsky cites one line from the latest ONS report on UK output, income and expenditure. This indicates that the value (in current prices) of exports of goods and services increased by 0.6% in the first quarter of 2002 over the previous quarter. On this basis he concludes *"we can feel fairly confident: Britain has been getting steadily more prosperous, even in the first quarter of 2002."*

The economy is technically in recession, or at best stagnant

These serious claims deserve further scrutiny. The ONS report cited above shows, in fact, that export earnings have not risen steadily. Their nominal value in the first quarter 2002 was 6.7% lower than in the same quarter of 2001. Over the past nine months, British exporters received £195 billion from abroad, a 5.1% drop from the previous nine months. ONS national accounts data also reveal that the share of exports in total GDP in current prices has declined. The ratio fell to 25.7% in the first quarter of 2002, from 27.1% in 2001 and 29.1% in 1996, the last full year of Tory government. This trend indicates that the competitiveness of British exports has decreased under Labour, exacerbated by an overvalued pound, while exports from its main rivals have boomed. The IMF reports that exports from advanced economies as a whole grew at an average annual rate of 6.1%, almost three times faster than GDP, since 1996, resulting in a rising share of exports in total output (*World Economic Survey,* April 2002, App. tables 2 and 22).

Unit export prices have fallen globally in recent years. The IMF says that average world trade prices (in US dollars) of manufactures have declined in each of the last six years, at an average annual rate of 3.7%. The price deflator (in SDRs) of exports from advanced countries show an average annual drop of 1.6% over the last five years (WEO, April 2002, Appendix table 22). The prices of British exports have also dropped. The ONS price index for total British merchandise exports (excluding oil) in March of this year was 7.5% below the 1995 level. This was only a slightly smaller decrease than that of import prices (12.5%). Britain's terms of trade have improved by just 5.7% over the last seven years.

A recent ONS press release on UK trade provides more detailed information (10 May 2002). In the first quarter of 2002, the value of services exports in current prices was 4.3% less than a year earlier. Exports of 'finished' manufactures (SITC 7+8) were down by 8.4%. This trade classification includes power generating machinery, machine tools, office equipment, automotive products, other transport equipment and military hardware. These are the kind of 'upmarket' products on which British business is said to have specialised.

An ONS report on the engineering industry records a 27.9% drop in exports sales in the first quarter of 2002

A separate ONS report on the engineering industry records a 27.9% drop in the nominal value of export sales in the first quarter of 2002 from a year earlier, after shrinking by 10.8% in the whole of 2001 (from the 2000 level). Exports from the once-booming electrical and optical equipment sector, which includes computers and telecom appliances, have collapsed by 33.6% from the same period last year. And the immediate future does not look rosier. New orders from domestic and export customers shrank by a huge 29.4%. These trends reflect a decline in total fixed investment in advanced economies generally. The IMF reports that gross fixed capital form-

The immediate future does not look rosier

ation fell by 0.9% in advanced economies in 2001, and zero growth is anticipated this year (*World Economic Outlook,* April 2002, appendix table 3). The ONS says that British investment in the first quarter of 2002 was 1.3% below the previous quarter, and 1.4% down on a year earlier. The longer-term trend is also worrying. In successive Budget Red Books the Chancellor has stressed the need to raise investment levels. But the latest ONS national accounts figures show that gross fixed investment (in current prices) fell to 16.2% of GDP in the first quarter compared with 16.9% in the whole of 2001 and 17.6% in 1998.

The EU single market is currently not providing a more buoyant demand for British goods

Fuel exports declined by 22% in the first quarter compared with a year ago. And the EU single market is currently not providing a more buoyant demand for British goods. In the first quarter, the value of all exports to the EU slipped by 9.5% from the same quarter last year.

The claimed radical shift in the structure of exports towards higher-priced services is also not confirmed. The WTO says that commercial services represented 26.0% of Britain's total exports in 2000, a rise of just 3.7 percentage points since 1990 (*International trade statistics 2001,* tables A5 and A7). Britain's tourist industry has seen fewer foreign visitors since the foot and mouth epidemic and the events of 11 September 2001. And low-cost operators have lowered the price and revenue per mile of air travel. According to the WTO, Britain's share of world trade travel services fell to 4.7% in 2000 from 5.9% in 1990.

The previously booming sector of business services and finance has lost much of its lustre in recent months. According to ONS, this sector contributed 21.2% of GDP in 1995, and expanded at the breakneck average annual pace of 5.3% in real (inflation adjusted) terms from 1995 to 2001. This sector alone was responsible for 44% of the total increase in real GDP over this six-year period, says ONS. These figures refute *The Times*' claim that ONS data for these services just show an increase in inflation and no change in output. But ONS data also indicate a 0.2% real drop in output of business services and finance in the first quarter from the previous three months.

A significant slowdown in the transport, storage, and communications industry is also apparent. In the first quarter their combined output was just 1.1% above a year ago. From 1995 to 2001 this sector grew at an average annual real rate of 7.1%. Together with business services and finance, these activities accounted for nearly 68% of the total economic growth of Britain since 1995, although they represented just 29.2% of GDP in that year. Their boom more than offset the bust (absolute decline) in agriculture, mining and manufacturing output that has occurred under New Labour. But the lopsided pattern of growth has made the British economy more sensitive to the bursting of the high tech, telecom and stock market bubbles.

The economic slowdown/recession is beginning to show up in employment levels (a lagging indicator). The total number of workforce jobs remained the same in the last quarter of 2001 as in the previous quarter, and fell by 1.1% for males. There was no change in the overall working age employment rate in January to March 2002. But the number of people with jobs in the 25–34 age group has fallen by 345,000 (- 4.8%) over the last two years. The IMF projects a contraction in total employment in 2002, after expanding by 0.8% in 2001 and 1.0% in 1999. Particularly significant is the changed outlook for business school graduates. The London Business School reports that several people completing its two-year course have still not found jobs, while many others have had their dreams of a well-paid career as a consultant or investment banker dashed since the economic downturn. After a survey of Britain's top business schools, the *Sunday Times* (9 June 2002) found that this scene will be replicated across the country when, from the end of this month, the new crop of MBAs reaches graduation.

All in all, *The Times*' claim that Britain has become steadily more prosperous, even in the first quarter of this year, looks shaky. Of course, these trends reflect world economic conditions. The IMF estimates world output rose by just 2.5% in 2001. And advanced economies grew at only half that rate, the slowest pace for several years. The volume of world trade in goods and services fell by 0.2% in 2001, the first contraction since the early 1980s. But New Labour's supporters should not pretend that Britain is immune from economic cycles, or castigate the ONS for not doing a proper job without convincing evidence.

Nor should the government allow unsubstantiated claims lull it into a false sense of security. It should listen to what business leaders are saying about the effects of the global slowdown, higher taxes and too much red tape. Talking to the *Wall Street Journal* in June, the chief executive of the WPP Group, Sir Martin Sorrell, still saw a pall hanging over the advertising industry, which is a barometer of general business health. Global advertising spending has fallen by 5% as companies slashed their advertising budgets to cope with the slowdown, exacerbated by the 11 September 2001 attacks. He did not see a real recovery in the advertising industry until 2004.

"We have already virtually lost our labour market flexibility, thanks to a raft of employment regulation."

Writing in the *Observer*, Confederation of British Industry (CBI) Director-General Digby Jones said "*We have already virtually lost our labour market flexibility, thanks to a raft of employment regulation. Our competitive edge is fast disappearing.*" And at the CBI's annual dinner, outgoing President Sir Ian Vallance listed over £50 billion of business tax rises or similar levies since 1997, and commented: "*You cannot keep dipping your hand into the business till without squandering the UK's advantage as a country in which to do business.*"

Much clearly remains to be done if Messrs Blair and Brown are to live up to their pro-business claims. And their supporters should not cry foul if ONS numbers really do add up.

Keith Marsden has worked as an economist in the development field since 1963. His publications include Why Free Trade Does Benefit The Poor, *(Humanitarian Review, Autumn 2001);* Agro-Industrial Policy Reviews: Methodological Guidelines *(FAO 1998);* African Entrepreneurs: Pioneers of Development *(World Bank/IFC 1990);* Private Enterprise in Africa: Creating A Better Environment *(World Bank 1987); and* The Political Economy of Foreign Aid: A World Bank Perspective *(ILO 1983).*

More Sinned Against than Sinning:
The Czech Republic and the Sudeten Germans

by Tony Brown

It is widely anticipated that the next German Chancellor will be Edmund Stoiber. One of the issues that he seems to be making his own, though also backed by certain Austrians, is the expulsion of the Sudeten Germans in 1945. *"Whoever in 2002 defends the expulsion of and stripping of rights in Europe 57 years ago must prompt all Europeans to ask how suitable for Europe he is,"* Stoiber says.

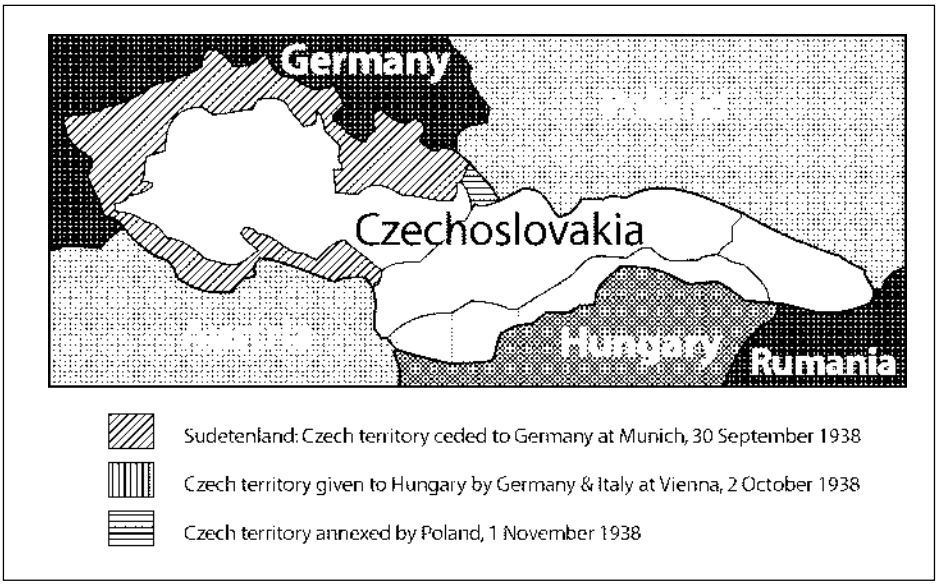
It may seem to be a reasonable comment, but Herr Stoiber's wife is a Sudeten German refugee – a fact that raises important questions about the objectivity and fairness of his approach.

Those less directly involved, EU members west of the Rhine, need to think very carefully about Herr Stoiber's claims, and they cannot do so without knowing some history. In fact, to anyone with knowledge of what happened, Austrian and German demands for a review of the ethnic German expulsion are monstrous in the context of the previous 500 years.

In the fourteenth century, the kingdom of Bohemia was one of Europe's foremost centres of wealth, culture and learning. It is therefore perhaps no surprise that it gave rise to the man who vies alongside Wycliffe in England for the title of Europe's first Protestant. One hundred years before Luther, Jan Hus was calling for similar church reform. As rector of Prague's German University, he asked questions which the German Catholic hierarchy found exceedingly uncomfortable and set out concepts of predestination and a personal and individual relationship with God which go to the heart of what later became the Protestant ethic.

Though he was promised a safe passage for the Council of Constance in 1415, the German Catholic hierarchy betrayed their word and burned Jan Hus at the stake because he had the temerity to challenge them in ways they could not satisfactorily answer.

Hussite ideas survived the judicial murder of their originator. The Bible was translated into Czech. By 1618, the semi-independent Bohemian kingdom was the elective monarchy of a powerful Protestant nobility. It is unarguable that this nobility did in fact elect the devoutly Catholic Ferdinand as their monarch but they did not perhaps expect the extent to which he would seek to impose Catholicism.



The result was a disaster for both Bohemia–Moravia (roughly contiguous with the present day Czech republic) and for the whole of central Europe. At the Battle of the White Mountain in November 1620, the army of the Hapsburg destroyed the independent Bohemian Protestant nobility. It ushered in the full horror and brutality of the Thirty Years War. This is a conflict that scarcely registers in British history books, probably because at the time Britain was involved in its own conflict between the King and Parliament. Nonetheless the Thirty Years War shaped major aspects of European history to this day.

For the Czechs the Thirty Years War ensured 300 years of foreign domination as part of the Hapsburg Empire.

Despite this, Bohemia–Moravia never entirely lost those cultural traditions, which made it economically and politically modern. It was the first part of Mitteleuropa to industrialise – the uniquely efficient sector of the Hapsburg economy. In fact, without Czech industrial productivity, it is unlikely the Austro–Hungarian Empire would have been able to stay in the First World War in the way it did.

Within that industrialisation process laid many of the roots of Nazism. The nationalism and the socialism of the German National Socialist Workers' party were the result of the conflict and competition between German and Czech nationals within the industrialising centre of the Empire, where the Germans were a minority. This gave rise to the feeling of inferiority, which prompted Germany to claim its racial supremacy. These were ideas a former German army Corporal and unemployed painter and decorator would harness and use in Bavaria and, later, Germany as a whole after 1919.

The Treaty of Versailles in 1919 finally gave the Czechs and Slovaks their own state. But linguistic and cultural boundaries are seldom geographically neat and the resulting state was no exception. Giving the new state sensible boundaries around the Krkonose, Krusne Hory and Sumava mountain ranges also gave it a significant German-speaking minority, the Sudeten Germans.

Between the wars, Czechoslovakia was the only functioning social democracy in central Europe. Whilst their neighbours, Hungary, Poland and Germany fell to authoritarianism, the Czechs maintained the reality of parliamentary democracy – which meant that the Sudeten Germans under their leader, Henlein, formed the second largest party in the Czech parliament.

The 1937 Horsbach memorandum makes it indisputable that Hitler planned to incorporate Austria and Czechoslovakia within the Third Reich, ideally simultaneously. On 28 March 1938,

Hitler declared he would *"solve the Czech problem in the not too distant future"*. The Sudeten Germans provided both the pretext and a fifth column. The resulting story of Anglo–French pusillanimous duplicity in which Neville Chamberlain betrayed the Czechs at Munich is well known. Perhaps less well-known are the military consequences.

Between the wars, Czech engineering was second to none. The results included some magnificent defensive fortifications in the ring of mountains, which form the Sudetenland. Skoda and Ceskomoravska Kolben Danek (CKD) produced what some have argued were the best tanks in the world at the time – more than any match for the 1938 Wehrmacht's Panzer I & IIs. However, they fell into the hands of the Germans, permanently altering the military balance. In 1940, 298 Czech tanks equipped much of 6th, 7th and 8th Panzer. The fearsome thrust of Hoth, Rommell and von Kleist through the Ardennes to capture France in May 1940 was done using Czech equipment as much as German.

By summer 1941, all that productive capacity meant that 750 of the German tanks used to invade the USSR came from Czech factories. The Czech chassis were so good that they continued being produced with minimal design modification right through to 1945, providing the base unit for a whole family of specialist tracked guns and equipment.

Equally little known is the Czech contribution to the Allied war effort. As a recent film starring Tara Fitzgerald illustrates, Czech pilots played a honourable role during and after the Battle of Britain; Moravc, Czech military intelligence, continued to function after the German takeover and supplied information high both quality and quantity to Allied forces. It provided, inter alia, well in advance the exact date for the invasion of France in 1940 – the problem was that the French did not believe it.

The German treatment of Bohemia–Moravia during the war was as bad as anywhere. One of the first acts was to close the Universities and destroy Czech intellectual life – its very existence was an affront to Arian superiority. Three hundred and fifty thousand slave labourers were deported from Czechoslovakia, of whom more than two thirds would never return. The successful assassination of Reinhard Heydrich, the so-called Reichsprotector of Bohemia–Moravia, led to mass executions including the massacre of the entire populations of Lidice and Lezaky.

The Czech reward after the war was to fall into the hands of Stalin, a tyrant who, as Norman Davies amongst others has conclusively demonstrated, was as bad if not worse than his German predecessor. Forty years of communism ultimately squandered the once magnificent economic and engineering city of Skoda. In fact it has become a joke that Volkswagen now owns Skoda rather than the other way round.

The conclusion is simple. If Herr Stoiber is to demand apologies and reparations, if property is to be reclaimed or compensation paid, then what Germany (and perhaps the Papacy) owes the Czechs for the last 500 years outweighs what the Czechs owe the Germans by a scale of magnitude which is almost unfathomable.

It is the duty of the western members of the EU not to allow the Czechs to be traduced again. They must take their rightful place as the modernised advanced western nation they would have long been, had it not been for their powerful Germanic neighbours.

Tony Brown is a former Conservative European and Westminster Parliamentary candidate and a councillor in multi-cultural Ealing.

… news in brief

Rule of law or law of the jungle?

The European Parliament has decided to subject the Beneš decrees to scrutiny to see whether they must be abolished before the Czech Republic can join the EU. Supporters of this move claim that it is a normal procedure for EU candidate states to have their entire domestic legislation screened – although this rather begs the questions as to why it has been left until the last minute, if the Czech Republic allegedly has genocidal laws on its statute book. They also claim that the move is compatible with *"the rule of law"*. In reality, the Beneš decrees issue is an excellent illustration of how the concept of *"the rule of law"* is abused for narrow short-term political interests. For the European Parliament has, in the name of the *"rule of law"*, constituted a three-man committee to look into the question and to rule on the compatibility of the Beneš decrees with EU law. Quite how the European Union, which was created in 1957, can rule on the legality under its laws of something which happened in 1945 is not explained. Worse, the EP has *already* received an expert legal opinion on this very issue, which it has kept secret and which the new three-man committee has evidently been created to overturn. That opinion, dated 22nd April 2002, is very favourable to the Czech position, saying that no other bilateral issue with a candidate state has been *"Europeanised"* in this way. So what is the real reason behind this last-minute decision to throw the candidacy of the Czech Republic into doubt over something which happened in 1945? Apart from pandering to German revanchism and to the demands of extreme right-wing parties like the Freedom Party in Austria, it seems likely that the EU has an ulterior motive: to strong-arm the Czechs into closing down their nuclear plant at Temelín. Most Central European candidate states are on their knees economically and are not in a position to bargain with Brussels. In the Czech case, it is different. Their economy is relatively healthy and, as a highly urbanised state, they may even be net contributors to the EU budget. But the EU is determined to establish energy hegemony over the whole of East & Central Europe and so it demands the closure of nuclear plants (e.g. in Bulgaria and Lithuania) in the name of *"safety"*. French and German energy suppliers can then supply the new member states. So the Beneš decrees issue has been fished out of the bran tub so that, when the EU makes a bogus *"concession"* on it, the Czechs can be forced to compromise elsewhere. Already, the two apparently unconnected questions of post-war expulsion and present-day nuclear energy have been conjugated as one by the Czechs' enemies in Austria. Peter Westenthaler, the parliamentary leader of the Freedom Party in Austria - the party formerly led by Jörg Haider, who started off the whole row over Temelín and whose position on the Beneš decrees has now become that of the European Parliament – has said, *"Over the next few months we will press for talks with the Czechs on Temelin and the Beneš Decrees."* Westenthaler reiterated his party's oft-stated view that there would be *"no EU entry for the Czechs"* as long as the Beneš Decrees were still in force. *"That would be an insult to the thousands, or millions of Sudeten Germans and their descendants throughout Europe,"* he told Austrian radio. Chancellor Schüssel, who governs in coalition with the Freedom Party, has dismissed the Freedom Party's calls for a veto of Czech EU entry, but he still calls on Prague to repeal the edicts, which he says are unjust. [*Reuters*, 17th June 2002] In other words, the Austrian approach is one of "Soft cop, hard cop."

'No' to the Common Asylum Policy

by Matthew Elliott

Three months ago, the European Union's common asylum policy was virtually unheard of outside the confines of European institutions. Since the Seville Summit last month however, it is recognised as being at the forefront of the integration process. Like the Common Agricultural Policy whose acronym it shares, it is not good news. What are the origins of the common asylum policy? Will it compromise British asylum policy? Is there a bilateral alternative?

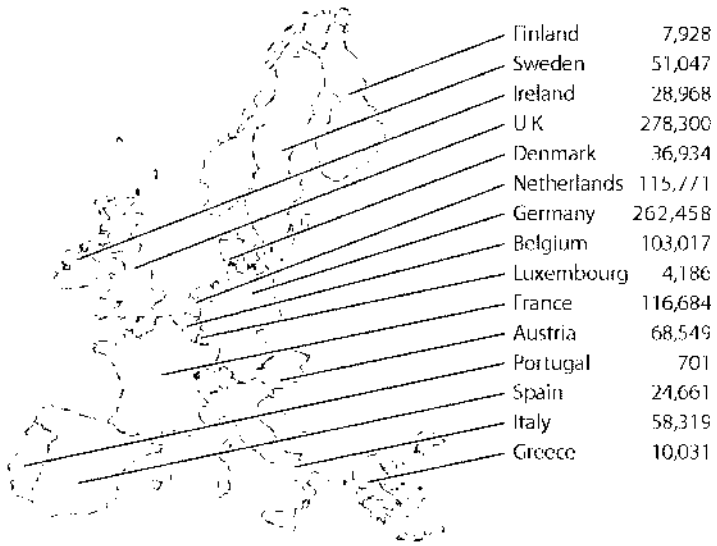
The Dublin Convention

The basis of the European Union's current asylum systems is the Dublin Convention, which was agreed in 1990 and came into force in September 1997. The aim of the Convention is to solve the problem of 'asylum shopping' – asylum seekers travelling to the member states with the most generous asylum systems. The Convention is based on the principle that applications for asylum should be made in the member state where the asylum seeker entered the EU. Although theoretically appealing, in practice this principle has not worked well.

The main problem with the Dublin Convention is the difficulty in proving where the applicant for asylum entered the EU due to a lack of documentation and/or the asylum seekers inability or unwillingness to provide that information. If, for instance, an asylum seeker is caught entering Britain clinging to a Eurostar train, it is clear that they came into Britain from France but it is not obvious whether France was their point of entry into the EU. If they entered through Italy, for example, then under the Dublin Convention the French authorities have no responsibility for the asylum seeker. The difficulty for the UK authorities, to carry on this example, is proving that Italy was the point of entry.

The absurdity of the EU's current asylum system is shown in *Figure 1*. According to figures compiled by the United Nations High Commission for Refugees, the United Kingdom has 278,300 applications for asylum between 1999 and 2001 whilst Italy had 58,319. Seeing as the top five nationalities of asylum applicants in the EU during this period were from the former Yugoslavia, Iraq, Afghanistan, Turkey and Iran,[1] it beggars belief that more asylum seekers entered the EU in the UK than in Italy. The Dublin Convention clearly is not working.

Figure 1: Asylum applications lodged in EU member states, 1999–2001[2]



Dublin II

The EU's response to the failure of the Dublin Convention – like its response to most problems – is for greater harmonisation. In a working paper entitled *Revisiting the Dublin Convention* published in March 2000, the European Commission claimed: *"There do not appear to be many viable alternatives to the present system."*[3] The Commission's answer to 'asylum shopping' was *"harmonisation in other areas such as asylum procedures, reception conditions, interpretation of the refugee definition and subsidiarity protection to reduce any perceived incentives for asylum applicants to choose between Member States when lodging their application."* In essence, 'Dublin II' would end 'asylum shopping' by regulating the application process and standardising the treatment of asylum seekers.

This 'solution' is not, however, a measured response to the current difficulties but simply a requirement of the Amsterdam Treaty, Article 63 of which commits member states to establishing common arrangements for asylum and immigration.[4] This policy is not new (a brief history is outlined in *Figure 2*) but before the Seville Summit it was virtually unknown. Timothy Kirkhope, MEP, the Conservative spokesman on Justice and Home Affairs in the European Parliament, describes the lack of debate over the creation of a common asylum policy as a *"scandal."* According to Kirkhope, *"We hear a lot about the single currency and the single army in newspapers and on television, but virtually nothing about the common asylum policy. Do we really want the EU to determine asylum policy?"*

A Case Study

A key component of the common asylum policy is the Council directive on the minimum standards for the reception of asylum seekers. When David Blunkett claimed that young asylum seekers were *"swamping"* schools and proposed to teach them separately, he got what he wanted: a huge controversy and lots of publicity for his new Bill on asylum. Many nodded their heads in agreement, some voiced their vehement opposition, but nobody pointed out that Labour MEPs had just voted against the segregation of pupils by supporting this directive as it passed through the European Parliament. Although many have grown used to the Government saying one thing in Britain and doing another in Brussels, this rarely happens on subsequent days.

The *Nationality, Immigration and Asylum Bill* received its Second Reading in the House of Commons on Wednesday 24 April. The following day, Labour MEPs joined their socialist and liberal colleagues in the European Parliament and approved a Council directive outlining minimum

Figure 2: Building a common asylum policy

Spring 2001: The issue of asylum is at the forefront of political debate following a clear increase in the number of people applying for asylum in the EU to just under 400,000 in 2000. It is suggested that a fair distribution of refugees requires a harmonised asylum policy.

30 July 2001: The European Commission adopts a proposal to speed up the asylum process by forcing member states to decide more quickly who is responsible for handling a claim for asylum. If an asylum seeker has been in a member state illegally for more than six months it *"must accept responsibility for the consequences of its failure to take action to counter illegal immigration."*

11 September 2001: The Liberal Democrats call for a common asylum policy arguing that responsibility for refugees should be spread equally among member states. *"Applications in Europe could be processed by teams of officials from different EU countries led by the host country, and dealt with so that the same criteria apply to applications wherever they are made in the EU,"* said their Home Affairs spokesman Simon Hughes.

12 September 2001: The Commission approves a proposal for a common definition of a refugee. Whereas most member states accept individuals persecuted by state and non-state bodies, Germany and France only accept individuals persecuted by the state. The Commission's definition accepts that persecution can also originate *"from non-state agents"* and specifically refers to women and children *"and persons who have undergone torture, rape or other serious forms of psychological, physical or sexual violence."*

2 October 2001: The European Parliament approves a report by Labour MEPs on *"a common asylum procedure and a uniform status, valid throughout the Union, for persons granted asylum."* The report is opposed by Conservative MEPs.

3 October 2001: The European Parliament approves a report proposing *"a Community immigration policy"*. Labour MEPs vote in favour; Conservative MEPs vote against.

12 October 2001: German Chancellor Gerhard Schröder calls for a common asylum and immigration policy as part of the fight against terrorism.

16 October 2001: Belgian Prime Minister Guy Verhofstadt says: *"harmonisation of asylum and immigration is one of the priorities of the Belgian Presidency."*

14 December 2001: The draft presidency conclusions of the Laeken summit urge the Council of Ministers to create a European borders control body to help the fight against terrorism and illegal immigration. The text also commits Justice and Home Affairs ministers to set up a common visas identification system using new technology such as biometrics. The draft conclusions state quite openly: *"The European Council pledges to adopt a common policy on asylum and immigration."*

17 December 2001: Following a heated debate on asylum and immigration at the summit, the Council asks the Commission to draw up new and strengthened proposals on asylum procedures in *"three or four months"*.

15 February 2002: Justice and Home Affairs ministers approve a Commission proposal to combat illegal immigration that covers the issuing and follow up of visas, border control, readmission policies, information exchange and police cooperation. The Council also agree to create a European database for visas to register all accorded and refused visa demands.

3 April 2002: The Danish Government announced its intention to focus on strengthening the European Union's asylum and immigration policy when it takes over the Presidency in July.

26 April 2002: Justice and Home Affairs ministers pass a Council directive *"laying down minimum standards on the reception of applicants for asylum in Member States,"* following its approval by the European Parliament the previous day. The Council also approves a programme for administrative cooperation in the fields of external borders, visas, asylum and immigration (ARGO).

7 May 2002: The Commission proposes the creation of a European Corps of Border Guards to clamp down on illegal immigration. Within a year, the Commission hopes to establish a group to coordinate national border police and the exchange of information. In the medium term, they wish to establish a European College for Border Guards in order to achieve their long-term objective of a European Corps of Border Guards.

20 May 2002: President of the European Council José Maria Aznar announces that asylum and immigration will be the main subject of discussion at the Seville summit in June.

13 June 2002: Spanish home affairs minister Mariano Rajoy says that the EU must *"impose obligations on third countries refusing to cooperate in the fight against illegal immigration,"* ranging from political statements to the possibility of cutting development aid.

14 June 2002: Denmark, Finland and Sweden block the Commission proposal for a European Corps of Border Guards at the Justice and Home Affairs Council in Luxembourg. The Nordic countries argue that it is both politically and operationally unsuitable because borders are an issue for national police forces.

21 June 2002: The Seville Summit agree that *"any future cooperation, association or equivalent agreement which the European Union or the European Community concludes with any country should include a clause on joint management of migration flows and on compulsory readmission in the event of illegal immigration."* The heads of government also agree to *"joint operations at external borders"* before the end of 2002 and a *"common core curriculum for border guard training and consolidation of European provisions concerning borders"* before June 2003.[5]

23 June 2002: EU Justice Commissioner Antonio Vitorino says that he expects the European Corps of Border Guards to become a reality within five years.

reception standards, winning the vote by 276 to 204. The next day, Friday, 26 April, Home Office Minister Bob Ainsworth joined his fellow Justice and Home Affairs ministers in unanimously approving the directive. These two proposals, both dealing with asylum and approved by the Labour Party, are incompatible in three key areas.

First, there is the difference in *language requirements*. The Government's proposals seek to enforce the existing requirement for those who apply for naturalisation as a British citizen to have sufficient knowledge of English, Welsh or Scottish Gaelic and to extend it to those applying for naturalisation as the spouse of a British citizen or a British overseas territories citizen. This requirement has been condemned by the Joint Council for the Welfare of Immigrants as being *"the intellectual residue of the same racist debate brought to the fore by Enoch Powell."*[6] Whether or not language tests are neo-Powellite, the Bill will soon be subject to the Charter of Fundamental Rights once it becomes legally enforceable via a European Constitution. Article 21 of the Charter however, prohibits *"discrimination based on … language."* A language requirement for naturalisation is therefore incompatible with the Government's support for a legally binding Charter.[7]

Secondly, there is the issue of *employment*. At present, and under the Government's proposals, asylum seekers can start work six months after lodging their application for asylum. When the directive was considered in the European Parliament under the consultation process, Labour MEPs supported an amendment to *"allow applicants and their accompanying family members to have access to the labour market as soon as possible but within four months."*[8] Assuming immediate access to the labour market had been allowed at the beginning of this year, just under 50,000 asylum seekers would have been entitled to work in the UK. Charities such as Oxfam and the Refugee Council have called on the Government to allow asylum seekers to work and there are undoubtedly strong arguments for a relaxation of the rules. What is more pertinent for this article is whether or not the Labour Party supports its MEPs on this issue.

Thirdly, and most controversially is *education*. The Bill clearly states that children living in an accommodation centre *"may not be admitted to a maintained school or a maintained nursery school."*[9] The Refugee Children's Consortium, which includes Barnardos, the Children's Society and the NSPCC, believes that *"developing segregated education provision is both regressive and discriminatory."* The Council directive as approved by the European Parliament specifically prohibits such segregation, obliging member states to give young asylum seekers "*access to the education system under the same conditions as nationals*".[10] Much of the debate in the European Parliament centred on the need to integrate children as quickly as possible into society and the directive clearly refers to *"the public education system"* and *"ordinary schools"*. In contrast, the version approved by Justice and Home Affairs ministers says that, pending the Opinion of the European Parliament, *"Such education may be provided in accommodation centres."*[11] This matter has clear yet to be resolved.

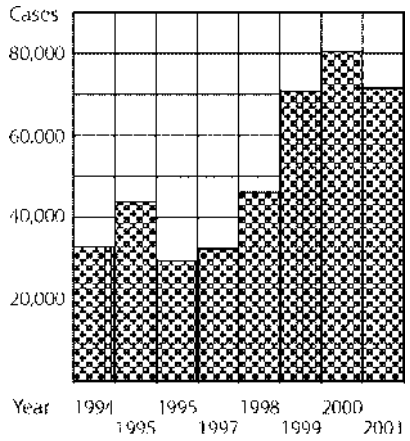
Although the Asylum Bill and the Council Directive are largely convergent, there are clearly a number of areas where there are certain incompatibilities. It is not inconceivable that British asylum policy will be challenged by human rights lawyers using EU law. Nick Blake QC, an expert in child law at Matrix Chambers, the law firm founded by Cherie Booth QC, has said: *"Blunkett's obnoxious language of "swamping" is unnecessary, inappropriate and offensive. How can a separate educational regime for asylum-seeking children be [anything] other than discrimination?"* If it is challenged, the question will then be 'Who governs Britain in Justice and Home Affairs?'

The Argument Against

There are two basic arguments against a common asylum policy: one is based on *policy*, the other on *principle*. In terms of policy, how can the British people be sure that the EU's policy on asylum is one with which we are comfortable? In its final form, the policy will presumably be that which is acceptable to the majority of member states. The crucial question, therefore, is whether the attitudes of British people towards asylum seekers are similar or dissimilar to the views of other member states.

There is empirical evidence to suggest that, whilst there is a broad range of opinions across the member states, the United Kingdom is more liberal than most. The statistics in *Figure 4,* which were compiled by the European Monitoring Centre on Racism and Xenophobia, measure the perception that asylum seekers are more often involved in criminality than the average. In the UK, only 31% of the people questioned 'tend to agree' with this statement, compared to a high of 81% agreement in Greece and a low of 30% agreement in Ireland. Combined with the fact that more people 'tend to disagree' with this statement in the UK (48%) than anywhere else in the EU, these figures suggest that distrust of asylum seekers is less prevalent in Britain than elsewhere.

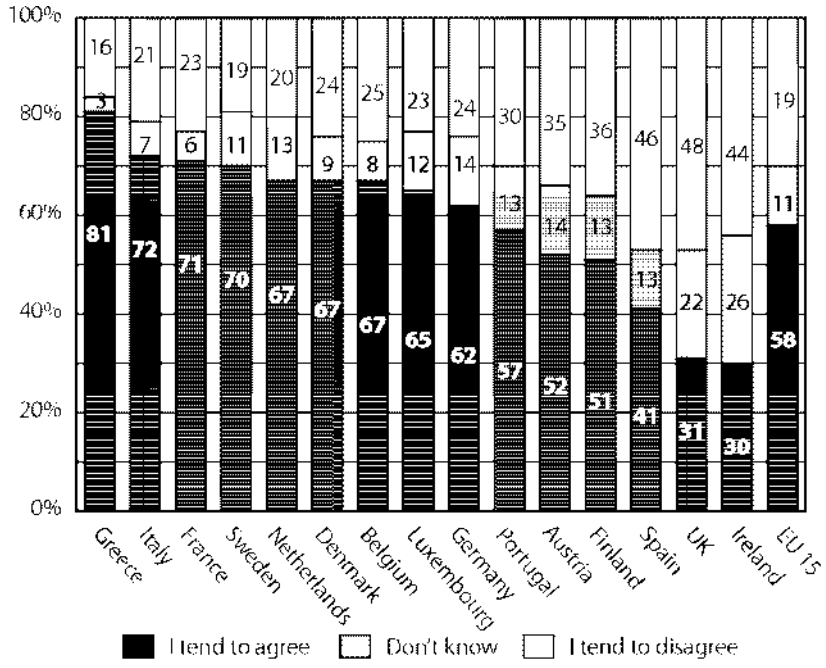
Figure 3: Asylum cases in the UK, 1994–2001[16]



There is also, of course, political evidence that parties tend to be more liberal in the UK than elsewhere in the EU. Much has been written about the re-emergence of the 'far-right' across Europe, from the Austrian Freedom Party to the Danish People's Party and more recently the success of the Portuguese Popular Party, the French National Front and the late Pim Fortuyn's List in the Netherlands. Less has been written about the growing hostility of the left towards immigration. Former German Chancellor Helmut Schmidt, for example, argues in his latest book, *Hand on Heart* that Germany invited in too many immigrants after 1945. He said, *"We Germans are incapable of assimilating all seven million foreigners. The Germans do not want this. They are to a large extent xenophobic."* When the grand old man of European social democracy expresses such views, it suggests that British politicians, like their electorate, tend to be more liberal than most. This could explain why Britain is the only EU country, along with the Netherlands, to have passed the race relations legislation required by the Amsterdam Treaty.

Is there any concrete evidence to suggest that a harmonising our asylum policy would make it less liberal? Yes. Following the

Figure 4: Attitudes towards asylum seekers across member states, 2000[12]
"They (asylum seekers) are more often involved in criminality than the average"



Laeken summit last December, Commission President Romano Prodi said that it was an *"open question"* as to whether the Commission's new proposals for a common asylum policy would live up to the United Nation's Refugee Convention. The Convention – to which all mainstream parties in the UK are committed – ensures that people in genuine fear of persecution are granted asylum. The conclusions of the summit called for a common asylum policy that *"ensures the right balance"* between the Convention on the one hand and the member states' reception capacity on the other. These statements suggest that genuine asylum seekers may not necessarily be guaranteed asylum in the EU and indicate what Britain could expect from a common asylum policy.

However strong the policy argument is against a common asylum policy, as we see with the argument against a single currency, the argument based on principle is much stronger. Even if harmonising our asylum system with those of other member states had a neutral effect, it would not be right to do so. At the end of the day it is a question of 'Who governs Britain?' Determining the right of asylum is as integral to a country's independence as the right to set taxes or wage war. Just as we fight against a single currency and a single army, we should fight against the common asylum policy.

The Alternative

Asylum is undoubtedly an issue that requires international co-operation. If an asylum seeker enters the EU in Italy, travels to France and crosses the Channel to the UK, the issue clearly requires international liaison. Cooperation does not, however, require harmonisation. The principle of the Dublin Convention can and has been enforced through bilateral treaties rather than greater harmonisation.

Figures have not been compiled for the number of asylum seekers who come to Britain directly from France, but it is estimated to be approximately 30,000 people each year.[13] *Figure 1* illustrates the clear disparity between the number of asylum applications made in France and the number made in the UK – 116,684 and 278,300 people respectively between 1999 and 2001. If we assume that the 30,000 people who entered the UK to claim asylum had claimed asylum in France instead, the figures would have been 206,684 applications in France to 188,300 in the UK – a large reduction on the previous disparity.

Would an agreement to return asylum seekers who have entered Britain from France be possible? Yes. In 1995 the Conservative Government negotiated a bilateral agreement with France (which is sometimes misleadingly referred to as the 'Gentleman's Agreement') to facilitate the return of asylum seekers who had travelled from one country to the other within 24 hours. When the treaty came into force, applications for asylum fell by 33%. After it was superseded by the Dublin Convention, applications increased by 41% (see Figure 3 for long term trend).[14] According to Kirkhope, the Home Officer minister responsible for implementing the bilateral, *"Scrapping the treaty caused Sangatte. The only solution is to renegotiate."*

The two commonly cited obstacles to renegotiating the bilateral agreement are whether it would be allowed under the Dublin Convention and whether the French Government would co-operate. Such bilateral agreements do not contravene the Convention. Both the Danish and German Governments are signatories to the Convention yet they have a similar bilateral which enables Denmark to return 18% of asylum seekers to Germany. Furthermore, illegal entrants into Germany and Spain from the Czech Republic and Morocco respectively are returned without the issue of asylum being raised because they are deemed to have come from a 'safe third country' and so the need for asylum does not arise.

As to whether France would cooperate in reinstating the elements of the bilateral relating to asylum seekers, it is a matter of diplomacy between the French and British Governments. First of all, in the two years in which the bilateral treaty operated, both sides had the option to withdraw at two months notice, but it was never exercised because it was a logical and sensible arrangement. Secondly, if the last Conservative Government was able to negotiate a bilateral treaty after 'relegating Britain to the sidelines in Europe', it should not be beyond the present Labour Government to renegotiate such a treaty since they have 'made Britain a major player in Europe.' Thirdly, reinstating the bilateral could actually benefit France: although the number of people seeking asylum in France would increase, they would not all congregate around Sangatte. As the Shadow Home Secretary Oliver Letwin MP said in the House of Commons, *"I accept that the process of negotiation is difficult. What I do not accept is the proposition that because it is difficult, we should give up."* [15]

European Home Affairs

The common asylum policy is just one facet of European integration in the field of Justice and Home Affairs. The on-

going development of Europol, the recent approval of a European Arrest Warrant and the proposal for a European Public Prosecutor are all components of European Home Affairs. When the European Standing Committee of the House of Commons discussed the Council directive on reception standards for asylum seekers, Humphrey Malins MP, the Conservative spokesman on asylum, commented: *"We should all scratch our heads at finding ourselves here on a very hot Monday afternoon to debate a directive to which non of us has contributed… It is an odd state of affairs when matters that are binding on this country are decided elsewhere whether we say that we like them today or not, especially when our own standards are pretty high. That is what I feel, given that I do not feel the need to decide what standards apply in other EU countries. Personally, I think that it is a matter for them."*[17] So would most members of the public but, unlike the single currency, they have yet to hear about the common asylum policy. Unless we are vigilant, the time will come when the European institutions are a better predictor of Home Office policy than the Queen's Speech.

[1] Population Data Unit, *Trends in Asylum Applications Lodged in Europe, North America, Australia and New Zealand, 2001*, UNHCR, 1 March 2002, table 5.

[2] Population Data Unit, *op.cit.*, table 1.

[3] *Revisiting the Dublin Convention*, Brussels: European Commission, SEC (2000) 522.

[4] Article 63 of the Consolidated Treaty establishing the European Community also includes the genesis of the single immigration policy. To avoid confusion, this commentary concentrates on the single asylum policy.

[5] European Council, *Presidency Conclusions – Seville, 21 and 22 June 2002*, page 10.

[6] Habib Rahman, *JCWI Bulletin*, Autumn/ Winter 2001, page 10.

[7] Brian Groom (17 Feb. 2002) 'UK open to adding rights charter to EU constitution', *Financial Times*.

[8] *Proposal for a Council directive laying down minimum standards on the reception of applicants for asylum in Member States*, COM (2001) 181 final, Brussels: European Commission, Article 13, paragraph 1.

[9] *Nationality, Immigration and Asylum Bill*, Bill 119, London: Stationary Office, part 2, section 30, paragraph 3.

[10] COM (2001) 181, *op.cit.*, article 12, para. 1.

[11] *Proposal for a Council directive laying down minimum standards on the reception of applicants for asylum in Member States*, CNS (2001) 0091, Brussels: European Council, Article 10, paragraph 1.

[12] SORA, *Attitudes towards minority groups in the European Union*, EUMC, March 2001, figure 17.

[13] Oliver Letwin (4 February 2002) *Hansard*, London: Stationary Office, column 606.

[14] Kate Sladen (4 February 2002) *Failure of HMG to negotiate a bilateral agreement with France on asylum seekers*, London: Parliamentary Resources Unit, page 5.

[15] Oliver Letwin, *op.cit.*, column 609.

[16] Kate Sladen (24 April 2002) *Nationality, Immigration and Asylum Bill*, London: Parliamentary Resources Unit, pages 6-7. UK figures refer to *cases* rather than *applications*. On average, there are 1.3 applicants per case.

[17] Humphrey Malins (17 June 2002) *Hansard*, European Standing Committee B, London: Stationary Office, columns 15-16.

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… news in brief

Big task for little country

Denmark has taken over the presidency of the European Council and faces a challenge in keeping the timetable for enlargement on track. The Danish prime minister says that even a little delay in the negotiations with the ten candidate countries (Poland, Hungary, the Czech Republic, Slovakia, the Baltic States, Malta, Cyprus and Slovenia) will lead to a very large delay. The negotiations are supposed to be concluded by the end of the year. If they slip into next year, attention will be focussed instead on the Convention (2004) and the Intergovernmental Conference to adopt it, while in 2005–2006, the whole EU budget is up for discussion. For the time being, the negotiations are stuck on the issue of farm subsidies. The Germans will not budge on their refusal to increase the size of the agricultural budget until after their elections on 22nd September. This means that the issue cannot be properly addressed until the first few weeks of November. The Poles have said that they will not be blackmailed into accepting half a loaf because of an artificially imposed deadline. The Polish Foreign Minister, Wlodzimierz Cimoszewicz, has said, *"If we are refused the normal conditions for negotiations, we will simply demand that they be prolonged. We reject the blackmail which consists in saying that the train is leaving at 7.10. If necessary it will leave at 7.30 and there will be no inconvenience."* Other obstacles in the way include the second Irish referendum on the Treaty of Nice: the Irish voted against it last June, so naturally, in a Europe committed to democracy, they have to vote again until they get the answer right. Even more intractable is the question of Cyprus. If Cyprus is admitted, there will be an open crisis with Turkey, which also wants to join and which occupies half of the island. This would in turn destroy Europe's attempts to create its own military force, something which Turkey can scupper as a member of Nato. According to the Danish prime minister, *"We have no plan B for Ireland,"* – i.e. the Irish must vote 'Yes' – *"but for Cyprus there is not even a plan A."* Finally, there is a disagreement with Russia over Kaliningrad. The Russians want visa-free transit for their citizens through territory which will by then be that of EU states. [Arnaud Leparmentier, *Le Monde*, 1st July 2002] However, Romano Prodi dropped a hint recently when he confided in a Danish journalist that a small delay in the enlargement negotiations *"would not be a catastrophe"*. This forced the spokesman of the Commission, Jonathan Faull, to say there was no contradiction between this privately expressed view and the official position that the deadlines would be met. [Laurent Zecchini, *Le Monde*, 28th June 2002]

Lepper expelled from Parliament

The leader of the "Self-Defence" party in Poland, Andrzej Lepper, harshly attacked Polish negotiations on EU membership on 17th June, pledging that he would do everything possible to prevent Poland's EU accession and saying that Self-Defence will persuade Poles not to vote for membership. In particular, Lepper blamed Polish negotiators for the fact that German Chancellor Gerhard Schröder recommended suspending talks on the fate of direct subsidies for farmers in future EU member states until after the German elections in the autumn. [*Frankfurter Allgemeine Zeitung*, 16th June 2002] Lepper announced a programme of nationwide anti-government protests, starting 25th June. The main form of protest to date has been the blockade, especially of trains importing dumped EU agricultural produce, especially grain, from which Lepper accuses government ministers of profiteering personally. [*Radio Free Europe Newsline*, 19th June 2002] The previous week, Lepper was expelled from the Polish parliament, the first time this has happened in history.

The 'Wise Men' of Europe

by Jacob Rees-Mogg

The opening paragraph of the terms of reference for the report of the committee chaired by Alexandre Lamfalussy reads: "*EU capital markets need to be dynamic, competitive and innovative.*" The committee is, with typical EU modesty, called the Committee of Wise Men. It is a wholly worthy aim; only old-style socialists do not want capital markets to be dynamic, competitive and innovative. So perhaps the behemoth of EU bureaucracy could provide something of use to the member states.

Lamfalussy set out three main advantages of 'financial integration'. First it would improve the allocation of capital, transaction costs would fall, liquidity would increase and savings would flow efficiently to investment. Second, competition would make intermediation better and boost economic cohesion. Third, it would strengthen the EU economy, resulting in it becoming a more attractive location for inward investment.

These aims would be achieved in a four-step process. This would not promote anything more than faster regulation, yet it is assumed that regulation will lead *ipso facto* to benefits. Directives would be the first element. They would be broad in order to allow regulations, the second part, to fill in the details. This process removes the tiresome necessity for democratic scrutiny by the Council or European Parliament. The latter is to be kept 'fully informed' and the Commission will deign to re-examine any proposal the European Parliament dislikes to "*take account of [its] position*".

Stage three concerns co-operation between regulators with the European Securities Regulators' Committee giving guidance and setting standards on issues not covered by detailed regulation. Level four is enforcement where the Commission is urged to be diligent and bold.

It is remarkable that two reports, running with their terms of references to 115 pages could be devoted to regulatory mechanisms before the details of the regulations are settled. It is indicative of the inherent inefficiency of European decision-making and of its lack of democratic authority that such a report is needed and that its essential recommendation is that the checks and balances need to be short-circuited. Perhaps from a bureaucrat's point of view this is understandable when the Takeover Directive failed to be passed after 12 years of argument.

Nonetheless, Lamfalussy does present some arguments supporting the need for this regulation. This opens the question of whether what will be done is going to be beneficial or achieve its lauded aims.

There is a pervading belief that uniformity benefits competition. In the interim report the Wise Men worry that, even with a new regulatory system, tax differences would continue to distort the market. (Noticeably one of the first reactions to attempts to harmonise pension fund regulation is a court action in the UK to declare some elements of the tax regime illegal.) The final report states that new regulations would discourage European savings from being diverted abroad and compliment the introduction of the euro

This misses the point. Regulation does not make markets more efficient by itself. Investment will not go to countries with inflexible labour markets and state directed industry because it would not make a decent return. In a competitive global marketplace each member state should be cutting regulation to attract funds not heaping Pelion upon Ossa. The idea that it is wrong for savings to be diverted abroad is an oddly mercantilist view and goes against the desire to improve pension fund returns by seeing investments made in the most attractive markets.

The Committee's priorities reinforce this appearance of uncommercialism. Its initial list, to be implemented by the end of 2003, is for six sets of action. It wants a single prospectus; modernisation of listing requirements; generalisation of the home country principle for wholesale markets; modernisation of investment rules for investment and pension funds; adoption of international accounting standards and a single passport for recognised stock markets. Only one of these – the extension of the home country principle – makes markets more flexible, the rest is bureaucratic flim-flam.

The Committee seeks uniformity for its own sake and maintains that it can achieve growth this way. It will not. It will make many areas less flexible and harder for ordinary investors or smaller companies to access. It will enrich lawyers and push business offshore. It also assumes investors are stupid. It may be that private investors need protection from themselves, although this is often exaggerated. However, the buyers of stock at IPO are usually sophisticated professionals who can read a prospectus. Likewise they know the questions to ask of different accounting standards, of which there is no Holy Grail as Enron and Polly Peck show.

What the Committee ought to have set out was a system of cross recognition so that business could be regulated by any member state but sold throughout the Common Market. This would lead to competitive deregulation and could boost the capital markets. The current plan, which is a level, but waterlogged playing field is no use to anyone.

Jacob Rees-Mogg is a director of Lloyd George Management, an international investment management company.

… news in brief

Berlusconi concludes agreement with unions

While the left-wing media is always announcing the imminent end of the Berlusconi government, the Italian prime minister has just pulled off an important victory by presiding over the signature of a social agreement between Confindustria, the Italian industrial organisation, and the unions. In doing so, Berlusconi divided the union. The main left-wing union has boycotted the accord while the others have signed it. The latter represent some 6 million workers; the former 5.5 million. The government has thus marginalized the main opponent to its policy of liberalisation. Essentially, the agreement is to make the Italian labour market more flexible and to reduce taxes. In return, the government has undertaken not to cut social security payments for 2003, and also to cut taxes for the least well-off. There are also one or two political promises, such as to limit its plan to amend Article 18, the main article in the Italian legal code which prevents workers from being sacked. It was in defence of this Article 18 that 3 million people demonstrated in the streets of Rome on 23rd March. [Danielle Rouard, *Le Monde*, 9 July 2002]

Britain's Youth Leads in Anti-EU Sentiment

by Caroline Haubold

What exactly converts someone into a pro-EU patriot? Conversely, what turns someone doggedly against anything branded 'European'? It often seems that differences of opinion on the subject defy demographic distinction, including party lines, class and income barriers. In fact, a MORI's poll analysis last year suggested that EU supporters and detractors were *"fairly evenly distributed through all groups and classes of the population"*.

Can it be said, then, that the British population resists classification of any kind with regards to Europe? While it is very possible that the above factors do not directly influence our attitudes towards Europe, there is another feature that does appear to have a pronounced effect on public opinion: age. A recent poll by FX Currency Services showed a marked difference in attitudes towards the euro as expressed by different generational groups.

The young continue to be one of the two groups in Britain most steadfastly opposed to the euro

This may come as little surprise; after all it is well known that with age and wisdom frequently come cynicism and resistance to change. This does not necessarily mean that with youth comes the unbounded pursuit of all things new and unknown; it is often quite to the contrary. In a speech to the European Atlantic Group in November 2000, former Chancellor Lord Owen stated that Tony Blair, in his attempts to secure a euro-referendum, would face his greatest challenge from the under-25 year olds. The FX poll made clear that keeping the pound remains most important to 16–24 year-olds, with 62% rejecting the euro, while the average of all age groups was only 57%. The young continue to be one of the two groups in Britain most steadfastly opposed to the euro, the other being the over-55s.

Further, the youngest generation also maintains hostility towards more fundamental aspects of European integration. A MORI-Time poll in March 2001 surveyed the *"European Leaders of Tomorrow"*; finding that while two in five Italians aged 21–35 considered themselves European first, 75% of Brits in the same age group saw themselves as British above all. Not only were young Britons more uncomfortable with European identity than any other European nationality, they were also one of the most sceptical groups within Britain itself. An ICM poll that same year showed that only 66% of all Brits over 21 saw themselves as British over European. This lower figure shows that the older respondents skew the poll.

Why does this happen? Do we detect that grim beast of Sweeping Generalisation marching with ill-deserved confidence in the direction of this article? Yes, though not with entirely faulty motives.

For the life span of these young Britons, the UK has been a very prosperous nation, flourishing steadily since the 1980s. Throughout this time, Britain has sat happily combined both its global position and its influence in Europe. Further integration may promise marginal benefits, such as a limited say in the affairs of a potentially united economic bloc, but whether it can promise to maintain the unusual success story of the British economy, at a time when continental economies face double-digit unemployment figures and teeter alarmingly on the verge of recession, is unknown. In other words, if it ain't broke, why fix it?

In addition, this generation has only ever known a Britain both fiscally and governmentally distinct from its continental neighbours. The socialist tax-and-spend policy, that caused havoc in the UK during the late seventies, has found far more favour with the UK's continental rivals. Such a programme has never achieved the same success in Britain and does not inspire the British youth. EU policies have, over the decades, adapted to suit the more left-wing agendas of its core members, such as France, Germany and Italy. This has meant that Britain has found much of the EU's legislation, in areas such as the environment, taxation and education, to be largely incompatible with its desire for low, American-style taxes. The nanny-state is no longer fashionable among British voters. It is evident from such differences in policy that Britain's 'special relationship' with the United States extends well beyond mere diplomacy – economically and culturally the two have much more in common than Britain has with any of its European neighbours.

Interestingly, a poll conducted by MORI before the last general election asked young Britons under 30 for their personal reactions to various national and supra-national symbols. Surprisingly, while 83% identified strongly with the Union Jack, only 21% claimed they identified with the yellow stars of the European Union flag, while 23% felt they had something in common with the stars and stripes of the American flag. To the well-travelled, educated youths, who are concerned about the European Union, ideological proximity to the US is highly visible. Britain is not only geographically separate from Europe; it is also socially separate. The echo of empire and glory persists even today in the minds of some of the most amusingly self-assured young people on the planet. Britain is the Classical Greece to America's Roman Empire, as Europe still flounders to find its role. To many members of this young generation, there is nothing wrong with remaining a member of the EU, but further integration, such as the adoption of the euro or a federal Europe, would be a bitter pill to swallow.

Britain is not only geographically separate from Europe; it is also socially separate

Meanwhile, a considerable portion of the middle generation, those aged between 35 and 55, have a view the UK's relationship with the EU that is far removed from the one of most younger Britons. This generation includes the group that the FX poll found most in favour of adopting the euro, the 45–54 year olds. Nearly 30% of this particular age group wanted to abandon sterling, while the same poll found that only 21% of the population in total wished to scrap the pound. This intermediate generation remembers when Britain was the 'poor man of Europe', eager to ride into the EEC on the coat-tails of German and French success, and only granted this honour as recently as 1973. Yet despite the fact that the UK now experiences a more

stable economy, with much lower unemployment figures than France and Germany, a life-long feeling of inferiority has not entirely left this generation. Additionally, the past 50 years have witnessed prosperity and, above all, peace throughout Western Europe. In the minds of this age group the Continent is heading for a critical state of integration that should preclude any spectre of war. In the eyes of many members of this generation, economic and political union is simply the next logical step for a system that has proven itself as a safeguard against hostility in Europe. Just as communism was once seen as a safeguard against the 'tyranny' of capitalism and monarchy; Nazism was briefly perceived as a safeguard against the 'tyranny' of communism; so increased European integration has been lauded as a safeguard against the 'tyranny' of extremism. Up until the recent resurgence of support for extreme-right parties in Italy, Austria, France and the Netherlands, it appeared to be working. Perhaps it still will. "*Why not give the EU that chance?*" ask the pro-integration members of this generation. Liberal Democrat leader Charles Kennedy asserted this idea most succinctly in a December 2000 speech to the Chamber of Commerce; "*Having, most of us, grown up in the last fifty years it is perhaps easy to underestimate the degree to which the European Union has been the cause and the guarantor of peace; the longest continual period of peace in Western Europe since Roman times. Membership of the European Union also gives Britain more power and influence than if we were a nation alone.*"

Kennedy made an excellent point about "*underestimating*" the effect of the EU; prior to 1992 the European Community was little more than a glorified free trade area, a kind of NAFTA with knobs on and a common exchange rate. What kind of threat could such an organisation have posed to the people of Europe? In fact, how powerful was it at all?

Many of those old enough to remember the referendum to remain in the Common Market, thought it was a vote on just that. Many still believe that is more or less what it is; a free trade area. To this group joining the euro is merely a sensible part of economic integration: they are blind to the grievous political implications. Small hope if anyone on either side of this middle generation tries to convince those in favour of European integration otherwise, for mistrust of the younger and older generations abounds within this group, of the former for lacking experience, and of the latter for being 'past it'.

Meanwhile, the over-55s, much like the under-35s, continue to believe British involvement in Continental affairs is a threat to this country. Inherent distrust of the Germans has persisted up to this day: the idea that European integration may lead to the rise of a 'Fourth Reich', under the glaring eyeball of an all-too-powerful Germany, is not such a far-fetched notion to many members of this generation. Europe's politics and economics are driven by the Franco–German engine, which has the ability to make or break proposed legislation under the terms of qualified and double majority voting. The 55+ generation can remember the after-effects of the Second World War, at least, with most remembering the devastation of the war itself. They have little reason, based in part on the EU's initial rejection of Britain's application in 1963, to believe that the 'German-driven' EU has only benign intentions towards Britain. "*Why should this country submit herself to the political influence of a self-serving economic rival when not long ago we ruled the waves and a great deal of the world?*" they ask. The war was not fought in order that, less than 60 years on, Britain might surrender her sovereignty to an untrustworthy and meddlesome bureaucracy based in a foreign country. The former Labour cabinet minister Tony Benn believed that any further integration "*would convert the parliaments of Britain and the other European Union countries into a mixture of regional assemblies and glorified local authorities, all of which would be subject to a central authority. In this Superstate the real power would be in the hands of the appointed and unelected President of the Commission. He in turn would then have the right to appoint the other unelected Commissioners to form his Cabinet.*" This nightmare scenario would not bode well for the independent-minded Britain, well aware of her global position as the fourth biggest economy. Our continental rivals may have only the best intentions in endorsing European integration but then again, isn't the road to hell paved with good intentions? Times may have changed; memory persists.

It is for this reason that so many of Britain's older population disapprove of increased involvement with the European Union. Britain was, and in many ways still is, a world power with little place in a supranational state, particularly one as artificial and intrinsically 'flawed' as the EU. In her recently published book *Statecraft*, Margaret Thatcher unleashed a scathing condemnation of the development of the Union, which she saw as lacking the "*common language, culture and values*" that allowed the United States to evolve over centuries into the federation it is today. "*By contrast,*" she states, "'*Europe' is the result of* plans. *It is, in fact, a classic utopian project, a monument to the vanity of intellectuals, a programme whose inevitable destiny is failure: only the scale of the final damage is in doubt.*"

What, then, are the implications of the statistical findings? The recent collapse of socialist values and a resurgence of mainstream patriotism among the youth of Britain may suggest a looming change in public attitudes, not only towards further European integration but also to the world. As the baby boomers retire and the next generation takes the helm, it is very possible we may see a return to the Churchillian vision of a Britain "*with Europe but not of it*". Then again, the practicalities of avoiding what many people consider the 'inevitable coming of the euro', or the difficulties entailed in a complete withdrawal from the EU, may limit this generations' ability to be fully-fledged sceptics.

The next generation are the next leaders; the decision-makers of tomorrow are the teenagers of today

The next generation are the next leaders; the decision-makers of tomorrow are the teenagers of today. Their views are as important as those of their guardians. One of the greatest dangers of the euro and the federalist argument is that it is completely irreversible. The middle-aged have an obligation to leave their heirs with as many choices as possible. Forcing them into the child-locked vehicle of EU integration as it rockets downhill, with no brakes and no reverse, leaves only one option: to wait for the crash.

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Regions and Reason

by Austin Mitchell, MP

It is as foolish to appease the enemy as it is to persecute the friend who pursues the same end as you by a different road.

Arthur Koestler

Since being elected to parliament in 1977, Austin Mitchell has consistently opposed further entaglement of the UK within the EU, even when this has made him unpopular with other members of the Labour Party. Now, it seems, two of his traits have him in trouble again: he forms his own opinions and he frequently says what he thinks.

It is particularly sad that the Campaign for an Independent Britain should have become the unfortunate host to a squabble. It is the oldest all-party eurosceptic organisation, originally being established to oppose entry in the days when the Common Market was promoted as the cure for all Britain's ills. This article explains the issue that led to contention between Austin Mitchell and a number of CIB members.

Regionalism is an issue whose time has come to address. In England however, that should be said with the usual proviso which applies to a conservative country where change is often slow and too little, too late. John Prescott's *White Paper on Regional Assemblies* makes that absolutely clear. It holds out the possibility of elected assemblies in each of the eight English regions but proposes to give them minimal powers. They would be given even less power than the Welsh Assembly, which has far less than Scotland and, unlike it, no legislative powers at all.

To cap this, the Government will then add the stiff safety catch of a referendum majority preceded by a review of local government to prepare the way for the abolition of remaining counties in the area concerned. Only after both hurdles are cleared can elective regional institutions be won.

This will make regionalism an uphill fight, which stands little chance in the South, where regional feeling is weak. Even even in the North where it is stronger, regionalism will have to await the Ides of Prescott. These will not come before the next election. The North East, where regional feeling is strongest and the campaign is furthest advanced, will probably vote first and before the election. This is the only region in which, at present, a referendum is likely to be carried, but the Assembly will not come until after the 2005 election.

It looks as though Whitehall does not want to surrender powers, at the same time government is suffering from devolution exhaustion; the *White Paper* is a disappointing outcome of a long and slow process. The Kilbrandon Commission on the Constitution in 1971 looked to regional institutions because Scottish nationalism had threatened Labour in the late sixties. Nothing was done about the English regions and the failure of the referenda in Scotland and Wales killed the process. It went back into the fridge until the next Labour government put devolution in its manifesto in 1997 and carried both referenda and devolution for Scotland, and much more narrowly for Wales.

Devolved assemblies and governments are now working well. Yet this has unbalanced the Constitution; different powers apply in different areas and the English question has been left unresolved.

What Labour did was further administrative devolution by introducing regional development agencies each with its own advisory chamber. It has also strengthened the Regional Office, which combines all the functions of central government in the area. Gradually regional administration is emerging but in a form largely unaccountable to the regions in which it operates. Some areas, like Yorkshire and the North East, already set up regional assemblies of delegates from the various local authorities but these only have a co-ordinating function and no power over the new regional institutions.

Nor was there anything they or the new institutions could do to remedy the inequalities opening up. With democratic synergy and more money Scotland became a stronger competitor for development. Fishermen and students in the North East saw that their counterparts across the border were receiving a better deal. Regions with worse problems than Scotland have found themselves with less money. Yorkshire receives £1,400 per head less in public spending a year than Scotland. All this has become a festering grievance as well as a boost to regionalism.

Former Democratic House Leader in the US Congress, Tip O'Neill, once said that all politics is local, this is a generalisation less true in this country than any other. London, also known as Cobbett's 'Great Wen', is so disproportionately huge and powerful that it swamps everything. The decline of manufacturing and the rise of the finance and the service economy shifted focus from Manchester, Birmingham and Glasgow. These great cities once had a political and economic world of their own, rivalling that of London. Increasingly London has taken control over local government. The Capital has drained the life out of the rest of the country with both the media and careers focussing there. England has been collapsing in on London in a very unhealthy way.

Local government, dependent on London decisions and ever more tightly controlled, can do less and less on its own. Regional government is the only available counterweight to the strength of the centre. It can be said that if politics has become more national, life has become more regional. Regional centres like Meadowhall, Trafford Park and the Metro Centre dominate shopping, attract regional football support, provide local broadcasts from ITV and the BBC, have flourishing regional arts and culture, and are connected by newly built motorways. They build on a regional feeling that is particularly strong in the North, where Geordies and Yorkshire Tykes retain an identity of their own.

So how do we react to devolution to Scotland and Wales? An English Parliament would clearly be far too large, quite like an elephant in the cuckoo's nest. It would increase the dominance of London on the rest of the English. However, regional governments, particularly in those regions with a strong identity, a feeling of difference and population numbers comparable to those of Scotland or Wales, provide a natural alternative. They also have the opportunity

to make the new regional institutions, which are already there, democratically accountable. A new layer of accountability in a country which has a mere 659 legislators for a population of 55 million, compared to the much greater number in federal systems like Australia, the US or Germany, is needed; therefore, this would not be another layer of bureaucracy. If we are to pass power down to the people, and relieve the pressure choking the centre we must have new and effective units to operate it.

Regionalism is a world trend: we gave it to Germany in the Länder, it has worked well; France has opted for it and so has Italy. Britain is belatedly following the trend, albeit very gingerly. No one can pretend that there is strong demand for regions outside the North, though polls do indicate a majority support. Regional feeling has been growing in the West Midlands and in the South West, where Cornwall is looking at it on a go-it-alone basis.

It is far from a done deal. A referenda majority will be difficult to win because the powers and proposals offered have to excite people and make them feel that the new units will do something to change and improve their lives. Few see what we are being offered now as accomplishing this. It is the first step on the regional road. The Welsh Referendum only carried 7,000 votes because no one felt that the new devolved government would be able to do much. Prescott's regions will be handicapped by even greater weakness.

Yet we have to begin somewhere. The best prospect is to move to regionalism on a patchwork basis, with the Prescott system as a beginning, and regions developing on in a variable-geometry fashion taking the powers they want as Spain did.

It is hard to see this slow, inadequate beast, held on a tight referendum leash, as a fearsome monster. Yet it is dismaying to find that regional government, which I have advocated since Richard Wainwright in the early seventies, has evoked shock, horror, hate and opposition among many eurosceptics. They see it as a European plot, however it is not; we need regionalism in or out of the EU. It is a necessary response to British problems and an extension of British democracy. They fear it as a European encroachment, which is also not true. Although the EU likes regions they want undemocratic administrative structures. Devolution is a democratic advance accountable not to the EU but to the people of the region.

It is seen as splitting Britain, a European divide and rule plot. However, it will make British democracy more effective and efficient, giving it stronger roots. By bringing government power closer to the people it will give them a vested interest in keeping and extending the powers they get, rather than seeing any of them transferred to the unaccountable monster across the Channel. Anything that strengthens British democracy weakens Europe. Anything that gives power to our people denies it to Brussels.

These eurosceptic arguments against devolution are wrong and divisive. For the last few months too much time on the Campaign for an Independent Britain has been wasted by irrelevant arguments about devolution. Demands have been made that I, Vice Chairman, be chucked out, castrated or hung, drawn and quartered for supporting regionalism – evidently an unlawful activity for eurosceptics.

The arguments are sectarian, the traditional resort of the impotent that prefer purging and purifying any movement in which they are involved to fighting the real battle. Such sectarianism has weakened both Right and, more particularly, Left Wing political organisations in the past. It is now a threat to the eurosceptic movement.

So having long resisted Labour demands that I should withdraw from the organisation and much as I hate giving any kind of victory to irresponsible splitters because their condition is psychological not rational, I have reluctantly decided to pull out of the Campaign for an Independent Britain so as not to waste its, or my, time on an argument so disruptive and irrelevant to the main issue. Regionalism is an important topic that should be addressed separate from any debate or argument concerning the EU.

Eurosceptics should not be arguing among themselves about irrelevancies. They should be getting ready for the coming fight against the euro. We can only win that fight if we are united and if we keep focussed on the main issue, rather than purifying ourselves to the point that only those prepared to take an oath against anything the European Union wants or does can join.

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… news in brief

Polish finance minister resigns

Poland's membership of the European Union is becoming an increasingly explosive topic in Polish politics. (See previous *Digests*, passim.) The finance minister, Marek Belka, resigned on 2nd July after disagreeing with the prime minister Leszek Miller and other ministers over the EU's demand that a bill restricting the independence of the central bank be scrapped. There were also disagreements about the size of the budget deficit. The minister and his ally, the governor of the Central Bank, are hardline pro-Europeans who want to do everything the EU tells them. The government is extremely pro-EU as well but apparently not enough for some people's liking. The resignation comes at a time when the post-communist government of Poland, elected last September, is rapidly losing public support, not least because EU and US-backed "reform" policies have driven the economy further and further into disarray. It also came in the same week that the agriculture minister demanded to be put in control of the negotiations with the EU over agriculture, and threatened to resign if his demand was not met. [Michel Gara, *Le Monde*, 5th July 2002]

Translation costs in the New Europe

The question of which languages to use in an enlarged EU, where there will be 21 languages, has still not been decided. 21 languages means 420 combinations of languages to be interpreted. The Commission and its various agencies will have to employ a further 400 interpreters, in addition to the 3,500 they already have in their translation service (budget: 95 million euros per year). Translation costs between 21 languages would cost 521 million euros a year for the European Parliament. In 2001, the Commission suggested that the use of English should be promoted, an idea which was immediately gunned down by the French and the Germans, whose languages are also used as working languages in the EU. This is in spite of the fact that 208 million Europeans say they speak English as a first, second or third language. French is second with 127 million speakers; German third with 118 million; Italian 65 million, Spaniah 56 million and Dutch 24 million. If English became the only working language of the EU, then at least 45% of Europeans would not understand any of its documents. The figure rises to 65% for countries like Portugal. [Jean-Pierre Stroobants, *Le Monde*, 2nd July 2002]

Mr Blair, it could be a Crown of Thorns, Not Laurels!

by David Buik

Hindsight is not only the greatest trader in the world; it is also the most perceptive politician known to man. Was it poor judgement on the part of William Hague, when formulating Tory policy prior to the 2001 General Election, that he chose to hang his baseball cap so forcefully on the pegs of 'Save the Pound' and 'immigration' or was it just unfortunate timing?

Last May, according to NOP only about 6% of the voters felt that Europe was an election issue. The economy, and in particular voters' ability to accumulate sufficient income to spend with gay abandon was the only major issue on the agenda. Even health, education and transport sadly paled into insignificance.

In recent years Europe has been moving very strongly to the 'right' politically along with Spain, Austria, Italy, Portugal, Holland and more recently France making very powerful statements on a number of subjects and who can blame them? Germany is likely to do the same thing in November, when Herr Schröder faces the possibility of being ignominiously ejected from office. This would leave Tony Blair rather isolated, in terms of political soul-mates.

The ability of a united Europe to satisfy the needs of all its constituent members, whose economic, cultural and sovereign needs are in many cases diametrically opposed, is inconsequential. Double-digit unemployment in many cases, immigration escalation and taxation have resulted in these respective electorates, not so much creating ripples of protest by throwing a political pebble in the water, but more like hurling a bolder to create seismic waves of rejection and contempt.

History tells us that bookmakers' antennae are never a million miles away from reflecting the moods of political opinion

Agreed M. Le Pen is not the answer to our problems, but if the truth were told, if given a chance to reconsider, most of the countries would place an emphatic 'No' to European Union and the single currency.

You might well ask what the spread betting fraternity brings to the political forum. History tells us that bookmakers' antennae are never a million miles away from reflecting the moods of political opinion. We recently created a market suggesting a spread of 51.5-52.5% 'Yes' vote to referendum. There was, of course, a very important caveat. Unless Blair feels he can win a referendum, there is not a chance of one being called. Our clients agree with our prognosis. It is a great pity that over the years the issue of European Union and the single currency has become political. It is cultural and economic with sovereignty being of pre-requisite importance.

There is little Europe can bring to our economic party apart from some lessons on health and transport, which this government is possibly too stubborn to consider and possibly adopt. The UK can still continue to trade positively without membership. The unqualified and tumultuous success of the Jubilee and England's continued support and progress in the World Cup is likely to create cumuli nimbus clouds of wholesale resistance to Blair's relentless quest for membership.

Let's face the British love being British and the same applies to most other members of the EMU.

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… news in brief

Suggestions for presidency reform worry small countries

Small countries have expressed their hostility to the suggestion by Jacques Chirac and Tony Blair that there should be an elected European president. The idea is that they should be chosen by the European Council and should be a former head of state or government of one of the member states. Many people suspect Mr Blair of wanting this job for himself. But the plan is being rejected by smaller countries, who see it as a way of consolidating the hegemony of bigger member states. Both the Finnish and Austrian heads of government have now said that what they want is for the President of the European Commission to be elected by the European Parliament. In place of the proposed European President (i.e. elected by the Council) the Finns and the Austrians propose a 'presidential team' within the Council, composed of representatives from states of different sizes. Denmark, which assumed the presidency of the Council on 1 July 2002, also supports this approach. Anders Fogh Rasmussen, the Danish premier, told the *Financial Times* that he does not want to see an elected President of the Council.. The Benelux countries, meanwhile issued a paper during the Seville summit saying they thought an elected President of the Council would reinforce the power of big countries. They also said they did not want to upset the present balance between the different institutions of the EU, whereas the current Franco-British proposal would tend to reinforce the inter-governmental institution, the Council. Germany is officially on the "federalist" side of the argument – i.e. she supports the position of the smaller countries – but Chancellor Schröder has made no secret of the fact that he personally supports the Blair-Chirac proposal. He made it clear to the French president that his official pronouncements on institutional reform do not reflect his own personal thinking on the matter. [Daniel Vernet, *Le Monde*, 5 July 2002]

Commission proposes CAP reform

On 10 July 2002, the Commission presented its proposal for reforming the CAP, which consumes more than 40% of the European Union's budget. The proposals go far beyond the tinkering at the edges that was expected. The main proposal is that subsidy be disconnected from production. Franz Fischler, the agriculture commissar, wants to carry through the principle established in 1992, when production was cut in return for direct aids (e.g. for set-aside). Henceforth, according to the proposal, farmers would receive direct aid and then produce whatever they liked, according to the market. For the time being, the proposal is to introduce this for beef and cereals but it could also in the future be extended to milk, olive oil and sugar. France is opposing the plan. The French EU commissar for regional policy, Michel Barnier, is afraid that this reform is simply a way of cutting the overall amount of money spent on agricultural subsidy. [Arnaud Leparmentier, *Le Monde*, 9 July 2002]

The Position of Italy in the European Convention

by Roberto de Mattei

The Convention on the future of Europe, which opened in Brussels on 28 February 2002, offers an opportunity to open the political and institutional debate on Europe, which for various reasons, has been lacking up to now.

Until recently, the European Union has been presented to public opinion as an economic project with no political implications. It was said that the purpose was to create a single market with free movement of labour, capital, goods and services. The ceding of sovereignty to the Central Bank in Frankfurt was not supposed to have any effect on the political sovereignty of member states, as eurosceptics claimed.

In reality, behind the difficult compromises reached at the time of the Single European Act in 1986 and at Maastricht in 1992, diverse projects converged around a common political project: that of overcoming the nation state and of moving towards a new type of 'global democracy'. This phase of European construction, which we can call 'euro-socialist', developed in the ten years between the fall of the Berlin Wall and the Kosovo war. It culminated in the introduction of the euro.

With the single currency, an economic Europe was created. But this forced the euro-socialists to confront the discussion about a political Europe, in particular about the need to be able to make decisions to correct the market and to regulate redistribution. As the international horizon changed, with power shifting to centre-right governments all over Europe, the compromise broke down between the two main forces of euro-socialism: the functionalists, who, following the method of Jean Monnet, aimed to absorb politics into economics; and the federalists who, following the teaching of Altiero Spinelli, thought the time was right to reaffirm the primacy of the political over the economic.

The German Foreign Minister, Joschka Fischer, announced this new era in a speech given on 12 May 2000 at the University of Berlin. Fischer, who has already said that the method of *"taking little steps"* – i.e. the Monnet method – was no longer adequate for the purpose of achieving the goal of political union after the introduction of the euro, expressed his determination to pass *"from an alliance between states to complete parliamentarisation within a European federation."* He added that this federalisation *"should be founded by a constitutional treaty."*

In a speech to the Bundestag in Berlin on 27 June 2000, the French president Jacques Chirac in his turn said that he was in favour of *"the institutional re-foundation of Europe,"* which was to lead to the adoption of a European constitution ratified by the peoples of Europe in a referendum.

Only those powers should be transferred to the EU which cannot be adequately exercised at the national level

In Germany again, on 6 July 2000, the president of the Italian Republic, Carlo Azeglio Ciampi said that the process of European construction had reached *"a decisive turning point"* and that what was needed was *"a process of constitutionalisation"* which would re-define the institutional architecture of Europe. He added that this would give the Union new *"values"* apart from simply monetary ones by defining Europe's political-cultural identity in a Charter of Rights which would constitute the preamble to the new constitution.

Whatever one thinks of these projects it is undeniable that they have the merit of opening a debate and of bringing clarity to where people stand, after 15 years of ambiguity and dissembling.

During the first meeting of the Convention, the Italian government, through its representative Gianfranco Fini, was able to clarify its own position on a key question: the role of the nation states and of their institutions, i.e. of national governments, parliaments and legal systems, within the EU.

For the Italian government, nation states should be the cornerstone of the Union and the principle of subsidiarity could be the key to regulating the relationship between European and national institutions.

The desire to centralise everything in Brussels will have dangerous consequences for the EU. Nation states are therefore the natural constitutive element of a system in which powers are delegated from below to above. They should constitute the centre of gravity of the delicate balance of powers and responsibilities between the regions and the European institutions.

The present dynamic of the treaties is a one way street. It provides only for the flow of powers from the states to the centre, without any possibility of powers being devolved in the other direction. This principle is contained in the doctrine of the *"acquis communautaire"*.

In place of this, we need to create a two way system, which would allow for powers to be repatriated to member states if collective action has shown itself inadequate, or if action by individual member states can be more effective. Only those powers should be transferred to the EU, which cannot be adequately exercised at the national level.

The principle of subsidiarity is the guide to understanding which powers can be delegated by states to the Union, which powers should remain the prerogative of member states, and even which EU powers might even be restored to member states. The principle of subsidiarity requires that powers start at the bottom and go up, not that powers enjoyed by nation states should be regarded as 'inferior' to those of the EU. To be precise: the principle is that the higher level should do only that which the lower level cannot do. It is not that the 'inferior' level gets to do what the 'superior' level cannot do.

The principle of subsidiarity attributes to member states the totality of sovereignty. It delegates to the Union the exercise of necessary competences and it fulfils those objectives, which the member states cannot adequately achieve on their own. It is important to emphasise the difference between sovereignty and competences. Competences are not sovereign powers but delegated powers, exercised solely for expressly provided purposes. Competences can therefore never be 'exclusive' or 'irreversible' and their transfer must not be

defined as 'once and for all' without any possibility of return.

This means that competences can pass from member states to the Union but they can also return from the Union to member states when necessary. The determination of competences must therefore be undertaken with this clear vision of subsidiarity in mind, on which there is a broad consensus in the Convention. If ultimate or supreme power were to be attributed to the Union, the EU would be no different from a unitary state or from a classical federal state. But the EU must by no means resemble a 'superstate' or even a state in the classic sense.

Instead, the model should be that of a union of sovereign states who, in well-defined areas, exercise their part sovereignty together. The powers of the Union, which derive from the conjoined exercise of national sovereignties, must however always be redefined in both directions. In other words, just as the EU can receive new powers if states decide to give them to it, so member states must be able to decide to repatriate powers to the national level.

From this perspective, European integration must be limited to those areas in which the action of the EU can achieve better results than individual member states, such as security policy and immigration, the fight against organised crime, the environment and so on. The same holds true, however, for other areas like public services and domestic policy, where powers should remain at the national level.

The logic of subsidiarity provides for the right of secession as a last resort for the protection of a state that finds itself isolated in the EU. There should be no penal measures foreseen in such circumstances. 'Opting-out' should also be permitted so that states can derogate from particular activities while remaining members of the EU.

However, it is important to decide who controls subsidiarity, in order to avoid the principle becoming a simple flatus vocus, as has been the case up to now. The Italian government holds that the right of control belongs to national parliaments, in keeping with the basic principles of modern democracy, according to which the source of sovereignty resides in the people, which expresses itself through the parliaments and governments of the respective member states.

In theory, national parliaments still enjoy a primacy of decision-making because it is on them that the ratification of European treaties depends. *De facto,* however, national parliaments are being increasingly marginalised, because with the extension of EU powers the principal forum for legislative discussion has been transferred to Brussels. National parliaments are even excluded from the flow of information, which is necessary for them to be inserted into the democratic debate.

The role of the ECJ should therefore be limited to those matters that relate to the internal market and to the administrative norms that are connected with it

The problem, however, is not how to give national parliaments a greater cognitive role but instead how to bring them into the decision-making process.

Two solutions are currently being proposed in the European Convention.

• The first is to create a Chamber of national parliaments, composed of an equal number of national parliamentarians from each state and enjoying a parallel role to that of the European Parliament.

• The second is to involve the national parliaments more closely in the legislative process. This already happens in the United Kingdom Parliament where there are committees in both the House of Lords and the House of Commons who should exercise control over the decisions of ministers, and in Denmark where ministers are required to present their positions and receive the approval of the parliamentary committee before attending meetings of the EU Council of Ministers.

The Italian government has tended to support the latter position. It has expressed support for a scrutiny role for national parliaments over the principle of subsidiarity, through procedural mechanisms that would give national parliaments real powers of influence over the decision-making process of the EU.

Besides this *ex ante* control over subsidiarity, it is also necessary to ensure an ultimate level of *ex post* control that should be given to a supreme guarantor body. Some wish to see the European Court of Justice (ECJ) take this role, for they designate it as the interpreter and the *"custodian"* of a future European constitution. However, it is clear that it would be risky to allow a single institution, such as the ECJ, to develop general competence over all questions relating to the interpretations of the treaties.

The ECJ, as an organ of the EU, is *parti pris* and therefore cannot constitute and authentic guarantor of the equilibrium between the Union and the member states. Its rulings are inevitably going to favour an extension of the powers of the EU to the detriment of the of the member states.

The role of the ECJ should therefore be limited to those matters that relate to the internal market and to the administrative norms that are connected with it. It might enjoy a role of judicial review of the acts of the Council and the Commission, but for any decision relating to the powers of the member states, member states should be able to appeal to a EU Court of Appeal.

It would therefore be opportune to create a new judicial organ composed of senior judges from the individual member states (chosen, for instance, from national constitutional courts) whose role would be to resolve cases of overlapping competences and to rule on all disputes about the powers of the Union with respect to member states. This means that any ruling by the ECJ could also be submitted to the EU's Court of Appeal.

Will these propositions be successful, and in what way? Whatever the outcome, it is important that they have been made and that, whatever the destiny of the Convention, a real debate on the future of Europe has been opened. At least this will put an end to the euro-Utopianism, which has been dominant to this point.

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BRUSSELSBOURGER

Cookies and Spam

Question: When does the word 'protect' actually mean 'compromise'? Answer: When it is used in a European Council Directive entitled *"the protection of privacy in the electronic communications sector"*. The Directive is part of a package to make the European Union the world's most high-technology economy by 2010. The original proposals purported to protect privacy by legislating against 'cookies' (the technology to track internet usage) and 'spam' (unsolicited commercial e-mail). A Council amendment following 11 September 2001 threatened to compromise privacy by allowing the police to access private telephone records, to monitor the websites visited and to track movements by tracing private mobile telephone signals. After the European Parliament and the Justice and Home Affairs Committee rejected the amendment, the Council, led by the British Government, threatened to implement the proposal via a 'Framework Decision', thus over-riding the need for Parliamentary approval (*Statewatch News Online*, 9 May 2002). The Parliament gave in and accepted an amendment to lift data privacy *"during a limited period"* to conduct criminal investigations or safeguard national or public interest when it is a *"necessary, appropriate and proportionate measure within a democratic society"*. This leaves the EU with a Directive on *"the protection of privacy"* that compromises rather than protects privacy.

Independent Federalists

The federalist voice on the European Convention on the Future of Europe (or, more accurately, the future of the European Union) is the *Federalist Letter (FL)*, produced by the Union of European Federalists (UEF). Each edition of this publication includes a rather gladiatorial 'thumbs-up' or 'thumbs-down' to recent statements by leading politicians. Readers of the *European Journal* will not be surprised that Margaret Thatcher was given the thumbs-down by the *FL* for her thoughts on the European Union in her latest book *Statecraft*. But the fact that Jack Straw was next in line for disapproval indicates their federalist verve. According to their website www.federaleurope.org, the UEF is an *"independent"* organisation. Further down the front page, in markedly smaller type, they gratefully acknowledge the *"the kind support of the European Commission"*, but are quick to reassure readers that the opinions expressed are *"not necessarily those of the European Commission"*. Coincidently, the UEF's initial contribution to the Convention proposing the transformation of the Commission into the *"true European Government"* of the EU matched the Commission's own aspirations tabled at the end of May.

No Smoke Without Fire

The Commission has launched a new campaign to encourage young people not to take up smoking. The 'Feel free to say No' campaign (based at www.feel-free.info) features 16 football players who all say no to smoking, and aims to make a tobacco free lifestyle cool. Television advertisements are being aired throughout the EU, with the exception of Finland, Greece and the UK where negotiations with television companies are still ongoing. Beside the fact that the campaign is unlikely to succeed, seeing that government health campaigns are rarely effective, the tenor of the campaign is interesting in light of two developments that took place in March. First, the decision of the Agriculture Council to continue subsidising the 101,000 tobacco producers situated in eight of the 15 member states, but mainly in Greece and Italy (*EUobserver.com*, 19 March 2002). Second, the decision to extend the transition period for applying VAT to tobacco in the accession countries of Poland and Slovakia to 2008 for fear that a doubling of prices would cause *"negative attitudes towards the EU"* (*European Report*, 23 March 2002).

Far-Right Commission

At the beginning of June, the Italian Parliament approved the asylum and immigration proposals drawn up by the far-right Northern League leader Umberto Bossi. The new measures force all non-EU citizens living in Italy to be fingerprinted. In a heated debate before the vote took place, opposition politicians denounced the proposals and accused the government of generating a climate of fear and hatred. Italian Communist MP Graziella Mascia declared, "*There aren't enough adjectives to describe this law: it's unjust, fascist, disgusting, enslaving and racist.*" This statement presumably also applies to the proposal for a European Union fingerprint register of asylum seekers announced by the Commission earlier on this year (*EUobserver.com*, 30 April 2002).

The Case for Strasbourg

Two developments last month have re-ignited the debate over the number of seats the European Parliament holds. First, the legionella virus was discovered in the Strasbourg Parliament. Then, after they voted to continue their plenary session following the discovery, MEPs debated a proposal by the cross-party Campaign for Parliamentary Reform for a Wednesday plenary session during committee and group weeks in Brussels to question Commissioners and vote on emergency issues. At present, the European Parliament holds 12 plenary sessions in Strasbourg and six 'mini-plenary' sessions in Brussels.

The case for the Belgian capital as the sole seat of the European Parliament is straightforward. Once and month, at a cost of €100 million a year, 3,000 MEPs, assistants, officials and translators and 17 lorries loaded with 12 tons of paperwork have to move from Brussels to Strasbourg and back the following week (*E!Sharp*, June 2002). The combined cost of this makes the Parliament the most expensive legislature in the world, with each MEP costing £1.4 million per year (*Sunday Telegraph*, 16 June 2002).

The defence of this monthly relocation is usually based on the importance of Strasbourg as the symbol of Franco–German reconciliation after the Second World War, but there is another argument that is often overlooked. Accepting the 'efficiency argument' for locating the European Parliament in Brussels could mean rejecting locations other than the Belgian capital for all the numerous offices and institutions of the EU. For example, at the Laeken European Council last December, Italian Prime Minister Silvio Berlusconi infamously argued that the new food safety agency should be located in Parma rather than Helsinki because the Finns did not even know what prosciutto is. What would advocates of the efficiency argument say about the prosciutto war? They would argue that the food agency should be based in Brussels. In which case, it could equally well be argued that the European Parliament should be soleley based in the charming Alsatian city of Strasbourg.

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EU Reverses Itself on Privacy

by John Grimley

In late May, the European Parliament voted to give sweeping powers to EU member state governments to monitor internet, phone and e-mail traffic. These new provisions were ironically amended into a directive aimed at updating the EU's 1997 Telecommunications Directive. This gave internet users more on-line protection from spam (junk e-mail) and cookies (which track website visitors). The new expanded measure will allow governments to force phone and internet companies to keep detailed records of customers' web, phone and e-mail use for a lengthy period. Legislation containing similar provisions has been rejected by the US Congress and has recently come into question in the UK.

According to industry opponents of the directive's spam and cookies language the ban will damage European e-commerce without protecting EU consumers. They argue that the vast bulk of unsolicited material comes from outside the EU and the costs to internet service providers and telephone companies associated with complying with the new directive will amount to £40 million per year. Proponents of the ban argued that unsolicited e-mail alone costs European consumers $230 million per year.

Italian MEP Marco Cappato was the source of the original proposal to ban unsolicited e-mail and cookies. However he voted against the amended directive due to privacy concerns.

The vote appears to overturn years of precedence in Europe aimed at protecting privacy, which had been declared a fundamental principle in the Universal Declaration of Human Rights in 1948, in the European Convention of Human Rights in 1950 and in the Charter of Fundamental Rights of the European Union in 2000. The EU Data Protection Directive of 1995, a further manifestation of this drive, effectively drew a strict line of demarcation around personal data in the EU. It has even been used to bring US companies into compliance with stricter EU standards.

The new EU move against privacy is ostensibly to counter terrorism after the attacks on United States of September 11th of last year. The proposal is opposed strenuously by civil liberties groups, but encouraged by the UK Government – who itself is far ahead of the rest of Europe in proposals to ratchet back internet and telephone privacy – and most European police forces. The decision made by the EU Parliament will give European law enforcement powers that it was barred from having under the 1995 rules. It will also aim to address the issue of unsolicited e-mail and phone communications.

Everyone in Europe who uses the internet or a telephone will be subject to surveillance

Once the new rules are adopted by the member states of the EU, which will take between two to five years – everyone in Europe who uses the internet or a telephone will be subject to surveillance. In the UK it is up to the Government to implement the new directive, which has recently been the source of much controversy.

Before the EU vote, the British Home Office was planning to introduce similar measures in the UK under the Anti-Terrorism, Crime and Security Act (ATCS), passed in December 2001. Such legislation would increase the number of Governmental departments allowed access to private e-mail and telecommunications records.

These plans received widespread criticism from civil liberty campaigners, MPs and many others; being a subject of great debate among various groups in and outside the political realm. As a result, in mid-June the Home Office chose to abandon the proposal until the next session of Parliament. According to the *Daily Telegraph*, Home Secretary David Blunkett confessed that the Government had *"blundered"* and he said that plans would be revised before advancing onto Parliament.

The *Observer* reported that Europol, the police and intelligence arm of the European Union, drew up plans essentially identical to the new EU legislation last April, at a private meeting of police, intelligence services and customers and excise officials from across Europe in The Hague. According to the Europol document, which may be a likely predictor of what will come into being in each member state, the information retained about e-mails will include who sent the message, where the e-mail went, its contents and the time and date it was sent.

At the moment, internet service providers keep most e-mail and internet information about customers for a few months at most, essentially for billing purposes. Under the new plans use of telephones – both landlines and mobiles – will be monitored. Numbers dialed, when and where they were dialed and personal details such as the address, date of birth and bank details of the subscriber who paid for the call will also be kept. A highly detailed picture of any individual will be available as a result.

Although the British Home Office has retracted the recent proposal, it seems reasonable to be fearful for the future. It is up to the British Government to execute the new EU directive.

The EU Commission has sought to play down the potential implications of the new legislation. Erkki Liikanen, EU Telecoms Commissioner, has indicated that he would be uncomfortable if data were kept for more than 12 months, stressing that obliging telcoms companies to retain data is distinct from handing it over to national authorities.

At the same time, MEP Ilka Schröder warned that the new blanket data retention powers meant that the European Parliament *"supports the project of a surveillance union. From now on, the fundamental right to privacy is in question for everyone using electronic means of communication."*

Following Blunkett's announcement this June, the future of the plan in the UK remains unclear. The retreat shows that the Home Office recognises the public's fears of privacy invasion. It also seems to understand that such legislation is severely lacking in popular support. According to *The Times*, Blunkett said that the Government has *"decided that it makes sense to withdraw the current proposals to allow calmer and lengthy public discussions before we bring forward new plans in this field."* As a result, the proposals have been withdrawn for the moment, however, whether or not the policy will be revised or dropped has yet to be seen.

John Grimley, a member of the European Foundation's UK Advisory Board, previously served in the George Bush Sr White House.

LETTERS TO THE EDITOR

The German-Austrian carve-up
from Dr Charles Tannock

Sir,

In Issue 144 of the European Foundation *Intelligence Digest,* you accuse the British Conservative MEP's (sic) of 'collaborating in the German-Austrian carve-up (sic)' over the Benes Decrees as the New World Order prepares 'to gobble up the Czech Republic.'

For those unfamiliar with the context, after the end of the First World War three million Sudeten Germans found themselves incorporated against their will into a Czech state. After agitating for self-determination in the inter-war years they were held responsible by their fellow Czechs for inviting Hitler to invade Czechoslovakia in 1938, and for many of the appalling Nazi brutalities that followed. That there were many Nazi sympathizers within the population is not in doubt, although sympathisers and innocents alike were subject to a range of reprisals including mass deportation (some 2 million people) and expropriation of property, with between thirty thousand and two hundred thousand killed, many of them innocent women and children, with some victims being hanged from lampposts. Today, this would be called 'ethnic cleansing'. The Times of London commenting in 1945 on this situation stated "brutalities and cynicism against which war was fought are still rife in Europe and we are begining to witness human suffering that almost equals anything inflicted by Nazis".

Even President Havel described the murder of tens of thousands of Sudetens Germans as a "deeply immoral act".

Czech President Benes issued a series of decrees, some of which had international support, including at Potsdam, which effected the mass deportations and denial of citizenship and property rights and instituted the concept of collective guilt. It also included an amnesty for all acts of retaliation (Vergeltung) against occupiers or their helpers, including acts committed up to October 1945 six months after the war had finished. These decrees remain on the Czech statutes to this day, and the Czech Republic's application to join the EU has raised the question of their compatibility with the European Treaties. Many of the decrees clearly no longer have legal effect, but the EPP/ED group, including the British Conservatives, supported a motion asking for the Parliament's legal service to examine the matter and asking for the Czechs to repeal any which were found to be incompatible with the acquis communitaire (sic), the European Union's body of laws prior to accession.

The decrees also had application in Slovakia, but this issue is largely uncontroversial in their accession negotiations partly because after the war it adopted locally a more humane approach to its Hungarian minorities (Hungary was a pro Nazi axis power) eschewing a policy of deportation but instead exchanging a limited number of Hungarians (approx 30,000) for Slovaks living in Hungary.

Although the possibility of some compensation for property loss is spoken of, no-one is talking of enforced repatriation or repossession of homes as discussed in the Czech media prior to the Genral Election. There is also a general desire to ensure, as Elmar Brok MEP the Chairman of the Foreign Affairs Committee put it, that past injustices are not replaced with new ones. Nor are we trying to rewrite history or have any intentions of unscrambling the post war settlement.

However, the Parliament is duty-bound to go beyond any bilateral agreements between governments to ensure that the rule of law is upheld within the Union. That is a fundamental cornerstone of a free society and we have generally been troubled in Britain when the Union appears to ignore the wording of treaties or to mis-apply them for political ends.

This is certainly a complex legal, historical and moral problem, which has to be addressed responsibly as enlargement of the Union approaches. We must also avoid any possibility of potential protracted litigation afterwards. I believe we have done that, and I hope that this will go some way towards explaining our position.

Yours faithfully,
Dr Charles Tannock, MEP (London Region)
Conservative Foreign Affairs Spokesman, European Parliament, Brussels

Euthanasia?
from Ms Anne Brown

Dear Sir,

I am writing in response to an article published in the *European Journal* in May 2002: *Euthanasia in the EU*. I was disappointed to see that the *Journal*, which is supposed to be dedicated to issues concerning Britain's involvement in the European Union, chose to tackle such a controversial issue that is completely irrelevant to the *Journal's* supposed cause.

Euthanasia is a very sensitive issue; readers of the *Journal* do not necessarily fall on the same side of the debate. Despite the fact the European Parliament recently opened discussion by questioning the newly passed Dutch law on active euthanasia, it is not an issue with which the *European Journal* should be concerned; it is not a European issue.

There are several more pressing European concerns that the *European Journal* should be working to bring to the public's attention – issues that deal with Britain's relationship with the EU and the euro.

Yours faithfully,
Anne Brown, Worksop, Nottinghamshire

… news in brief

Le Pen's policies adopted

The EU Council has expressed its will to expel illegal immigrants who commit crimes. This was, of course, a central plank of the policy of the *Front National* in France, and for which it was reviled as a fascist organisation. The idea is that EU countries will jointly charter planes for each particular country and put all their immigrants on them. This decision is in keeping with the proposals contained in a Green Paper published by the Commission in April, which has now been approved by the Council. It claims that there are 3,000,000 illegal immigrants in the EU, and that the figure is rising by 500,000 per year. Indeed, the British Prime Minister, Anthony Blair, went much further than Le Pen, when he suggested penalising countries which sent immigrants by withdrawing aid from them. Le Pen, by contrast, has always called for aid to be encouraged so to reduce the economic incentive on people to leave the Third World. [Carlos Yarnoz, *El País*, 24th June 2002]

Marching to the Right in Europe

by Struan Stevenson, MEP

Conservatives in Europe have good reason to be optimistic at the moment. It seems that after a decade of dominance by the Left, the continent is now moving to the Right again.

In France, President Chirac had a walkover at the presidential election, with the socialist candidate not even making it to the final round. His victory was overwhelmingly confirmed in the elections to the French National Assembly.

In Germany, there is a high probability that the imminent federal election will see the leader of the Bavarian Christian Social Union, Edmund Stoiber, dislodge Chancellor Gerhard Schröder after four years of economic decline. Currently unemployment in Germany is running at over twice the British rate.

In Italy, Silvio Berlusconi continues to lead a coalition of the centre-right committed to free markets.

Portugal recently elected a Conservative government. However, its programme of deregulation and tax cuts has been blocked by monetary union policies resulting from the country's membership of the euro.

This sort of interference may soon be a thing of the past. As a result of the recent elections there will be a decisive change in the composition of the Council of Ministers, the body drawn from national governments that decides most of the policies for the European Union. With a Conservative majority there, there may be a shift towards liberalisation and away from restriction. The shackles on economic growth in Europe will then fall away.

The only cloud on the horizon is that this shift to the Right is sometimes taking an uncomfortable shape.

In France, the National Front under Jean Marie Le Pen filled the vacuum left by the electoral collapse of the socialists. His success was due primarily, though not entirely, to his fierce anti-immigrant stance.

The recent election in the Netherlands saw a surge forward by another anti-immigrant party, out of sympathy for its assassinated leader, Pim Fortuyn. It gained even further support from the liberal Dutch, who are growing fearful about the future of their country, prosperous as it is.

Even in the UK there have been victories at local elections, though on a very minor scale, for the British National Party.

What overall pattern can be observed in these trends, and what message can be read in them?

The First Minister of Gibraltar, Peter Caruana, has proposed one answer to this question. In a speech made before the General Assembly of the Church of Scotland, he said, "*It's no accident that the rise of Fascism in Europe has followed the introduction of the euro. This rising tide of xenophobia comes from a feeling of fear and lack of identity.*"

This statement sums up the factors that UK Conservatives ought to be taking into account in an ever-complex situation. Individual freedom should be protected. However, it is equally important to note that when people start to lose faith in freedom, it is not necessarily because they are wicked. They may have good reason for their insecurity.

Historically, Fascism has appealed to the powerless, believing they are being abused by the powerful. According to Tony Blair, the key is to "*be tough on Fascism but tough also on the causes of Fascism*".

The abuse of power is the main threat to liberty, both in the UK and in the wider context of Europe. In resisting this, UK Conservatives should remain undaunted by charges of anti-European sentiment. Such assertions are completely false. In fact, the Conservatives took Britain into Europe and have always sought to work constructively with its partners.

Throughout almost 30 years of membership, Conservatives have held to a clear line on the nature of this co-operation. The abolition of the nation-state is not permissible. It is the strongest guarantee of democracy. It is the social, political and cultural context, which gives individuals their identity. When that identity is secure, they can enjoy their own freedoms and tolerate the freedoms of others.

Of course, this does not mean co-operation shall be withheld where it would benefit all Europeans. By joining the Single Market, for example, Britain has contributed to the expansion of trade in every member state.

Without Conservative co-operation the Common Agricultural Policy would have long ago fallen apart. Although it remains decrepit and ever in need of reform, on balance it is probably still in the interest of Britain to support it.

The same cannot be said for the Common Fisheries Policy, which also could not have been attempted without British acquiescence. However, unlike the Common Agricultural Policy, the attempt has been a failure, and the time has come to devolve powers over fishing back to member states. The newly published package of reforms from the European Commission has been encouraging. The core objective of this package is to transfer almost all control of 6- and 12-mile zones to individual member states, and delegate new management responsibilities to stakeholders within 200-mile zones.

On the other hand, there are areas where co-operation should be modified. All of Europe benefits from speaking with one strong voice on breaking down barriers to free international movement of goods, services and intellectual property through the World Trade Organisation. This will open the vast market of China, which recently joined the Organisation, to European business. Developing countries, like China, will benefit from liberalisation. International trade will increase economic growth and prosperity more efficiently than the charade of aid, which all too often lines the pockets of corrupt officials and dictators.

As the British Conservatives have held to a clear line, it is also essential to know where to draw it. Co-operation does not mean ignoring Britain's economic interests. At present these are incompatible with the euro; harmonised taxes; European control of financial regulation, labour markets and pensions; and the creation of a Federal superstate. To maintain British identity and democracy it is necessary to avoid the ills of further bureaucratisation from Brussels.

Struan Stevenson is a Conservative Member of the European Parliament for Scotland. He is President of the Fisheries Committee in the European Parliament.

BOOK REVIEWS

The New Rulers of the World

By **John Pilger**, Verso, London, 2002, ISBN 185984393X, pp. 246, £10.00

Reviewed by John Laughland

Some things never change and John Pilger is one of them. He has devoted a lifetime to exposing what he sees as the evils of the United States and its foreign policy, as well as to other injustices in the world. Many on the Right have dismissed his attacks as politically motivated. But, at a time when the US and its loyal ally, Britain, do indeed seem to embarking on a policy of limitless war, it is time for conservatives who profess attachment to the principle of national sovereignty to read Pilger and question their attachment to the policy of *"America, right or wrong"*.

Pilger writes from a straightforward socialist perspective. He excoriates a world in which multinationals collaborate with powerful governments to pursue a policy of economic rapine and rank imperialism. There is much to be said for this point of view, and British Conservatives are far too quick to dismiss it. Why should people who profess attachment to the free market and to deregulation be in favour of the power of big corporations?

Moreover, the mantra of 'free trade' – it is repeated so often that one gets the impressions that trade is the only thing which Conservatives think should now be free – obscures the evident fact that, in a world in which trade policy is the product of an ugly policy mix involving bureaucratic and authoritarian institutions like the EU, there is precious little of the 'free exchange' of which Adam Smith wrote. Instead, there is centralisation of capital in the hands of the most powerful states. How can it be that the Smithian theory of free trade and the Ricardian theories of comparative advantage have been abused to justify a uniquely one-way system of economic expropriation? East of the Elbe, the utility companies, major industries and often the media too are all in the hands of foreigners. But no entrepreneurs from Eastern Europe have been able to buy Western companies.

These imbalances deteriorate rapidly into the open abuse of power, something that has been the hallmark of US foreign policy for a decade. The summit of American immorality was reached when Madeleine Albright declared that the death of hundreds of thousands of Iraqi children was *"a price worth paying"* for US policy against Iraq. Most politicians in Britain, including on the political right, have supported this abyssal cynicism. Yet the continuation of sanctions and bombing campaigns against Iraq corresponds neither to the British national interest, nor to the principles of Conservative foreign policy, nor to the principles of natural justice.

Pilger rehearses many of his familiar preoccupations in this book, especially the mass murder that accompanied the installation of President Suharto in Indonesia. He also lays bare the real motive force behind American policy in Afghanistan and the Gulf. Most of what he writes makes for horrendous reading. It is very difficult indeed, after reading Pilger, to come to any conclusion other than that the US–British hostility to Iraq, and the 'war on terrorism', are simply means to the end of establishing what American policy wonks call *"full spectrum dominance"* over the supply and distribution of oil.

The humanitarian cost of this policy is tremendous. For my own part, I am familiar with the devastation, which has been wreaked in Central and Eastern Europe by a combination of EU policies and those of the World Bank and the IMF. In the words of a little-publicised World Bank report, the economic collapse of the last 10 years in Eastern Europe is far worse than that experienced by the industrial West in the late 1920s. Yet supporters of the free market continue to support the devastation of entire countries in the name of their dogmatic and unseeing attachment to the slogans of globalist so-called capitalism.

Pilger's attacks are vitiated, however, by the their own single-mindedly left-wing perspective. He dwells at length, for instance, on the American engineered overthrow of President Sukarno in Indonesia in 1965 but does not mention the reverse overthrow of President Suharto in 1998. He mentions the Indonesian occupation of East Timor but not the American-backed occupation of that territory by international troops in 1999. Yet one can make just as convincing an argument for saying that the latter operation was as motivated by greed – for East Timor's oil and gas resources – as the first.

The Americans, in other words, do not mind whether their son-of-a-bitch is on the left or the right, so long as he does what he is told. They are also quite capable of dropping an ally, even a long-standing one, when they feel like it. To present US policy as 'right-wing' is therefore a mistake, especially when the US has devoted the last 10 years to bringing Communists back to power in Eastern Europe.

John Laughland is European Director of the European Foundation and writes regularly for a wide range of British, European and American publications. He is the author of The Death of Politics: France under Mitterrand *and* The Tainted Source: the Undemocratic Origins of the European Idea.

… news in brief

Small steps towards Yugo reunion

The presidents of Croatia, Yugoslavia and Bosnia are to meet on 15th July in Sarajevo. This is the first top-level meeting between the heads of state of these countries since the signature of the Dayton agreement in 1995 (and not since the beginning of the war in 1991, as RFE erroneously reported). At the same time, flights have been renewed between Sarajevo and Belgrade after a break of 10 years. The EU has never ceased to insist that the successor states to the former Yugoslavia be re-united in an EU-style post-national conglomerate before they can be admitted as members of the EU. The exception to this rule is Slovenia, which is expected to join in 2004. [*RFE Newsline,* 8th July 2002]

Handshakes not Handcuffs

Edited by **Lionel Bell**, 2002, June Press, 96 pp., £6.99

Reviewed by Oliver C.C. Crawley

Handshakes not Handcuffs is a collection of proposals that address the future of the European Union. The dozen contributors are both academics and politicians; their pieces are the result of much research and study. The book demonstrates that there are – as is widely accepted by people outside Camp Prodi – a number of credible and realistic alternatives to the ongoing integration of the EU. At the same time, the book cannot be accused of being anti-European, as positive engagement and treaty building with currently non-EU states is a consistent theme.

Sir Oliver Wright's foreword summarises the aim of the book. In it he describes the proposals as a *"wake-up call"*, and adds *"let it not be said that our right to govern ourselves was taken from us while we slept."* The authors recognise that before long participant nations may become suburbs of Brussels; and therefore that, before this happens, there should be a rethink and renegotiation of the EU. Furthermore, the book's contributors cover the political spectrum and provide extensive ammunition to both europhiles of the eurocrat variety as well as to those who subscribe to the negative isolationist proposals of Le Pen.

Richard Body, an MP of almost 50 years, leads the articles by addressing the much-discussed theme of the 'democratic deficit' resulting from the fact that EU legislation – which cannot be amended in the Parliaments of member states – is 'prepared behind closed doors'.

In essence there are two possible routes, the supranational or international. A Churchillian style Council of Europe is suggested, which would act as a talking shop. But this Assembly would not pretend to legislate nor would it tax, with both these activities being reserved for national parliaments.

The European Research Group, which comprises parliamentarians of 28 Centre-Right parties in 20 countries, argues in favour of *"profound structural changes to existing EU institutions"*. Most significantly, the group recognises that flexibility within the EU must underpin integration, *"with different groups of states able to co-operate in different areas of policy within the nexus of a free market"*. These points are broadly reflected in the contribution made by the SOS Democracy Group, an official intergroup of the European Parliament, although the Nice Treaty receives the brunt of its criticisms; an urgent renegotiation is paramount.

Lionel Bell, the book's editor, was clearly keen to include the wider pan-European dimension and dispel the idea that structural reform is a uniquely British obsession. Hence he turned to Alain Bournazel and Etiene Tarride, both senior members of *Action pour une confédération pan-européene,* who argue that the European institutions need a *"thorough-going reform"*. They maintain that the Europe offered by Maastricht and Amsterdam cannot serve its citizens effectively and furthermore warn against a further strengthening of the increasingly visible hand of the Commission, in particular within the area of defence.

Georges Berthu, a member of the European Parliament and a politician who has built his reputation on saying exactly what he thinks, maintains that European democracy is a complete fiction. He shares the view widely held by his co-authors that some imagination is required to reflect the complicated and diverse nature of the EU.

The contribution of Bill Cash, MP, is particularly noteworthy because he specifically answers the charge that 'euro-realists', a name he conceived to describe his views, never offer *"constructive alternatives to a single European State"*. Treaty alterations and renegotiations are a theme that applicant and present members will have to consider if the unwieldy machine of the Union is to function smoothly in the future. In the area of ratification, for example, referendums in signatory countries are recommended in order to combat the democratic deficit from which it is currently suffering. He argues that without such alterations and corrections the entire structure is doomed.

This book is an accessible and reader-friendly compilation of proposals for co-operation among European countries. The contributors provide ample food for thought in their suggestions over ways in which the EU could improve and develop. The result is a thoroughly well argued and reasoned group of articles that stir the imagination.

Handshakes not Handcuffs should appeal to both europhiles and sceptics alike. The europhiles can ingest the breath and depth of the proposals and take note of the widespread support that these arguments enjoy across Europe, while sceptics will have their opinions reinforced by the book. Whatever your political creed, nobody can deny that there are a significant number of credible alternatives to the EU and the euro.

Oliver C.C. Crawley read Modern Political History at Bristol and is an experienced investment analyst.

… news in brief

Eurosceptics put up a show in the Convention

French, British and other eurosceptic members of the European Convention have attacked the body as being unrepresentative. On 25th June, at the Convention's last meeting which devoted two days to *"listening to 'civil society'"*, they denounced the attempt to prevent Eurosceptics from speaking. The objections were presented principally by the British MP, David Heathcoat-Amory, and the French MEP, William Abitbol. The second Vice-President, the former Italian Prime Minister, Giuliano Amato, agreed with them that *"millions and millions of citizens"* were not represented in the discussions. Heathcoat-Amory attacked the Convention as *"a dialogue between Brussels and Brussels."* The organisations which had been invited to speak as representatives of *"civil society,"* he said, were *"European lobbies subsidised by Brussels. Their discourse is unambiguously federalist."* (This was certainly the case during the hearings into the Charter of Fundamental Rights and Freedoms, when many of the organisations which gave evidence were simply front organisations for the European Commission.) *"We do not want to listen only to the poodles of Brussels,"* added William Abitbol. [Laurent Zecchini, *Le Monde*, 26th June 2002]

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CHUNNEL VISION

Smoke & Mirrors

Maastricht, you may remember Robin Cook once expounding in the *New Statesman*, was the high water mark of EU integrationism.

Unfortunately, no one seems to have reminded the European Commission. Presumably they are surfing aficionados, and do not live on the Dutch coast.

The body has just set out its recommendations for the next intergovernmental conference, via the Convention on the Future of Europe. Its title, quite plainly, is *"Un projet pour l'Union Européenne"*. Yes, I only have the French copy because when Prodi made his speech that was all that was available, but *quoi de neuf, alors*?

Language issues aside, it does make for concerned reading, and not only because of the content.

Recognising that the EU has been rather unusual in its manner of development, the European Commission calls for a constitution for Europe. This, naturally, will be based on the Charter of Fundamental Rights.

The Charter underlines the need for a Europe based on solidarity, social dialogue and economic and social *"progress"* – the watchwords of the Social Chapter.

It calls for qualified majority voting to become the norm in the Council of Ministers and for the Commission to become the lead instrument in economic affairs. It also aims to play more of a role in legislative initiative.

It talks of a *"corpus"* of rights and obligations, upheld in law, to accompany European citizenship, and based on the Charter.

To guarantee its internal stability, the Charter stresses the need for a common frontier force, and the establishment of *"a European public order which makes national systems for maintaining public order more efficient and which fully respects the Union's fundamental values."* This is coupled with some harmonisation of criminal law, while EUROPOL is to link in with EUROJUST.

The High Representative is to play a greater role as the sole voice of a Common European Foreign Policy, with unanimity abolished, an interest in projecting EU values overseas, and with Commission offices abroad to be turned into quasi-embassies. This is under a developed budget.

And finally, as opt-outs get in the way, Europe *à la carte* is to be ended and opt-outs and derogations re-examined.

Now excuse me one minute here. Have I been deep frozen in a space shuttle and greeted back on planet Federast by a stumpy robot called Tweaky?

Fortunately, I happen to have a stockpile of Hansards covering many of the debates where these issues were first raised in the Commons and the Lords, so I did some cross-checking of what was said at the time. It was worth the wear on my dust-smothered pantaloons.

First look at the Charter of Fundamental Rights. This was the text Keith Vaz said was only symbolic and would not be incorporated into the treaties. It would have the same legal standing as the *Beano.* No matter that before the Charter was even finalised, the European Parliament was making reference to the presumed text in its legislation, or that Her Majesty's Government admitted the European Court of Justice could already interpret legislation based on its clauses. But here, in black and white, we have him in the Commons stating that it was not a concern. According to Vaz, *"It is not binding or enforceable. It is a charter, as we have said, not a new treaty."*[1] And whoosh, off the Minister turned to be rude to eurosceptic MPs.

What of course he declined to comment on was the evolution, how this treaty would evolve by federal Darwinianism into the treaty we see on the table today. Still, I do not suppose we could have expected better from a Member with a sticker on his office door saying that he *"loves the EU"*.

But this is no isolated smokescreen. Let us not forget that Cook also stated, *"we are not proposing a constitution of Europe."* [2] Again, in a full debate on the future of the Charter when one MP delegate spelled out quite faithfully what was on the cards, Vaz retorted, *"There are no shadows in the charter of rights. There is no possibility of any advance on the Cologne conclusions … so the hon. Gentleman need not worry."* [3] The essence of the charter would be simply to point out to European citizens what rights they held, adding nothing new; like a constitution, for example.

Now look at EUROJUST. It appears comparatively unobjectionable, a means by which prosecutors, magistrates and police can team up and co-ordinate criminal investigations. To quote the minister responsible, *"That seems to be an entirely unexceptional position and an unexceptional structure."* [4] But the Commission is now proposing a link in with EUROPOL (which, one might recall, started as a body covering only two competences and is now being touted as a Euro-FBI to combat mad mullahs and people traffickers).

Indeed, quizzed at the time by Lord Pearson (Grand Chevalier of the Order of the Awkward Question), the link with EUROPOL was downplayed. As Lord Howell concluded, *"There is a worry that such matters are decided in ways which do not give our Parliament adequate say early enough over what is happening."*

There is more in this than the unpleasant pong of federalism that wafted in during the Amsterdam debate from Denis MacShane's EU socks, tragically not caught on tape as they sprawled over Robin Cook's backrest. Of course, said Doug Henderson, then Europe Minister, there was no prospect of EUROPOL arresting British citizens tomorrow. Here's the catch: the whole thing was up for review in five years time, at which point the Government would report to the House.[5] That was 1998, which means our time has run out. The chickens are coming home to roost, and they are GM-modified killers. All the derogations of responsibility such as *"at this stage,"* how the Government *"do not envisage,"* and mock-conditional lines of *"if those were to be extended, as the treaty anticipates,"* will now have repercussions.

Civil servants are promoted, Ministers are disgraced and shuffled out, but the agenda survives. Jack Straw and Peter Hain are set to pay the price set by their predecessors, and with due interest.

1 HoC Hansard, 1 DEC 99, col 401
2 HoC, 25 MAY 99, col 184
3 HoC, 16 FEB 2000, col 225+
4 HoL, 17 JAN 2002, col 1221
5 HoC, 19 JAN 98, col 745. This contrasts with the shameless manner by which the Government avoided the issues in the Lords debate of 24 MAR 98

Dr Lee Rotherham is Secretary of Conservatives Against a Federal Europe.

The European Foundation

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

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;
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