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THE EUROPEAN JOURNAL

The Journal of the European Foundation



Andrew Robathan, MP
Fighting for a Fair Vote
&
Keith Marsden, Dr Brian Burkitt,
Charlotte Horsfield and William Hague, MP

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

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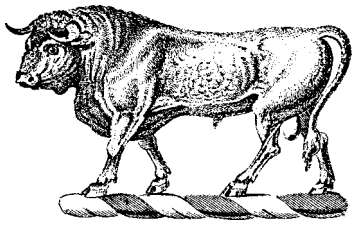
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The European Elections

At the 1995 Conservative Party Conference I gave a speech entitled, 'The Socialist Betrayal of Europe'. Had the Conservative Party under John Major taken a strong and clear Eurosceptic line on the European issue it could even have won the general election in 1997 and certainly would not have lost by such a large majority.

Since then the Conservative Party has shifted its ground on Europe very substantially. Not enough for many (including myself) but, by contrast with the last Conservative Government and certainly the new Labour Government and their cousins, the Liberal Democrats, the Conservative Party is undeniably Eurorealist.

The Labour 'Manifesto' is breathtaking in its sell out of British national interests. The message is contained in the very fact that the Labour Party is offering the voters of this country a manifesto concocted by all the European socialist parties. "Goodbye Britain" is the unremitting theme.

They speak of "putting jobs first" and "working for growth". But they do not recognise that the 20 million unemployed in Europe are and will remain unemployed. They will remain unemployed precisely because of the pursuit of monetary union, the CAP, the strangulation of business by European red tape and follies such as the working time directive, minimum wages and requiring directors to consult workers on company policy. These are policies to restrict, not to encourage growth.

They say they want to make the euro a success (now down by 10%) but all they dare say is that "the euro should make a significant contribution to promoting sustainable growth, low inflation and high levels of employment". Note that they dare not say it "will" but mainly that it "should". This massive leap into the dark, playing games with the democracy and jobs of the people, undermining our nation and national parliament is based on no more than a hope. Clearly they are committed not only to selling our gold but also to selling out on the pound.

They call for a new taxation policy with weasel words such as "to prevent harmful tax competition" when everyone knows that this is a progressive move by stealth to create a European wide tax system.

They would sell us out by allowing more and more majority voting and omit to mention that it is already part and parcel of the Common Foreign and Security Policy (CFSP) which they promoted in the Amsterdam Treaty which came into effect on May 1st this year. We are careering down the road towards majority voting for defence and of course all of this is in line with the new President of the European Commission, Mr Prodi, who wants a European Army. The way things are going under the Prime Minister's St Malo Declaration we will soon have a European defence policy, without US forces to back it up. NATO is increasingly at risk.

They say that "waste, inefficiency and fraud" must be eliminated but do not mention why the European Commission collapsed into ignominy. They prattle on about the fact that "The European Commission needs to be better organised and more accountable" but in the same week they endorse the idea of the Fraud Prevention Unit being located *inside* the European Commission – not outside as it clearly should be.

All in all it is a truly depressing prospect if the Labour Party gain more seats in the European Parliament. The Parliament itself is a depressing affair but, given that it is there, the fewer socialists it has the better. Tony Blair can keep his Charlemagne Prize – without a Charlemagne Europe.

The Conservative Manifesto, by contrast, commits the Conservative Party to keeping the pound (not 'forever' as I would) – but at least for the next seven years. There is room to build on this after the European Elections. There is also a clear commitment to NATO and to keep the veto, with taxation only decided at Westminster. This is a manifesto worth voting for.

As for the Lib–Dems, well they are voting gung-ho for a federal Europe and the single currency and a "constitution for Europe" i.e., one country. They call this a "reformed Europe." Joschka Fischer, Germany's Foreign Minister, who shares the same views would love it. Enough said.

There are of course other parties standing in the elections and many of those who might be inclined to vote for them are Eurorealist Tories who rightly demand that we should renegotiate the Treaties where they matter, e.g. on the single currency and defence and much more. Unfortunately there are those who suggest that we should get out of the European Union altogether as soon as possible.

In practice these other parties are not in the business of trying to become the government of this country. Furthermore, the 'get outers' will alienate large sections of the business community and where they gain votes they will be at the expense of the Conservative vote and therefore a boost to the Labour Party and all the dreadful socialist policies outlined above.

We often speak of Eurorealism. Voting Conservative in these elections is UK-realism. There is much to be done to improve and harden the Conservative message after the elections, but let us vote Conservative now and get on with winning the 'No' vote for the Referendum immediately after they are over. We cannot afford to suppose that the Referendum will be greatly delayed. It will come sooner than later and we must be fully prepared.

Bill Cash, May 1999

In A Lonely Place: Britain and the World on the Eve of the Millennium

by David Wilson

These are interesting times. It is now 37 years since Dean Acheson portentously declared at West Point that, "Great Britain had lost an empire and has not yet found a role." The British Empire's 'Official Receiver' and the wisest of the original 'wise men' was right. Present at the creation of the post-war world, the Olympian Acheson realised that Britain was then, as it is now, a geostrategically burnt-out case. Of the three great power blocs of the emerging tripartite world system – the United States of Europe, the Disunited States of the Asian-Pacific and the United States of America – the United Kingdom has, not yet, found itself entirely at ease with any of them.

Our present crisis stems substantially from the fact that our strange sub-Hebridean archipelago is situated on the extreme western periphery of Mackinder's world-island; and that, though these islands are part of the continental shelf of the Eurasian landmass, they are stranded geostrategically between North America and continental Europe. This position was originally the making of the nation; now it is its nemesis.

For the great English statesman of the last four centuries, the Channel has proved wider than the Atlantic; or, rather, they wished Calais and continental entanglements were beyond their horizon. Though geopolitically Britain is part of continental Europe, it is not a position that *L'Albion Perfide*, particularly since the Napoleonic era, has ever felt strategically comfortable. If let alone it has preferred to get on with its self-appointed business of painting the world pink, which is precisely what the Victorians meant by 'Splendid Isolation'. Since the days of Elizabethan maritime expansion, this polity has looked seawards; away from the world-island and towards the world. Britain possessed a singular sense of manifest destiny long before Acheson's forebears, which is why the Pilgrim Fathers landed at Plymouth Rock in the first place.

During the Henrician Reformation, Thomas Cromwell declared that "this realm is an empire"; nothing less than a unilateral declaration of independence. Britain's first geostrategist, a kind of proto-'national security advisor' to Henry VIII, was specifically declaring to the world that the British state was a sovereign entity, beholden to no earthly power, or spiritual authority, and that its conscious intention was to go were its destiny would take it. After the Henrician Reformation, Britain ceased to be, in any meaningful sense, a European state; divorced from Western Christendom in its continental fastness it turned to the oceans. In the aftermath, national identity was largely forged on the back of native hostility to continental Catholic Europe.

Britain has been forced to abandon its traditional role as a great maritime power and imperial hegemon, and make its peace with the continental behemoth to its East

When Napoleon bestrode the continent, even the Francophile Jefferson warned that "It cannot be to our interest that all Europe should be reduced to a single monarchy." This has been the exact same attitude of every English statesman from Castlereagh to Churchill and their agency, the Royal Navy, "those far distant, storm-beaten ships, upon which Napoleon's army never gazed, but stood between them and the dominion of the world". The Monroe Doctrine prevented the Royal Navy from intervening in the New World; but left it free to police the world-island. Pace *Pax Britannica*, it was in Washington's and London's decided interest to ensure a balance of power on the continent of Europe. Britain, because it was itself a semi-detached European power and America, because it needed to prevent an old world hegemon strong enough to threaten its supremacy in the Western hemisphere.

It is not necessary to accept the truth of Sir Halford Mackinder's famous, if slightly overwrought, dictum in its entirety –

Who rules East Europe commands the Heartland;

Who rules the Heartland commands the World-Island;

Who rules the World-Island commands the world.

– to accept the strategic necessity of preventing Napoleonic France, Wilhelmine and Nazi Germany or Soviet Russia from becoming the absolute hegemon in Europe. The central reality of the struggle for mastery in Europe post-1871, when Bismarck engineered German unification, has been to restrain Germany's continental primacy. This was achieved in the 20th Century, only by America itself acting as a fully-fledged *European* great power. Now Germany aims to achieve its *Sonderweg,* or "special path," through its *locum tenens* (the European Union) and the old European order is lost.

The one fundamental geostrategic imperative, that Britain is an island; and necessarily, a maritime nation – that led the country to embark on its imperial project in the first place, has led to its current relative isolation. As Zbigniew Brzezinski has recently pointed out, Britain is in many ways a retired geostrategic player; a super-annuated power. After the terrible audit of two world wars, the abandonment of overseas empire, and the, not unrelated, decline of its industrial suzerainty, Britain has been forced to abandon its traditional role as a great maritime power and imperial hegemon, and make its peace with the continental behemoth to its East. Despite the valiant, but vainglorious, pretension to great power status that characterised the Thatcherite interregnum, Britain has been forced to become a state almost like all others and, subsequently, collapsed into strategic neo-isolationism.

For Mackinder, what is now referred to as the Atlantic Community, he termed the 'Midland Ocean'; this consisted of peninsular Western Europe, the United Kingdom, Eastern Canada, the United States and, not least, the Atlantic Ocean itself. The similarities between Mackinder's 'Midland Ocean' and the North Atlantic Treaty Organisation, formed in 1949, do not need elaborating. However, the Atlantic Alliance was scarcely a partnership of equals and,

since Soviet forces no longer stand on the banks of the Elbe, it is now a question of being caught between Plymouth Rock and a continental size hard place: between, on one side of the Atlantic, the world's only existing superpower and, across the straits of the 'English Channel,' a nascent continental superpower. For Germany, no longer a dependent of one superpower and a potential victim of the other, the way is now clear for a new hegemonic order.

But this order is characterised by an intellectual furtiveness. Euro-federalism is an emotional *weltanschauung*, more a Mitteleuropean fantasy, than an intellectual argument. At the margins, it has all the appearance of a branch of metaphysics. Noel Malcolm has termed it "a kind of cartographic mysticism that intuits that certain large areas on the map are crying out to emerge as single geopolitical units." Not a million kilometres removed from the Finlandisation of an entire continent.

Even that old ham Harold Macmillan – who endeavoured to turn Britain away from Empire and the Atlantic towards Europe – could fret that the "boastful, powerful Empire of Charlemagne, now under French, but [is] later bound to come under German control." Berlin's true 'variable geometry' – the EMU, and its concomitant European Central Bank – is not a fiscal project but a geopolitical attempt to end the Westphalian settlement in Europe that has held since 1648. It is an attempt to evacuate the political arena and to make the European super-state an apolitical entity: at once, undemocratic, extra-territorial and anti-national; in a word geostrategic. As a political alliance it is anti-Anglo–Saxon: hostile to the UK tactically and regionally and to the US strategically and globally.

Whatever the case, Britain is 'in' Europe but not of it. General de Gaulle's unconcealed antipathy to 'les Anglo–Saxons' – what has been termed 'The Politics of Qualified Grandeur' – is re-emerging under the guise of the Elysée's so-called 'anti-hegemonic foreign policy'. Anti-Americanism, and its corollary anti-Englishness, remains the one politically acceptable prejudice of modernity; an antipathy so ingrained in the great chancelleries of continental Europe as to be part of their baroque architecture.

The British world died in 1940. The Wehrmacht cleared away forever the great forests in which the European Union has been able to grow. The whole of Europe is beginning to live in the house that Adenauer built, and, the *lebensraum* in Kohl's garden. In the mid to long term, power will begin to drift Eastwards; from Bonn to Berlin, away from the Atlantic hinterland and towards the vast expanses of the heartland where Eurasia has lain; latent and untapped.

Britain is now landlocked into a continental Fortress Europe – a *dirigiste* autarky of 'Little Europeans', specifically designed to subvert the British trading state. How this country ever became part of a political project, one of whose primary goals was to undermine its influence in its immediate geostrategic area, is a comedy of diplomatic manners. The British foreign policy establishment remains permeated, not so much by a culture of appeasement, as by one of accommodation. This latter-day Cliveden Set suffer from a kind of displaced nationalism. They have invented a new country they call 'Europe'. There is a word hiding in the subtext of Euro-federalism: that word is decadence.

It is now ninety years that since that 'very superior person', Lord Curzon, delivered his celebrated providential curse: "England from having been the arbiter will sink at best into the inglorious playground of the world. Our antiquities, our national beauties, our mansion houses and parks will attract a crowd of wandering pilgrims. People will come to see us just as they climbed the Acropolis at Athens, or ascend the waters of the Nile. England will become a sort of glorified Belgium." Stranded in a post-imperial sea, the hunter in his hubris, has at last been captured by the game. Britain has dissipated virtually all its strategic power: it remains an isolated and spectral remnant on the edge of Mackinder's world-island; senescent, resentful, watchful (and, it has to be said, slightly bored). As our French cousins say: *à l'outrance* – to the end.

David Wilson is a civil servant. His article Defending Our Decadent West; the meaning of contemporary Atlanticism *appeared in the December 1996 Journal.*

… news in brief

Schröder defends NATO strategy

The German Chancellor has also defended what he has interestingly referred to as NATO's "double strategy" of bombing Yugoslavia and simultaneously "seeking a political solution". He insisted that there was broad support for German policy from all political parties except the Communist PDS. The Chancellor repeated his government's opposition to the use of ground troops. The argument over the war dominated what would otherwise have been a budget debate in the Bundestag. [*Tagespiegel,* 6th May 1999]

Waiting for the new Commission

When the European Commission 'resigned' in March – 'resigned' in inverted commas because all the Commissioners have remained in their posts ever since – it was felt that a new Commission would be appointed as swiftly as possible. Tony Blair, for instance, leaped on a "reform" bandwagon, insisting that the mass resignation, evidently a disaster, was in fact a great success and an opportunity for swift "root and branch reform". Whether it will be "root and branch" remains to be seen (although this is unlikely, as many Commissioners are either going to be formally reappointed or recycled as MEPs). Swift, however, it will not be. Although Romano Prodi was confirmed in his post until September, the new Commission will not be confirmed by the newly elected European Parliament until then. In other words, it will have taken six months for the new team to be installed. [*Handelsblatt,* 6th May 1999]

Deportee dies on plane out of Austria

A 25 year old Nigerian deportee died on a plane from Vienna to Sofia after having offered resistance to the Austrian police. They restrained him and put tape over his mouth. This caused him to lose consciousness and when the plane arrived in Sofia he had died. [*Der Standard,* Vienna, 3rd May 1999]

Green minister says bombing will continue

Jurgen Trittin, the Green German Environment Minister, has replied to these protests by saying that the bombing campaign against Yugoslavia should continue. He was specifically responding to a suggestion by members of his own party that the bombing should stop for one day so that aid organisations could bring aid into Kosovo. On the other hand, Mr Trittin criticised the attacks on civil targets in Yugoslavia, singling out the attacks on TV stations as wrong and counterproductive. His remarks came against the background of increasing unrest within the Green party over the war. Green party leaders fear their members will go over to the PDS, the successor to the Communist Party. [*Handelsblatt,* 5th May 1999]

Fighting for a Fair Vote

by Andrew Robathan, MP



For good or ill, referendums have now become part of our political process. Readers of this *Journal* will know that a referendum on our membership of Economic and Monetary Union is planned by this Government and was indeed promised by the last. Although there is the possibility of a referendum on proportional representation, it is EMU that is likely to be the next candidate for a populist decision.

Whatever one feels about referendums, it seems to me valid that, on an issue of great constitutional importance, there should be the opportunity for the electorate to express their opinion. The Neill Committee and others have recommended that referendums, if they are to be held, should be properly regulated. My Bill is designed to make future referendums fair and to enact two of the main recommendations of the Neill Committee, namely that there should be equal core funding for both or all sides in a referendum debate and that both or all sides should have equal access to the broadcast media. It would also set up a Referendums Commission to ensure that referendums are fairly conducted and this Commission would deal with further details and regulations. Such a matter of constitutional importance should not be a Party political issue and my Bill has genuine All Party support. I have also had useful advice from the Home Office, but sadly this is not of course the same as having the support of the Government. I and my supporters believe that we will have the support of all democrats and all those who believe in democracy will surely wish to see that both sides in an argument are fairly heard. The Bill should be considered non-controversial and I find it astonishing that the Government is prevaricating on the implementation of recommendations made by a Committee that they instructed.

However, at second reading there was a rather pathetic attempt to talk the Bill out, notably led by a very dismal Labour MP called Dismore, who succeeded in speaking for nearly an hour. Since there were a large number of people that wished to speak on the matter anyway, this was not only demeaning to himself, but extremely discourteous to all those other Members who attended the debate. The Bill is currently in Committee, but we expect to get it out soon and hope to return to the floor of the House for a report stage. This of course gives the Government its opportunity to destroy the Bill. Candidly, I expect it to do so, but I hope that the Government's prevarication and weasel words on this will be exposed.

The Government's position is that it intends to enact the recommendations of the Neill Committee as a package and will publish a draft Bill before the summer recess. This sounds entirely sensible and I would willingly withdraw my Bill if a commitment were made by the Home Secretary or the Prime Minister that there would be no further referendums under the aegis of the United Kingdom Parliament before Neill's recommendations on referendums had been enacted. The failure of the Government to make such a statement inevitably engenders cynicsm. The referendum in Wales in 1997, where only a quarter of the population voted for an Assembly and nearly the same number voted against struck the Neill Committee – and I suggest all who believe in democracy – as a very uncertain test of the public will. Regrettably, it appears that somebody in 10 Downing Street considers that it might be foolish to make any concessions to democratic will, when of course all the cards are currently held in the Government's hands.

The Prime Minister's personal position is somewhat confused. On July 24th 1994, he said that "I am actually not a great exponent of government by referendum". Since then he has held referendums in Northern

Ireland, Scotland, Wales and London – with results which all supported his position. Neill's recommendations might make such compliant results more difficult to achieve. Peter Mandelson, still close to the Prime Minister and "Uncle Peter" to his children, made a very telling comment on 18th October last year when asked by David Frost if the Government was obliged to accept the Neill recommendations. He replied, "we don't have to, but we need to be mindful of the analysis he is offering". Concern about the Government position therefore seems entirely justified and it seems unlikely that a Prime Minister accused of being a "control freak" would be keen to give up control over this issue.

The only referendum in which I have been able to vote was the 1975 referendum on the Common Market. The situation is of course very different now, but when considering a referendum on EMU, it is illustrative and useful to know what happened last time round. Apart from anything else, in 1975 I voted to remain in the Common Market – I shall not vote to join a single currency. In 1975 the Labour Government was of course split on the issue and gave an equal sum of money to each side in the campaign as well as equal broadcast time – both as recommended by Neill. However the 'Britain in Europe' campaign spent over ten times the anti-Market 'National Referendum Campaign'. This was because the Britain in Europe campaign was heavily financed by some 60 company donations and indeed by the European movement. The disproportionate sums expended on advertising, at a time when less was known about 'Europe' than now, certainly influenced the thinking of people such as myself. When and if there is a referendum on EMU, we must hope there are fair rules and also that we are able to get our case across to the British public.

Despite overwhelming cross Party support, both inside and outside the Houses of Parliament, it seems that this Bill is unlikely to become law. I have no particular personal pride involved in this, but I do regret that, should it fall, we could easily see a referendum called on EMU without fair rules being in place, unless the Government does bring forward its own legislation. We are all aware that it is the question that determines the answer, in opinion polls or referendums, so it is essential that public opinion is fully informed before such a momentous decision affecting the future of this country is taken. Perhaps I am being unduly cynical about the Government's motives, but experience of both this Government and the last has caused me to be thus. All the sponsors and supporters of this Bill believe it is an important step for democracy and that the measures should be enacted before any further referendums take place in this country – I hope that all readers of this *Journal* will assist in holding the Government to account on this issue.

Andrew Robathan is Conservative MP for Blaby.

Conclusions on Broadcasting from the Neill Report, 1998

12.38 The broadcasters should also, in our view, reconsider their position with regard to referendums. Although they provided both sides in the 1975 referendum campaign with free air time, they have been reluctant to do so since. Their reasons are set out in their recent Consultation Paper on the Reform of Party Political Broadcasts:

"Experience has led the broadcasters to believe that fairness over single issue referendums cannot easily be achieved by a simple application of the rules governing fairness between parties. Bearing in mind the Court's decision at the time of the 1979 Referendum in Wilson v. IBA, the difficulty of achieving fairness when parties are unequally balanced between two sides of the question (as in the recent Scottish and Welsh Referendums on devolution), the difficulty of achieving fairness when parties are internally divided on the issue and the uncertain status of umbrella organisations, we have no plans to introduce a series of Referendum broadcasts."

12.39 We agree with the broadcasters that "fairness over single issue referendums cannot easily be achieved by a simple application of the rules governing fairness between parties", but we draw a different conclusion: namely, that the broadcasters should consider allocating free air time to the two umbrella organisations on each side of a referendum, if two such umbrella organisations exist. There seems no reason on the face of it why the broadcasters should not follow the lead of the Election Commission in this matter (see paragraph 12.35 above). If the Commission designates two such organisations for the purpose of receiving core funding, those could be the organisations given free air time. If the Commission cannot in any instance identify two organisations as being appropriate recipients of core funding, then the broadcasters would not be under any obligation to provide free air time to anyone.

12.40 We should perhaps add that, in terms of their news coverage, the broadcasters fully recognise their obligation to be fair to the various parties participating in referendum campaigns and to be neutral between them. In the case of the 1997 Welsh referendum, we were happy to hear from some of our witnesses that the broadcasters had gone out of their way to cover the 'No' campaign and to give the 'No' campaigners opportunities to make known their views. One 'Yes' campaigner complained that the broadcasters virtually invented the 'No' campaign.

Why the UK Should Treat Euroland as a Test Market – A Plea for a Sixth Test and More Time

by Stuart Jackson

1. Dicing with death

Multinational corporations live in a dangerous environment. In the shadows lurk nameless assassins. Sudden death can strike down failed managers, failed projects, failed companies. Multinationals have searched for and found ways that offer better prospects of staying alive. Their discoveries are well worth taking note of, particularly if you are the UK government peering nervously across the Channel at Euroland.

2. A marketing perspective

To anyone familiar with consumer marketing, EMU has the appearance of a gigantic test market. By adopting the well established principles of test market assessment, we should be able to shine a torch into some of Euroland's darkest corners.

3. Risk and uncertainty

In situations of uncertainty where the penalties for failure are severe, there is a natural desire to avoid unjustified risk. EMU is risky. Even its most fervent proponents admit as much. Risky but exciting, they say. Or risky but noble in its aims. In whatever way these sentiments are expressed, the fact of risk is not denied.

High risk puts a premium on risk reduction. The shortest route to risk reduction is improved information. Test markets provide that information.

4. What test markets are about

a) History

Test markets were invented by multi-national corporations in the 1950s with the object of avoiding catastrophic new product failures. They are defensive (i.e. loss limiting) in character.

A successful new product programme can vault a company over its competitors to a position of market dominance. An unsuccessful new product programme can break a company on the wheel of unsustainable losses.

b) Nature

Test markets are scaled down versions of a national launch. The areas selected for the test are usually a television area of a town. Although in a formal sense test markets are fully commercial operations, they are designed as an information collecting process. As such they are closer to market research than to normal business. No large company would contemplate sub-national marketing as a serious long term proposition.

c) Purposes

The purposes of test markets are twofold: to identify things that can go wrong and to furnish the data from which reliable predictions can be made of ultimate success or failure.

5. Types of error

Reducing risk is a matter of reducing error. Statisticians classify errors into two types, which they call Type I and Type II. Type I error is taking a course of action that turns out to be mistaken. Type II error is rejecting the course of action that had it been pursued would have turned out to be right.

In effect, Eurosceptics are saying about EMU: watch out, there are sharks in the water (i.e. don't make a Type I error). Advocates of helter skelter entry into EMU on the principle of close your eyes and jump are pointing to what they see as a splendid opportunity that could be missed (i.e. for heaven's sake don't risk making a Type II error).

6. Action standards

Multinationals evolved action standards alongside test marketing. They did so in self-defence. Managers of subsidiary companies scattered across the globe can inflict untold harm on the parent corporation if they commit either of two kinds of fault: they may dither and delay in an effort to avoid the agony of making any decision at all or, the opposite, they may plunge precipitously into a venture that has nothing more substantial to recommend it than their own wish fulfilment.

Action standards are a way of calling managers to account. Managers are required to say precisely and in detail before the event, not after, what course of action they intend to take in response to the complete range of results that a test market might theoretically throw up. Tell us now, head office demands of them. Don't leave it until later to see what mood you happen to be in at the time the test results become available.

7. The five Treasury tests

In October 1997, soon after the Labour government came to power, the Treasury issued a list of five economic tests that had to be satisfied before UK entry into the EMU could confidently be recommended to the British electorate. They are:

(i) Are business cycles and economic structures compatible, so that the UK could live comfortably with an EU-wide monetary policy on a permanent basis?

(ii) If economic crises occur does sufficient flexibility in product and labour markets exist for them to adjust rapidly and efficiently?

(iii) Would joining EMU create better conditions for firms making long term investment decisions in the UK?

(iv) What impact would EMU entry exert upon the competitive position of the UK's financial services industry?

(v) Would joining EMU provide greater stability, higher growth and a permanent increase in jobs?

The trouble with these tests is that they are general to the point of vagueness. What is lacking are decision criteria based on quantitative measurements that can be translated into clear and unambiguous action standards.

8. Monitoring the euro – the sixth test

Fortunately, there is another test readily to hand that satisfies these requirements to perfection. The value of the euro in the foreign exchange markets provides a continuous flow of data that can be used to monitor the progress of the new currency relative to other currencies.

Let us call this the sixth test. It refers directly to EMU's central institution, its very keystone. It is a test whose virtues are indisputable. It is objective, external and exact.

The euro was launched at the beginning of 1999. From the start its movement was one of decline. In less than three months its value had fallen by seven per cent relative to the pound sterling and by ten per cent

relative to the US dollar. Its future progression is a story yet to be told.

Europhiles have responded to the euro's early weakness with claims that it is good for Euroland's exporters. You can be sure that if the euro had risen since its launch, they would have praised its strength. And if it had remained more or less constant, they would have rejoiced in its stability. Some test, indeed. Small wonder that smugness fills the air. Dr Pangloss, Voltaire's comic depiction of complacency ("all is for the best in the best of all possible worlds"), would have felt at home. Action standards are needed urgently.

9. Other problems

There are two other problems of evaluation to be considered.

a) Time

Except when failure is immediate, test markets are notoriously defective as predictors in their early stages. It is only when the key variables have settled down that predictions can be made with any assurance. A fatal temptation, often yielded to, is to curtail the test market prematurely, lunging impulsively into a national launch, thereby risking the large scale failure that the test market was designed to avert.

The relevance of this to EMU is clear. Give Euroland plenty of time before making a binding decision on behalf of the UK. Think of a number, and then double it at least. If in doubt, keep testing.

b) Representativeness

To be valid, a test market must be representative of the whole, enabling generalisations to be made from the test area (the microcosm) to the larger area (the macrocosm). In purest terms, no such area can ever be found, but in practice satisfactory approximations can usually be obtained.



EMU presents complications of a rare sort. Euroland comprises eleven ins, with four outs in the queue. The UK is one of the outs. The test area (Euroland) is the greater part and the area to which the test results are to be applied (the UK) is the lesser, the reverse of standard practice.

This goes to the heart of the decision facing the UK. Is continental Europe a suitable geopolitical entity for the UK, an offshore island, to be associated with, let alone be absorbed into?

10. Let caution be our guide

The world of politics is different from the world of business. Nevertheless, at times they overlap. Each can learn something from the other.

Business managers know that sentimentality brings heavy retribution. If the chairmen of multinational companies indulged in the vapid abstractions common in political circles ("I believe passionately in the European ideal", Heath, Jenkins, Radice, *passim*), they would be putting in jeopardy the very survival of the enterprises for whose fortunes they are responsible.

An episode from Graham Greene's classic film, The Third Man, captures the mood. A post-war Austrian racketeer is parrying his persistent questioner. With a faint smile, part supercilious, part sinister, he says: "You should go careful, Mr Martins. Everyone should go careful in Vienna."

These menacing words speak to us across a divide of fifty years. Let us take them as a warning.

A market researcher by profession, Stuart Jackson has specialised in new product development and test market evaluation.

… news in brief

Life sentence requested for Andreotti

The public minister in Perugia has called for Giuliano Andreotti, seven times prime minister of Italy, to be sentenced to life imprisonment for ordering the murder of a journalist in 1979. The prosecutor of Palermo called for 15 years in prison three weeks ago. Mr Andreotti was one of the principal architects of the Maastricht treaty, playing an especially important role when an "ambush" was conducted on the British government at a summit in Rome, forcing Britain to accept the Intergovernmental Conference which led to the treaty. [*Le Monde,* 4th May 1999]

Mr Prodi spells it out

The new president of the European Commission, who was confirmed in his post by the European Parliament on 5th May, has said that the euro will not help Europe's chronic joblessness. "Although international monetary stability is a fundamental condition, the true factor for growth will be a new 'round' of liberalisation of international exchanges negotiated within the framework of the World Trade Organisation." This is something for which the "European Commission has a fundamental competence". In other words, the euro is not going to help stem the rise in unemployment and Europe will have to wait several more years – it took nearly a decade to negotiate the last 'round', which Europe is busy smashing up – before there can be any hope of recovery. Meanwhile, people in many countries are becoming increasingly sceptical that 'free trade' is a more important priority than stimulation of domestic demand and production. They see 'free trade' as little more than an excuse for rapacious asset stripping by foreigners, especially in the fragile economies of Central and Eastern Europe. [*Actualité européenne,* 5th May 1999]

Mr Prodi also insisted that the European construction was pro-American, even in the monetary domain. Emphasising again and again the need to have "a stronger Europe" – he dwelt long on the need to reinforce the powers of the Commission to "give political leadership" – he said it would "facilitate a better and more durable balance between the two sides of the Atlantic and would lead to a model with two motors. This will without doubt be more stable than a system based on one single currency", (i.e. the dollar). He also devoted much of his speech to emphasising the need for Europe to develop its own defence capability and expressed approval for "a grand international conference on the Balkans". He called for this conference to integrate the Dayton accords with the Rambouillet agreement, saying that these accords could be "placed in a framework which would be definitive for the whole region once the Yugoslav Federation has returned to the European family of nations". [*Le Monde,* 6th May 1999]

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Is Cyclical Convergence a Good Thing?

by Andrew Lilico

The Labour Government has set five economic tests for whether the UK should join the euro. Without a doubt, the most important of these is test number one: whether the economic cycles of the UK and Euroland have achieved sustainable convergence. This subject has had some discussion in the media, but one significant issue has been ignored: is converging itself a good thing, just a neutral thing, or actually a bad thing?

What does cyclical convergence mean? Well, all economies move through cycles, as they gradually adjust to variable harvests, changes in technology, wars, and the other economic shocks which occur from time to time. These cycles affect many areas of economic activity, but the most obvious ones are inflation, growth, unemployment, and interest rates. Economies tend to cycles between periods of relatively low unemployment with high growth, inflation, and interest rates ('upswings' or 'booms'), and periods of high unemployment with low growth, inflation and interest rates ('downswings' or 'recessions').

Now the position of interest rates in these cycles is of particular importance, since the interest rate is a *tool* of economic policy. That is, the interest rate is used to *control* the economic cycle, to some degree. If unemployment becomes very low, or growth becomes very high, the interest rate is used by the government (whether democratically elected or Central Bank government) to try to stop the upswing becoming too pronounced and inflation becoming too high. This is because if the upswing is too strong and too inflationary, then the next downswing will also be very strong, leading to social misery such as high unemployment.

Similarly, if growth becomes too low and unemployment is rising too fast, then interest rates will be lowered to prevent the downswing becoming too pronounced. Hence, what the appropriate interest rate is for the economy depends on where it is in its economic cycle.

If two countries have different economic cycles (if their economic cycles are 'divergent') then their governments should pursue different interest rate policies. However, in a currency union like the euro this is not a practical possibility. Hence, for British membership of the euro to work at all, the British economic cycle would have to be the same (or at least almost the same) as that of the other members of the euro, particularly Germany. If Britain joined the euro with its economic cycle different from other euro members, then Britain would always have the wrong interest rates, making its booms more inflationary and making its recessions cause greater unemployment.

Correlation coefficients of US, UK, French and German growth rates

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

Source : *UK membership of the Single Currency – An assessment of the five economic tests*, HM Treasury October 1997

The facts are that over the past twenty years the UK economy has diverged considerably from the German economy, and diverged very slightly from the US economy, although it remains quite close to the US. One important measure of convergence is called the correlation coefficient. If the correlation coefficient is 1, that means that the economic cycles move in perfect harmony. If it is -1, then they move precisely in opposite directions. For the period 1979–96 the correlation coefficient between UK and US growth rates was 0.56 (i.e. a reasonable amount of correlation) whereas the correlation between UK and German growth rates was 0.01 (no correlation at all). The UK/French correlation was 0.38 (some, but not all that much).

The picture for UK/German correlation has changed dramatically since the 1970s. For 1975–81 the correlation coefficient was 0.82 (the cycles moved almost exactly together), whereas for 1982–93 it was -0.30 (that is, the economies tended to move in the *opposite* direction!). To put this in context, since 1979 most Euroland countries have moved to being more closely correlated to the German cycle than the US cycle. Thus the UK is moving in the opposite direction from Euroland states in terms of convergence.

The European Commission argues that the lack of convergence currently is not crucial, because the very introduction of the euro will tend to create convergence. Paul Krugman disagrees, claiming that greater integration will lead to greater regional specialisation and hence to greater divergence. However, let us suppose for the moment that the Commission is right (after all, if Krugman is right, then the euro will have severe problems because divergence will make a widely appropriate monetary policy impossible, as we have discussed already). Let us suppose that if the UK were to join the euro then that would tend to increase convergence. Furthermore, let us suppose that the drive towards the Euro will lead to greater cyclical convergence. (For example, the British Chambers of Commerce argues that the Government should be actively seeking convergence!) But is this convergence good?

If cycles (say between Germany and the UK) are negatively correlated that means that when the UK is booming, then Germany is in recession, and vice versa. Now when the UK is booming, demand tends to outstrip supply, leading to capacity shortages. That is why booms are unsustainable, and why the cycle always eventually involves a downswing.

Similarly, when Germany is in recession, there is overcapacity, leading to an increase in unemployment, as firms lay of unneeded staff. But since the UK and Germany are major trading partners, being in opposite parts of the cycle benefits both. Why? Well, when the UK has under-capacity, which would tend to create inflation in the UK, UK consumers can, instead, buy from German exporters, rather than bidding up prices in the UK. Thus the UK gains. And in Germany, instead of laying off workers, German firms can use their spare capacity

to export goods to the UK. Hence being in opposite parts of the economic cycle is good for both countries.

If we move towards greater cyclical convergence, that means that all cycles will become more pronounced. Our recessions will become deeper, and our booms will become more inflationary, because we will have lost the automatic stabilizer effects of having trading partners in different parts of the cycle.

Thus Labour's key test of whether we should join the euro is really a case of "damned if you do, and damned if you don't". If we join the euro without cyclical convergence then we will always have the wrong interest rates, making our economic cycles more unstable, thus creating higher inflation on the upswings and greater unemployment on the downswings. But if *do* achieve convergence, that *itself* will tend to create cyclical instability. How can we escape this problem? Easy. Just keep cyclically divergent – as we have been since 1981 when our economic performance has been good – and stay out of the euro.

This argument also provides one important reason why it is not necessarily good to be in the largest possible country, and hence against too much political convergence in the EU. Large countries almost invariably use a single currency, and hence tend either to have widely inappropriate monetary policy, or to have too much regional convergence, creating cyclical instability. Big is not necessarily best.

Andrew Lilico is a macro-economic consultant, was formerly an economist at the IFS and the IoD, and is a regular contributor to the Journal.

White Paper on Europe

Mr William Cash, Conservative, Mr David Trimble, Ulster Unionist Party (Leader), Mr Tony Benn, Labour, Sir Michael Spicer, Conservative, Mr Austin Mitchell, Labour, Mr Peter Luff, Conservative

That this House calls on Her Majesty's Government to publish a White Paper on the constitutional, economic and political implications of the United Kingdom joining the European single currency.

Tapsell/Peter, Con
Clark/Alan, Con
Taylor/ John D., UUP – Dep. Ldr.
Bercow/John, Con
Wilkinson/John, Con
Paterson/Owen, Con
Lewis/Julian, Con
Malins/Humfrey, Con
Swayne/Desmond, Con
Ruffley/David, Con
Hayes/John, Con
Body/Richard, Con
Flight/Howard, Con
Brazier/Julian, Con
Hunter/Andrew, Con
Wardle/Charles, Con
Syms/Robert, Con
Winterton/Ann, Con
Loughton/Tim, Con
Robertson/Laurence, Con
St. Aubyn/Nick, Con
Atkinson/Peter, Con
Winterton/Nicholas, Con
Shepherd/Richard, Con
Brady/Graham, Con
Smyth/Martin, UUP
Ross/William, UUP
Forsythe/Clifford, UUP
Beggs/Roy, UUP
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Gorman/Teresa, Con
Gill/Christopher, Con
Roe/Marion, Con
Taylor/Teddy, Con
Townend/John, Con
Steen/Anthony, Con
Wilshire/David, Con
Faber/David, Con
Robathan/Andrew, Con
Grieve/Dominic, Con
Clifton-Brown/Geoffrey, Con
Atkinson/David, Con
Mitchell/Austin, Lab
Woodward/Shaun, Con
Colvin/Michael, Con
Prior/David, Con
Amess/David, Con
Simpson/Alan, Lab
Hawkins/Nick, Con
Hopkins/Kelvin, Lab
Godman/Norman A., LibDem
Taylor/David, Lab
Chapman/Sydney, Con
Maginnis/Ken, UUP
Tredinnick/David, Con
Johnson Smith/Geoffrey, Con
Randall/John, Con
Fabricant/Michael, Con
Sayeed/Jonathan, Con
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Harvey/Nick, LibDem
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Duncan Smith/Iain, Con
Bruce/Ian, Con
Fallon/Michael, Con
Gray/James, Con
Mates/Michael, Con
Page/Richard, Con
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Cryer/Ann, Lab
King/Tom, Con
Gillan/Cheryl, Con
Clark/Michael, Con
Laing/Eleanor, Con
Leigh/Edward, Con
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Soames/Nicholas, Con
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Lansley/Andrew, Con
Shephard/Gillian, Con
Duncan/Alan, Con
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Viggers/Peter, Con
Norman/Archie, Con
Jenkin/Bernard, Con
Whittingdale/John, Con
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Fraser/Christopher, Con
Cryer/John, Lab
Letwin/Oliver, Con
Wise/Audrey, Lab
McDonnell/John, Lab
Cable/Vincent, LibDem
Livingstone/Ken, Lab

Since March the European Journal *has received notice from a large number of readers calling on their MP to support EDM 185. Some MPs have provided a number of interesting reasons for not signing. However, two notable new signatures are Vincent Cable, MP, the Liberal Democrat's Finance Spokesman and Ken Livingstone, Labour MP for Brent East and Mayor of London hopeful.*

The EDM requires more support. If your MP does not appear on the above list and you have not already written, then please write and suggest support of EDM 185 – White Paper on Europe. Address letters to: The House of Commons, Westminster, London SW1A 0AA.

Euroland Economic Policy: A Muddle to Avoid

by Dr Brian Burkitt

Whether Britain should join the euro has long been a matter of heated theoretical debate, but now the arguments can be tested against three months experience of the single currency's actual operation. The striking aspect of these three months is how they have vindicated the arguments of eurosceptics, far sooner than most of them anticipated. For instance, a key argument of those opposed to further EU integration is the futility of fitting a single monetary policy into the framework of a multitude of varying national economies. Between 1st January and 31st March 1999, it has become obvious that a single interest rate cannot meet the needs of all eleven Euroland economies; thus Germany and Italy currently require lower interest rates, while Ireland and Spain require higher ones. The problem would become more acute if the UK participated, with its even greater cyclical and structural divergences. Therefore the Maastricht Treaty makes it impossible to conduct a coherent economic strategy across divergent national economies.

An OECD Report of March 1999 stated that Euroland economies are at greater risk of boom and bust than in the past. Unless EMU governments act to iron out structural differences between their economies, a monumental task that would take generations to achieve, "output volatility could rise". The problem is particularly difficult in the EU because labour mobility is low, with just 5.5 million of its 370 million citizens, approximately 1.5% of the total labour force, working in other EU countries.

Barely three months of experience of EMU has exposed its structural flaws, i.e. the contradiction between the monetarism of Maastricht, embodied in the European Central Bank (ECB), and national governments responsible for their citizens' welfare. The Maastricht Treaty established these conflicting rights to economic policy formation; such a flawed structure embodies compromises between national objectives, which took fiscal and monetary policy further from democratic control.

Under the Treaty and its subsequent development:

(i) the ECB is answerable to nobody and is supposed to set a single monetary policy appropriate for all the economies of Euroland;

(ii) the Stability and Growth Pact (SGP) stipulates rules for all participating countries to follow, the most important being the 3% GDP government deficit limit for 1997, with further deflation to nil by 2002;

(iii) all nations adopting the euro irrevocably surrender foreign exchange rate flexibility.

These three self-imposed characteristics of EMU exclude all possibility of economic policy adjustments. Given the widely different economic conditions faced by Euroland's member economies, a 'one-size-fits-all' policy generates a widening divergence between them. In contemporary circumstances it creates rising German unemployment simultaneous with accelerating Spanish inflation.

In theory, the ECB sets Euroland monetary strategy in isolation. However, the issuing of government bonds is a crucial dimension of monetary policy, which remains under the control of national governments. Likewise foreign exchange issues remain the province of the euro eleven finance ministers; thus, by fixing the dollar-euro exchange rate, they could ensure the imposition of US monetary policies upon the EMU zone!

Authority over budgetary policy is equally divided and confused. For example, if Euroland unemployment remains at 11% compared to 6% in Britain and 4.4% in the USA in an era of zero inflationary pressures, a budget deficit within member states could stimulate expansion and create jobs. However, any government pursuing such a strategy would be in conflict with the SGP. The ECB has already announced that it would respond to expansionary national measures by tightening monetary policy, thus deflating other Euroland economies where demand is adequate and the SGP is being implemented. Therefore the ECB's claim for a role in fiscal policy makes the EMU zone's economic policy mechanism inefficient and confusing. It is also undemocratic; at no stage are voters involved or even consulted.

The ECB has further confused the issue of where economic power is located within Euroland by advocating structural labour market reforms, which, whatever their merits, are surely not within the jurisdiction of a central bank. Moreover, the ECB's pronouncements on the topic rarely reflect the facts that structural reform is only effective over a lengthy period and that, even then, it requires an economic and political environment where voters feel secure enough to tolerate major socio-economic alteration.

The confusion of powers in the formulation of euro zone economic strategy invites a prolonged turf war, with rising unemployment as a consequence. The only logical solutions are:

(i) to dismantle the inefficient, undemocratic structure, a choice that will appear increasingly attractive over time;

(ii) to move towards a federal Euroland. For this to occur, France would have to abandon its apparent control over policy, whilst Germany would need to accept that other nations possess rights over its currency. The achievement of such a radical transformation in attitudes constitutes a major problem, given the stagnation, unemployment and future power struggles that are EMU's legacy.

Tensions between the ECB and Euroland politicians were inevitable, because the Maastricht Treaty created a central bank dedicated to price stability, which came to birth in an era of looming deflation and high unemployment. The ECB's lack of accountability, transparency and democratic legitimacy proves conclusively that it is in need of urgent reform. As currently constituted, it is an anti-democratic, economically inept and potentially corrupt institution. It fails to live up to modern best practice, as laid out in the IMF's proposed international code on central banking, whilst its operational structure lags far behind those entrenched in British and American legislation.

It is crucial that British voters, when and if consulted, possess the information necessary to enable them to steer clear of what promises to be an inefficient, bureaucratic nightmare.

Dr Brian Burkitt is Senior Lecturer in Economics at the University of Bradford and a regular contributor to the Journal.

Why We Need a Fair Referendum on EMU

by Frank Jenkin

For reasons of democratic accountability the Government should adopt Lord Neill's proposal that a referendum on Britain joining EMU should be fair and impartial. But this would be of little value unless we can first convince voters that they have a real choice. Most of the arguments will be familiar to the readers of this *Journal,* and I will amplify just one aspect, namely the world developments within which European policy must fit, before discussing the referendum.

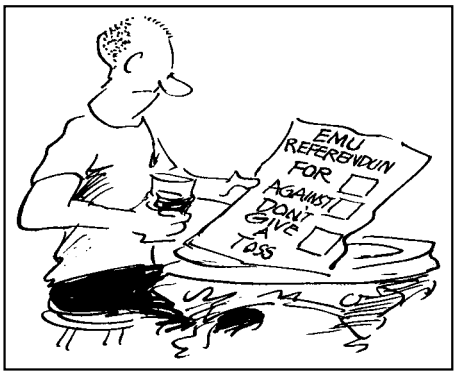
What are the long term prospects for Britain, Europe and the world? Forecasting is a notoriously difficult art, yet some trends appear well established. First, population is growing far faster in the developing countries than in the industrialised countries and, second, the developing countries seek to progress towards the standard of living in the developed countries. We can examine these trends using some recently published scenarios (Global Energy Perspectives, prepared by the World Energy Council and the International Institute for Applied Systems Analysis). These project economic, social, energy and environmental development in eleven different world regions.

Based on purchasing power parities, in 1990 the EU15 countries were responsible for 20% of world economic output. By the end of the next century, on quite modest assumptions about a catching up of living standards by the third world, then, using the above scenarios, the EU15 countries will shrink to typically just 10% of world economic output – a halving in size. Enlargement of the EU will merely slow this process slightly.

Other trends of the past 10–25 years can be expected to continue: the spread of democratic government and of the market economy system, the progressive freeing of world trade under the auspices of the World Trade Organisation, and the globalisation of business and capital flows. Of course there will be setbacks and problems from time to time, as recent Asian experience shows. Yet in the long run the world will surely continue to progress.

Even the subject of global warming is relevant. Based on the scientific conclusions of the Intergovernmental Panel on Climate Change, the WEC/IIASA have prepared a "green" scenario, which assumes international co-operation on environmental protection, policies to reduce energy use and extensive help to developing countries. This scenario assumes a major switch from fossil fuels to renewables and nuclear by 2100, leading to a reduction relative to 1990 of two thirds in carbon emissions.

Yet even this scenario predicts a 1.5°C increase in mean global temperature by 2100. Other scenarios are worse. And global warming is hardly a priority problem for the developing countries, when many face much more urgent problems of poverty and local environmental pollution.



On this view some global warming is unavoidable, and a major part of the strategy for coping with it must be adaptation. This is quite feasible for the industrialised nations, which have the wealth and technology to adapt over time.

Many developing countries are not in this happy state, yet they will have to adapt too. They can best do this if they continue to make progress economically and, on the evidence of recent years, this is best fostered by the spread of democracy and the market system. There is a clear responsibility on the industrialised nations to help such countries. Aid alone is not enough. More important is full involvement backed by an open trading policy, with reduction in tariff and non-tariff barriers to trade under the auspices of the WTO.

What does this mean for Britain's long term trade pattern? The relevant factors are: first, a world economy growing much faster than that of the EU; second, a freeing of the world market under the WTO which is likely to match the development of the EU market under EMU; third, the advantage of Britain diversifying its trade portfolio across the world; and fourth, the moral duty to help the developing countries. If natural economic forces are allowed to operate without interference, then these factors suggest that Britain's trade balance (split at present about 50–50 between the EU and non-EU) will swing decisively towards the rest of the world in the long run (perhaps rising to 60% or two thirds).

These conclusions provide a necessary perspective to the economic and political arguments for Britain joining EMU.

Consider, for example, the argument that joining EMU will eliminate exchange rate risks. Even now, this is a half truth. For in recent years the £ has shown less volatility against the US$ than against the DM. So fixing the £ against the DM (euro) would tend to increase the volatility of the £ against the $, adversely affecting 50% of our trade outside the EU which is mostly denominated in US$. Critically, if trade outside the EU grows as predicted above, then in relative terms the benefit of stability against the euro will decline and the disadvantage of instability against the US$ will increase.

The world view gives a completely new perspective on Britain's choice. For the view of those favouring Britain joining EMU appears to be exclusively Eurocentric. It assumes that trade will be increasingly concentrated on Europe, that our economy must converge with Europe's, that further integration with the EU economy and political system is inevitable, and that we cannot afford to be left out the club.

But from a world perspective there is no obvious reason for any of these assumptions. For suppose, as suggested above, that in 2100 two thirds of Britain's trade lies outside the EU. It would then be bizarre that a minority of our trading partners, led by France and Germany, should bind us to rules and regulations which were irrelevant or even inimical to our wider trading interests. For on a number of matters – over-regulation and harmonisation, inflated social security costs, labour market inflexibility, high unemployment – it is the EU which is out of step with world trends, not vice versa.

The country has a real choice. How should it make that choice?

The standard answer is that, in the British political system, "Parliament decides". But this is a half truth. Why are the British people prepared to give so much power to

their rulers? Surely because, as part of the democratic process, the people have the power to dismiss their rulers. And, having done so, they can elect a fresh government to reverse earlier decisions.

Hence the power of Parliament is in practice limited in two respects. First, it cannot bind future parliaments. Second, it cannot extend the duration of its own tenure of office (at least in peacetime). These constraints arise precisely because otherwise the democratic contract between the people and its rulers (right of the people to dismiss parliament) would be broken.

Exceptionally, issues such as joining EMU involve entering into an international commitment which is intended to hold for a long time (one can never say for ever: *vide* the break up of the USSR). The general mandate given to a government at a general election (where many issues are conflated, and people often vote 'against' parties) is hardly sufficient to cover this, and it would show bad faith with our international partners if the very next parliament were to exercise its democratic right under the British system to reverse the decision. So a referendum adds a degree of stability to an international commitment. If this is to be achieved, arguably a referendum majority of one in a bitterly fought contest is insufficient grounds for making a major constitutional change.

The need for rules of fairness arises because an international commitment of this nature alters the power of the people relative to their rulers. For it is of less and less value to be able to throw out the British government every five years if more and more policy decisions are delegated to outside bodies (e.g. a council of ministers operating under majority voting).

It is precisely for this reason that the people should make the decision to enter into such commitments, not their rulers. For if the latter (i.e. the government) make the decision and then use all their powers to cajole or bully the people into supporting them, they are taking it upon themselves to abrogate the powers and the remedies available to the people.

In the 1975 referendum, the issue of accountability was not explained to the British people in the terms set out above. Promises were made to the people (the safeguard of the national veto, no threat of joining EMU) which have since been broken.

Many other powers have been transferred to the EU in the Maastricht and Amsterdam Treaties (and by decisions of the European Court of Justice), all without the direct approval of the people, and all affecting the democratic bargain between rulers and ruled. There is strong pressure within the EU to harmonise taxes, and the economic theory of a monetary union indicates a need for greater tax raising and dispensation at the centre. Given the experience of the 1975 referendum, voters would be unwise to put any reliance on claims by the Government that they would veto such developments. For governments, and circumstances, change.

We should aim to do better this time. The Government should adopt the Neill recommendations on the conduct of a fair and impartial referendum.

Frank Jenkin is a former consultant to the World Energy Council and a former director of the Central Electricity Generating Board. He is a member of the British Management Data Foundation.

… news in brief

No respite in sight for euro

The euro has continued to fall, hitting a new low against the dollar. On Friday 30th April it fell to $1.0552. European Central bankers are understandably starting to sound a little nervous. Almost daily, people like Hans Tietmeyer, Wim Duisenberg, Jean-Claude Trichet, Ernst Welteke and Jurgen Stark are saying that it has now sunk enough and that they are not deliberately adopting a policy of neglect towards the euro rate. These declarations have made no difference. Instead, the markets are concentrating on the apparently contradictory statements emanating from the ECB, interpreting them as signs of policy weakness. The market view is that the ECB has signally failed to manage its message as well as Alan Greenspan does at the Fed. The markets are also, naturally, looking at the underlying weakness of the euro zone economy and drawing the appropriate conclusions. They are also aware that the US grew at a rate of 4.5% in the first quarter of 1999 while the prediction has been for 3.3%. Growth in Europe, by contrast, is so weak that some analysts are not ruling out further cuts in euro interest rates, which would naturally drive the exchange rate down even further. [*Frankfurter Allgemeine Zeitung,* 3rd May 1999]

To add to the gloom, one of Germany's biggest banks reported on Monday that there was no recovery in sight for the euro economy. Total economic production is 0.9% lower than at the same time last year and further economic contraction is expected for the second quarter of 1999. Although the recent cuts in rates would normally boost confidence, the figures coming out of industry only give cause for pessimism. Both orders and expectations of production are down. [*FAZ-Wirtschaft,* 4th May 1999]

The markets are also, naturally, factoring in the war in Kosovo. It is reported that the markets feel that only an early end to the conflict could halt the euro's collapse, even though the currency's fundamental weakness would of course persist. [*FAZ-Wirtschaft,* 4th May 1999] This all explains why, contrary to the announcements of the euro propagandists, Asian countries have shown reluctance to use the euro as a reserve currency. The head of the Hong Kong monetary authority told the *Financial Times* that "EMU has not actually been tested yet. The time that it will be tested is when there will be a real recession in Europe."

New German commissioners to be red and green

The next two German commissioners are to be drawn from the ranks of the Social Democratic Party and the Green Party. This was confirmed at a meeting of the governing coalition in the Chancellor's office late on 5th May. "This is a coalition agreement", said a spokesman. "It is an irrevocable decision." The SPD is likely to appoint Gunter Verheugen, currently State Secretary in the Foreign Ministry, while the Greens have not yet decided whom they will choose – although they have said it will be a woman. [*Handelsblatt,* 6th May 1999]

How Commissioners are being recycled

Remember how the European Commission "resigned" in March? Well, all 20 Commissioners have remained in their posts, continue to draw full pay and will cash in 3 years' salary when they leave. Furthermore, a clutch of them are even now preparing to continue riding the euro-political merry-go-round by getting themselves elected as members of the European Parliament. Not only will Jacques Santer, the man who used to run the Commission, be ensured of a safe position on a Luxembourg list, but also Emma Bonino and Franz Fischler are going to become MEPs.

POLL DATA

Two-to-One Against the Euro

by Dr Julian Lewis, MP

Opinion polls are drastically underestimating popular opposition to replacing the pound with the euro. The process parallels one in the early 1980s, when Labour's unilateral nuclear disarmers were claiming majority support. That claim was found, on inspection, to be based on partial or incomplete poll questions, such as: "Do you think that Britain should accept US cruise missiles and/or purchase the American Trident nuclear missile system?"

To counter such tactics a group of us commissioned Gallup to ask the basic question every few months: "Do you think that Britain should contribute to possess nuclear weapons as long as other countries have them?" With remarkable consistency (and irrespective of fluctuations in the Cold War), the same results were repeatedly obtained – two-thirds replied "Yes", one quarter said "No" and a small minority were undecided.

At first our opponents denounced the terms of our question. They claimed that we should not have made any reference to what other countries did or did not do. Yet, everyone knew that when election campaigns were fought the question of Labour's 'unilateralism' or 'one-sidedness' would be central. Consequently, after a few years of such systematic polling, even the CND conceded that two-thirds of the population were opposed to unilateralism.

The time has now come to give EMU a dose of this treatment – and all the signs are that the outcome will be the same. I first commissioned ICM last October to ask the question: "Do you think that Britain should replace the pound with the single European currency?" 32 per cent answered "Yes", 56 per cent said "No" – a margin of 24 per cent.

Was this the right question to ask – unlike those polls on EMU which refuse to refer to the pound? In fact, there is a strong parallel between polls in the 1990s which ask about joining EMU without mentioning the pound, and polls in the 1980s which asked about British nuclear disarmament without mentioning nuclear disarmament (or the lack of it) by others.

In any referendum campaign on EMU, the issue of keeping or replacing the pound will undoubtedly be paramount. It follows from this that polls which ignore the loss of the pound will underestimate the likely level of opposition to EMU if and when the campaign occurs.

Thus, on February 11, the *Guardian* led with the banner headline:

"UK WARMS TO THE EURO".

Its report claimed that:

"Support in Britain to join the euro has surged to his highest ever level, according to the first major opinion polls to be taken since the rest of the European Union celebrated the single currency's new year birth."

Continental politicians seldom conceal their political agenda for Europe and the crucial role to be played by EMU

This poll (coincidentally also carried out by ICM) claimed that 36 per cent supported EMU and only 52 per cent opposed it – a margin of only 16 per cent. Yet, it made no reference to the pound – even though abolition of all national currencies is inseparable from the definition of EMU.

I immediately asked ICM to repeat the question they had polled for me the previous October. The fieldwork was carried out in the first week of March, before the resignation of the Commission.

This time 30 per cent answered "Yes" and 60 per cent said "No" to replacing the pound with the single European currency – a margin even greater than that six months earlier. The result strongly suggests that February's alleged "surge in support" for British membership of EMU, trumpeted by the *Guardian,* had evaporated in just four weeks or (more probably) that it had never existed in the first place.

If opposition to the euro actually increased between October 1998 and March 1999, what is there for opponents of EMU to fear? The answer is "fear itself" – in Roosevelt's memorable phrase. A systematic propaganda campaign is under way in the pro-euro press to convince the 'silent majority' of EMU opponents that they are heading for defeat.

It is not enough to obtain the data showing two-to-one opposition to the euro. The exercise must be carried out time and again, and the anti-EMU media should report their poll results as prominently as do their pro-EMU counterparts.

Continental politicians seldom conceal their political agenda for Europe and the crucial role to be played by EMU. Hans Eichel – the 'moderate' successor to Oskar Lafontaine as German Finance Minister – stated in July 1997: "European unification is an absolute must… The euro is not European unification, but it is one important step towards this end."

Romano Prodi, incoming President of the European Commission, declared in June 1996: "Economic and Monetary Union and political union are two sides of the same coin." As recently as March 1998, he added that Europe "was born of a political project. The economic successes … should be seen as part of a design that has always had as its ultimate objective political integration."

Such candour cannot be expected from Tony Blair and Gordon Brown, who boast that EMU entry will depend on economic criteria alone. Yet, they dare not proceed in defiance of a two-to-one majority against replacing the pound with the euro. For once, opinion polls are protecting rather than undermining parliamentary democracy.

Dr Julian Lewis is Conservative MP for New Forest East.

BOOK REVIEWS

Regulating European Labour Markets: more costs than benefits?

by John Addison & Stanley Siebert
London, Institute of Economic Affairs, 1999, ISBN 0255362-2, £8

Reviewed by Dr Nigel Ashford

In the debate on whether Britain should sign up to the Social Chapter of the Maastricht Treaty, the opponents lost. The Labour Government signed with the support of the great majority of the public. Why was it that a normally Eurosceptic electorate should have endorsed such a centralising and damaging position? Discussion with my students revealed: they could clearly see the benefits but were unaware of the costs; the desire to improve working conditions was more concrete than talk of 'flexibility'; the social chapter simply protected 'rights' that everyone had. This pamphlet from the Institute of Economic Affairs, by leading academic experts on labour markets, John Addison and Stanley Siebert, does an excellent job of demonstrating the potential costs, but fails to challenge the underlying principles.

After a brief introduction, the authors provide a history of the development of EU social policy. In the Treaty of Rome, social policy was given a very restricted role, primarily equal pay for men and women and social security benefits for migrant workers. The Commission used this small opening to extend gradually into new areas. In 1989 it grandly proclaimed the Community Charter for Fundamental Social Rights, which identified 26 such 'rights', and proposed 47 Directives. Notably lacking was any attempt to justify the existence of these 'fundamental social rights'. They were simply assumed. The Charter eventually became the Social Chapter of the Maastricht Treaty in 1990. The Major Government correctly opted out. The Blair Government's signature satisfied its union constituency, but it repeated its support for flexible labour markets. The inconsistency is discussed by David Smith in *The Sunday Times* (7 March 1999). Blair falsely claimed that he could veto any directives that threatened British industry, when there is Qualified Majority Voting in certain areas. The Amsterdam Treaty extended intervention further with the Employment Chapter, which will give the Commission another excuse to propose yet more employment directives.

The Blair Government's signature satisfied its union constituency, but it repeated its support for flexible labour markets.

Any reading of the EU social policy literature shows an incredible lack of justification for employment laws. Many books on the EU simply list the benefits and note the opposition of British governments, without explaining the costs or the source of British opposition. As examples, see the widely used textbooks by Clive Archer and Fiona Butler, *The European Union* (Pinter, 1996) and Desmond Dinan, Ever Closer Union? (Macmillan, 1994). These academics do not feel it necessary to inform their readers of the arguments.

In the absence of such a case from the Commission itself, the authors had to construct the rationale for EU employment legislation in chapter 3. The arguments on grounds of efficiency (or market failure) are monopsony (single buyer), externalities and asymmetric (or unbalanced) information. The arguments on grounds of equity are redistribution and social dumping. The authors recognise a theoretical case for market failure, but that must be balanced by reference to government failure, as "it cannot be presumed that the government can be relied upon to correct matters" (p50).

Chapter 4 examines the empirical evidence on costs and benefits. The authors endorse the widely held view amongst economists that the flexibility and deregulation of the US and UK labour markets, in contrast to continental Europe, are major contributions to their much lower unemployment rates. They conclude that "the net effect of employment protection and analogous rules on labour demand (and supply) does seem to be lower employment, greater and longer unemployment for some, and, implicitly, a decline in the speed with which labour relocates from declining to growing sectors of the economy" (p74). *The Economist* recently reported even more evidence on the value of flexibility (February 6, 1999, p100).

The conclusion condemns the failure of the Commission to conduct studies of the possible consequences of its proposed regulations, and the almost total absence of supportive economic analysis. They accuse it of "sheer amateurishness" and of basing its policies on "ethereal notions of fundamental social rights" (p76). They urge the creation of an efficiency audit of social policies, conducted independently of the Social Affairs Directorate, which has its own vested interests. This study provides further evidence of a fundamental flaw in the behaviour of the Commission. It measures its activities by intentions rather than consequences. Set up a new programme, or introduce a new directive, and the Commission feels it has demonstrated its contribution to 'Europe'. It declines the responsibility to examine the consequences of its actions. This was the core of the damning critique by the independent

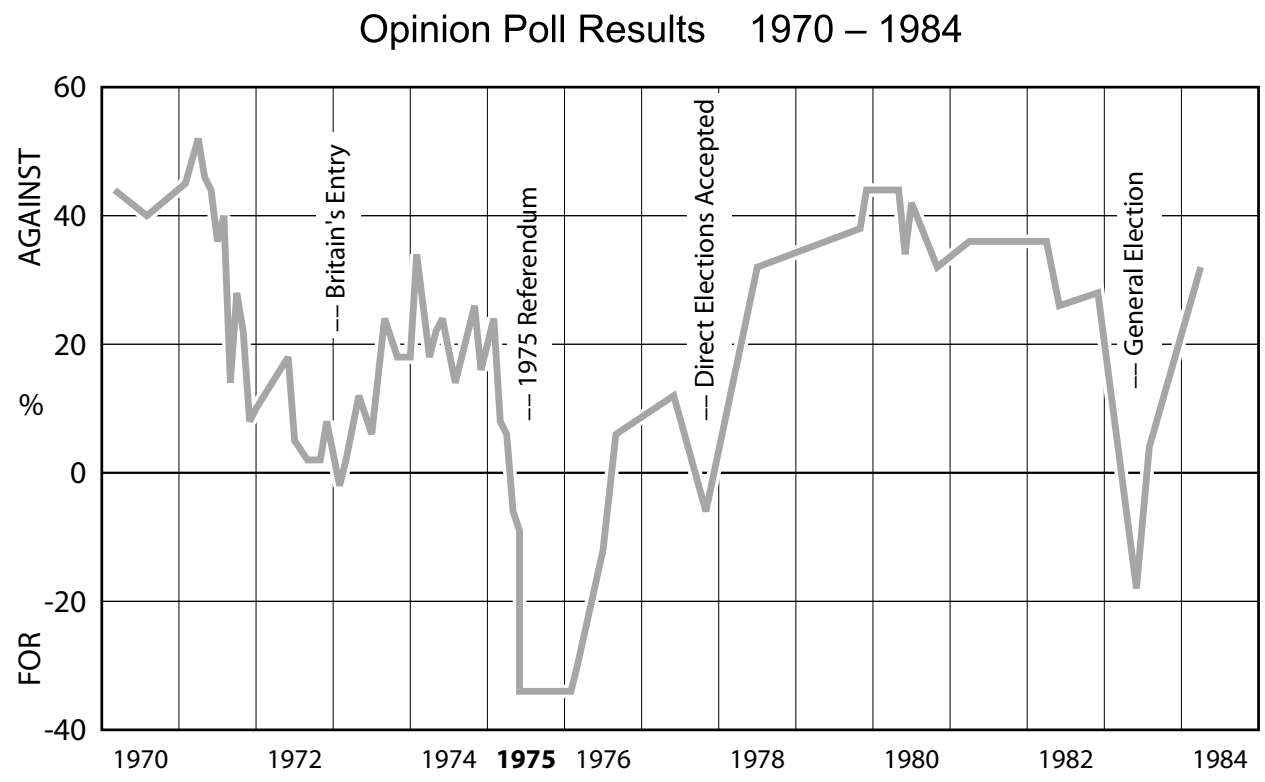
experts. "It has become difficult to find anyone who has even the slightest sense of responsibility". (The report is available at http://europarl.eu.int/experts/en/default/htm). The appointment of yet more politicians committed to the European 'idea' will do nothing to make up for this flaw.

Addison and Siebert do a splendid job of demonstrating the weakness of the case for labour relations and the severe potential costs in employment and growth. However, I fear this will not convert its supporters, because they have a complete lack of interest in empirical evidence. For them, it is an ideological stance based on a faith in social rights and social consensus. What is required is a critique of the values and assumptions behind EU social policy. There are no 'fundamental social rights'. They fail to meet the necessary criteria of human rights: they are not universal; they are not absolute; and they are not inalienable. 'Social consensus' must be revealed as a polite word for 'corporatism', in which policy is made by the big battalions of organised big business and the mass trade unions at the expense of small and medium sized businesses and the non-unionised and the unemployed, a return to the disastrous policies of the 1970s.

The signing of the social chapter was a major error. It provides a danger of dirigisme; it does not inevitably require it. Opponents of a 'social Europe' must continue in identifying its weaknesses, not only economically, as this pamphlet does, but also politically and philosophically.

Dr Nigel Ashford is Senior Lecturer in Politics at Staffordshire University. His next project is to provide a political and philosophical critique of social rights in transatlantic trade agreements.

Those Who Do Not Learn the Lessons of History are Compelled to Repeat Them



The chart shows the result of opinion polls conducted by Gallup in the period 1970 to 1984, using the question closest to "Are you for or against membership of the EEC?" The result shown is the balance against or in favour as a percentage of those expressing an opinion.

Source: *Opinion, Economics and the EEC,* by James Y. Bourlet. Gallup data cited in Appendix 3.

The European Commission Needs Radical Reform

by Keith Marsden

The mass resignation of European Commissioners provides a golden opportunity to reform the EC and the way it does business. What kind of central public services do Europe's citizens want? In the BBC satirical series "Yes, Minister", British civil servants are portrayed as inveterate cynics who continually frustrate the naïve initiatives of their political masters. In contrast, EC officials seem to pursue a federalist vision with missionary zeal, presenting European Union (EU) actions in the best possible light, ignoring or withholding unpalatable facts and censoring ideas that they (and some member states) regard as apostasy.

The EC's sixth report on regional development lends some credence to this caricature and illustrates the weaknesses of existing policy formulation and evaluation procedures. One of the EU's main objectives is to narrow income disparities between poorer and richer countries and regions in the Community. The EC allocates substantial funds and implements special policy instruments to further this goal. Four members (Greece, Ireland, Portugal and Spain) have been singled out for particular attention and labelled the 'Cohesion countries'. The 1999 EC budget earmarks 30 billion euros for "structural" and "cohesion" funds, 35.5% of its total resources.

Cohesion countries also benefit from other EU programmes, including the Common Agricultural Policy (CAP) which accounts for 47% of total EC spending. In fact, Cohesion countries are the only significant net beneficiaries of EC budgetary transfers, receiving 15 billion euros more than they contributed in 1997. The other eleven EU members got back less than they paid in, or ended up more or less even, even though they all have lower income regions. Surprisingly, a balance sheet showing the distribution of funds by country is not provided in this EC report, which is supposed to assess the impact of EC actions.

The 130 page report focuses on progress over the 10 years 1986 to 1996. It states that GDP per head in the four Cohesion countries went up from 65% of the EU average to 76.5%. It claims that "This is an unusually rapid pace of convergence, both from an historical and international perspective", and concludes that "It has been driven largely by closer European integration, but the Structural Funds have also played an important part."

However, the report does not point out that convergence occurred mainly because income growth has slowed dramatically in the EU as a whole over the past four decades. Readers of the report have to search elsewhere to find pertinent Eurostat data. These show that Greece, which became a full member of the EU in 1981, and Spain and Portugal which joined in 1986, have all performed less well within the Union than they did outside (see table). Ireland is the only Cohesion country where incomes have risen substantially faster than the mediocre EU average during the 1990s, and at a more rapid rate than during the three previous decades.

Real GDP Growth (% change per year)

	Greece	Ireland	Portugal	Spain	EU 15
Average 1967–70	7.6	4.2	6.4	7.3	4.8
Average 1971–80	4.7	4.7	4.7	3.5	3.0
Average 1981–90	1.6	3.6	3.2	3.0	2.4
Average 1991–96	1.4	6.6	2.0	1.5	1.5

Source: Eurostat, *Economic Data Pocket Book,* Table 1, January 1999

These data raise serious doubts about the efficacy of EU policies and programmes. Why has closer political integration, harmonisation of economic and social policies and the creation of a single internal market not only failed to boost growth, but apparently retarded it? Has the plethora of EU directives and regulations acted as a drag on enterprise and reduced market flexibility, thus hampering job creation? Has the premature enforcement of EU social "acquis" blunted the competitive edge of some countries, preventing them from exploiting their initial comparative advantages of lower labour costs and longer working hours? Have rising tax burdens and expanded welfare programmes weakened incentives for innovation and work effort? These issues should be addressed, even if the findings challenge some articles of faith of EU members. The following evidence might be taken into account in the assessment.

Wage Costs and Working Hours

According to the OECD, average gross wage costs of production workers have risen to 67% of the German level in Spain in 1996, compared to just 38% in Portugal. Lower labour costs have allowed Portuguese exports and GDP to expand faster than Spain's since 1980. But the report defines competitiveness in a way that effectively excludes wage differences as a factor affecting economic performance. "Competitiveness", it says, is "the ability to produce goods and services which meet the test of international markets, while at the same time maintaining high and sustainable levels of income". Because of its insistence on the "harmonisation" of social policies, the EC is reluctant to accept that lower wages may be necessary if poorer countries are to compete with richer countries which enjoy higher labour productivity due to larger capital stocks per worker. For the same reason, it fails to examine the possibility that too rapid convergence of labour standards has constrained the growth of the Cohesion countries since their accession to the EU. The average number of hours actually worked per week in industry has dropped to 40.4 in Portugal and 38.5 in Spain, roughly on a par with Germany's 39.4. A reformed EC should make harmonisation a development objective, reached after the effectiveness of different policies and "models" have been properly evaluated by national electorates, and competitive market forces have been given adequate rein. Harmonisation should not be based upon untested (or failed) ideology, nor enforced by uniform legislation which puts everyone in a straitjacket.

Taxes

Governments in three of the four Cohesion countries increased their slice of the cake massively from 1960 to 1996. Their current receipts as a percentage of GDP rose to 53.9% from 21.1% in Greece, to 42.3% from 17.6% in Portugal, and to 39.0% from 18.1% in Spain. Can this trend be excluded from the factors responsible for the

deceleration of their growth over this period? In Ireland, the tax/GDP ratio reached a peak of 40.7% in 1988 (up from 28.0% in 1960), but its government has made strenuous efforts to ease the tax burden (particularly on labour and investment) since then. Social security charges amounted to 5.2% of GDP in 1995, a third of the EU average level. The corporate tax rate is just 10% for manufacturers and providers of financial, insurance and computing services. The overall tax ratio dropped to 34.5% in 1995. It is difficult to argue that tax reductions played no part in the outstanding Irish economic performance in the 1990s. They are certainly a plausible explanation for the burst in foreign direct investment into Ireland (averaging 5.4% of GDP from 1987 to 1996) which is noted in the report. The positive impact of tax incentives would surely not have been ignored by the Commission if they did not run counter to EU dogma that tax competition is harmful.

Unemployment

Substantial net receipts of EU funds, equivalent to between 2% and 4% of their GDPs annually, did not prevent unemployment rates soaring to 22% in 1996 in Spain from 14% in 1981, and to 16% from 4% in Greece. The EC report recognises that unemployment is a growing problem, and admits that the mismatch between labour demand and labour supply might be "exacerbated in some cases by the way that wages are set". It even suggests that "the level of taxes and social charges levied on labour is a potential contributor to this mismatch". But it stops well short of recommending liberalisation of wage fixing procedures, and shies away from any discussion of alternative tax policies. Governments might encourage "flexibility", it says, but no means are examined. The main solutions offered are the use of structural funds to boost investment, increased training and "assistance to help people find jobs" – a very vague prescription. There is no analysis of the effectiveness of such activities in the past. The fact that Spain spends about the same proportion of its GDP on active labour market programmes as does Portugal, yet has an unemployment rate three times higher, does not appear to give the Commission pause for thought. A re-examination of such conventional wisdoms is long overdue.

In short, this anodyne report fails to dispel the disquiet caused by recent revelations of widespread fraud and mismanagement within the EC. It hardly justifies the high salaries and generous perks given to EC officials. Nor does it provide a convincing case that the funds handed over to the EC by EU taxpayers (85.5 billion euros in total this year) will be put to good use. It simply ignores the hidden cost of misguided policies imposed on member states by EU directives and guidelines. This hidden cost is the income foregone resulting from inefficiency and sluggish economic growth.

Before the Berlin Summit, European leaders promised greater transparency and accountability in EU affairs. They need to set an example by insisting on more rigorous analysis of past performance and an open discussion of alternative approaches in the reports submitted to them by the EC. This requires a radical shift in the working ethos within the Commission. EC officials cannot be expected to do an honest job when an auditor is suspended for revealing financial irregularities, an economist is sacked for writing a book about the differing views on monetary policy of France and Germany, when Commissioners are political has-beens rewarded for their past services to their governments, and when their cronies are appointed as top advisers. This does not mean introducing a "Yes, Minister" cynicism. Rather, it demands fewer sacred cows, more respect for divergent views and greater recognition of competence, political neutrality and integrity in selection and promotion procedures. Loyalty to the institution should be shown by commitment to goals, not in blind adherence to a particular doctrine. This may be asking a lot. But major reform is needed if the potential gains from European co-operation (and competition) are to be realised.

Keith Marsden is an economics consultant based in Geneva. He is a regular contributor to the Wall Street Journal Europe.

… news in brief

"The war in Kosovo will further the enlargement of the EU"

Presenting a key policy document on Europe, the leader of the opposition Christian Democrats in Germany, Wolfgang Schauble, has said that the war in Kosovo would further the cause of EU enlargement. He was presenting a paper written in conjunction with his old colleague, Karl Lamers. The paper recalled the paper, *Reflections on European politics,* published in 1994, which outlined the theory of the "hard core" – a doctrine which the new paper reaffirms vehemently. In the 1994 paper, Lamers and Schauble had famously said that if Eastern Europe could not be stabilised by the EU, then Germany might have to resort to "traditional means" to do so on its own. The authors did not say whether they considered the present war to be an example of that.

Littered with references to Europe's "federal structure", the paper also blows a hole in Tony Blair's continued pretence (inherited from John Major and shared by William Hague) that European integration is an economic issue. The document suggests "basic principles for a constitutional treaty" and Karl Lamers insisted that "the European question is in its very core a constitutional question". He said that Europe already consisted of "united states" even is they could not be compared to the United States of Europe. The title to the published version of the article is uncompromising and clear: *Europe needs a constitutional treaty.* It suggests that a group of "outstanding personalities" be appointed from the member states and from the candidate countries to draw up the new constitution.

The document also emphasises that European integration affects domestic policy and the internal structures of member states. "European policy becomes immediately domestic policy and vice versa." It says that Germany has a "leading function in Europe" and that the Maastricht treaty means that "any politician who tries to pursue another policy will be guilty of infringing the treaty". [*Frankfurter Allgemeine Zeitung,* 4th May 1999]

Kohl calls for Serbia to be admitted to EU

The former German Chancellor, Helmut Kohl, has called for Serbia to be admitted to the European Union. He told a Dutch newspaper that Serbia and other Balkan states ought to join. This was the only way to ensure peace and stability in the region, he said. Serbia, Croatia and Slovenia were ancient European countries and if they fulfilled the criteria for "democracy, human rights and the recognition of borders". He presumably thinks that NATO is also recognising borders in its attacks on Yugoslavia on behalf of Kosovo. [*NRC Handelsblatt,* Amsterdam, 5th May 1999]

In Europe, Not Run By Europe

Extracts of a speech made by William Hague in Budapest on May 13th, 1999

The desire of a people to live at peace in a unitary state is not a negative or illegitimate aspiration. If the idea of national identity seems frightening to some, let us instead call it democracy. But whatever name we call it by, it is that aspiration that has allowed me to speak here today as a democrat among fellow democrats in a free Hungary.

I am honoured to be here, not just as your guest, but as the leader of a party which has always tried to play its role in building a free Europe.

It was ten years ago that my predecessor as leader of the Conservative Party, Margaret Thatcher, said these words to an astonished audience in Bruges:

"We must never forget that east of the Iron Curtain peoples who once enjoyed a full share of European culture, freedom and identity have been cut off from their roots. We shall always look upon Warsaw, Prague and Budapest as great European cities."

Her speech was received with ridicule and contempt in many of the palaces and chancelleries of Europe. But, barely a year later, those cities were free. As so often, Margaret Thatcher had been underestimated by her rivals.

That, perhaps, was excusable. But what happened afterwards was not. The overthrow of Communist tyranny was an opportunity which the European Union failed to grasp.

At the beginning of this month, the Amsterdam Treaty came into force. It was meant to be the treaty for enlargement. But, as so often happens, this laudable aim was wholly forgotten amid the bickering of the final summit meeting. Faced with the need to make practical changes to their institutions and structures, Europe's leaders balked at it.

What emerged from Amsterdam is a blueprint for a deeper, not a wider, Europe. None of the necessary reforms has been tackled: neither the liberalisation of agricultural policy, nor the decentralisation of power, nor the streamlining of the Brussels bureaucracy, nor even the practical, precise institutional changes needed for enlargement to happen. Far from preparing for expansion, the EU is going down precisely the opposite path, taking yet more powers from the nation states to the centre.

Nothing represents more the failure of Europe's left wing leaders to prepare the way for enlargement than the failure at March's European Council to agree even the fudged CAP reforms put together by agriculture ministers.

The truth is that, in order to accommodate states with widely differing conditions, the EU must be prepared to devolve power to a lower level. The EU's structure was designed for six broadly similar economies in the 1950s. It cannot easily be made applicable to Europe in its glorious, diverse entirety.

Who seriously imagines that it will be sensible or possible to extend our wasteful and damaging Common Agricultural Policy to Hungary or Poland? Who truly believes that it will be sensible or possible to extend the Social Chapter to the workers of central Europe, with the rises in unemployment that would follow?

British Conservatives will at these European elections be pressing for governments to have greater freedom in deciding which other aspects of EU policy they intend to adopt. To use the Euro jargon, we want to give applicant countries a partial derogation from the *acquis communautaire.*

There is no reason why a new member should not be able to adopt the provisions of the European single market and customs union while retaining full control over, say, defence policy, or fisheries, or social and employment policy. Nor is there any reason why member governments should not co-operate with each other over issues like foreign and security policy, or justice and home affairs. What I am saying is that just as in a restaurant every diner is not required to order the same food from the menu, nor should members of the European Union be forced to sign up to every policy coming out of Brussels.

In other words, we should be in Europe but not run by Europe.

William Hague is Leader of the Conservative Party and MP for Richmond (Yorkshire).



The Labour Government has chosen a regional list system of Proportional Representation for the 10 June 1999 election to the European Parliament, using closed lists:

- Britain is divided into 11 Government Office regions. Northern Ireland has its own PR system.
- Party lists of candidates will stand in each region, named on the ballot paper.
- Under the closed list system, votes are cast for a party only; there is no choice between candidates. Independents may also stand.
- Votes for parties will cascade through the party lists, electing MEPs in proportion, in the order ranked by their party.

A new balance of power

Under PR, on the 1997 general election figures, the number of Tory MEPs would rise to 28, the LibDems to 12, with Labour dropping to 42.

Modernising Government

by Charlotte Horsfield

A study of the Government's recent White Paper, *Modernising Government,* helps to fill in some remaining details of a design ultimately to be unveiled; for soon to be revealed is the final shape and form of the government of the European Union. This White Paper tells us something about the place of Whitehall in the scheme of things.

By degrees most of our constitution has been overlaid by another, so much so that our own institutions now perform more menial tasks than the ones for which they were designed. Parliament has effected a revolution whilst pretending only to be tinkering with the works to extend their useful life. So let us look at what has been the effect of this overhaul, for in a democracy the electorate are supposed to be players on the stage, or at least privy to the text of the play; instead they are treated like any audience who may as members of the paying public come to watch the actors, a governing élite, perform in a political thriller.

In 1789 Edmund Burke, whilst musing on the Revolution in France, wrote:

> *Though a king may abdicate for his own person, he cannot abdicate for the monarchy. By as strong or by a stronger reason, the House of Commons cannot renounce its share of authority. The engagement and pact of society which generally goes by the name of the constitution forbids such invasion and such surrender.*

In 1972, however, Parliament invited an invasion and surrendered to the terms of the Rome Treaty. Nor was that its final surrender, for subsequent Parliaments have ratified additional treaties.

Perhaps the paying public should now be allowed to pronounce on the performance, by booing or clapping as they think fit. The underlying plot of the play has been one of intrigue and trickery, employed to replace a fine old constitution, Gothic and beautiful as embodied in the Palace of Westminster, with a tatty new one, embodied in the Berlaymont building which houses the European Commission. Before the curtain finally comes down, the last scene of the play may show the people of Britain waking up to what they have lost, to the destruction of their Christian heritage by the followers of Mammon.

To understand the extent of the surrender of our constitution by Parliament, we need only look at the Protocol set out in the Treaty of Amsterdam "on the role of national parliaments in the European Union". The Protocol is binding on national parliaments, now no longer seen as sovereign. It desires those parliaments to become involved in the activities of the European Union. The House of Commons published a report in 1997 on the draft of that Protocol and the members of the committee which examined the draft suggested that, because of the European Parliament's scale and distance, national parliaments will remain the primary focus of democratic legitimacy within the European Union. Here we have a conundrum. How can democratic legitimacy be expressed by assemblies which have no power? Or put another way, if power rests primarily with bodies which are neither national nor elected, how can those which are national and elected remain the primary focus of democratic legitimacy? The answer proposed by the Protocol is to seek to "enhance their ability to express their views on matters which may be of particular interest to them". There are 15 national governments, soon to be increased to 20 or more, all of which must be encouraged to express a view, but in the end decisions are taken by a qualified majority vote of the Council of Ministers after the Commission has floated a proposal. How convincing can the democratic legitimacy of national parliaments remain under such a system? How can the common man be heard if even his representative has no power to effect change? Devolution to regional assemblies makes little difference if they are, like national parliaments, subordinate to the will of the European institutions; that, in other words, the power being devolved is phoney. The local assemblies will be subsidiary to the central government of Europe. What they will assuredly do is destroy the unity of the nation and obliterate its constitution and, with it, the loyalty to and affection for a sovereign national Parliament. Various tasks have been assigned to them, such as the dispersement of sums of money from Europe's structural funds, but they will also have to find benefactors to match those sums before they can be spent.

Devolution to regional assemblies makes little difference if they are, like national parliaments, subordinate to the will of the European institutions…

Furthermore, as Modernising Government indicates, our civil service is to be integrated more fully into the European Union. This the Prime Minister presents in the form of seven challenges to our civil servants. They will have to be retrained, of course, in their new role; they will have to be motivated too. Somehow they have got to be integrated into Europe and at the same time work closely not only with the UK government but with the devolved administrations. They will have to learn to be innovative, take risks, work across organisational boundaries. It all sounds very exciting. A new breed of bureaucrat will have to be invented. To this effect the Local Government Association has set up the Local Government Improvement and Development Agency. The very title must take some of the friskiness out of the new breed. The Civil Service is setting up a new Centre for Management and Policy Studies; the Department of Education and Employment is setting up the new National College for School Leadership; and the Armed Forces now have a new Joint Services Command and Staff College. The Home Office, the Inland Revenue and Customs & Excise are conducting pilot exercises to change their culture to fit the new constitution. All parts of the public sector have National Training Organisations and soon there will be a Central Government National Training Organisation to develop and maintain a corporate strategy for training and development. All this activity may put to flight the spectre of

unemployment but it bodes ill for the payer of taxes who must finance it; for more of the best are to be encouraged to join and stay with the civil service, thereby inflating the hopes of the bureaucracy. However, outdated assumptions about public sector pay are to be challenged. "Mainstreaming" must also be taken into account for this is a New Britain term which means that all the anti-discrimination law which stems from Article 119 of the Rome Treaty and subsequent amendments relating to EC social policies must be strictly observed; and of course joking is forbidden because no joke can stand up to translation into umpteen languages.

This, we are told, heralds "information age government". New technologies will be put at the service of the civil servants who will be linked together with the latest equipment. But the real jewel in the crown of information age government will be the multi-purpose smartcard, which it is predicted will evolve into still more powerful technologies. This small piece of plastic will be a digitally signed personalised identity card, finger printed, named and numbered to be on the safe side and loaded with personalised information. Through this marvel of modern technology we can have delivered 'joined up government'. This will allow us to notify the authorities of our change of address and all the government departments will simultaneously be informed "simply and electronically in one transaction". It is intended that by the year 2008 all dealings with government will be deliverable electronically. New energy is being injected into the system by means of financial rewards and every Permanent Secretary will be responsible for driving through the key government targets. Everything is going to be high quality and efficient. In order to show that the Government means what it says, those seeking further information can look for it on the Internet.

Modernisation is not confined to the civil service. The iconoclasts are setting to work on the House of Lords. "Even at this late stage of our parliamentary history the Government do not suggest reform for reform's sake", said the Lord Privy Seal (Baroness Jay of Paddington) when introducing the Second Reading of the Bill to reform the House of Lords on the 29th March. "This Bill is part of our determination to change our country's institutions so that they are fit for the 21st century, to achieve a new constitutional settlement… We are looking at ways to improve the delivery of the Government's own policies. I am grateful to the noble Lord, Lord Lucas, for his pertinent question on this during Question Time. They will indeed build on the technological developments of recent decades. Tomorrow we will publish a White Paper, *Modernising Government,* which will set out a strategy for implementing change… This House cannot be immune from that process of reform."

There we have it. Our institutions are all being shaken out, picked over by the rag and bone merchant. Bits and pieces are to be saved and stitched together into a patch-work quilt to form administrative regions of a European Union. Surprisingly the Lord Privy Seal claimed that the Government's "sensible incremental responses based on liberal constitutional principles" have the support of the electorate. She invoked the democratic principle, and pitched it against the privileged position of the hereditary peers in the Upper House, believing their prescence there to be an anacronism in our Brave New Britain.

One of the joys of the hereditary element in Parliament has been the way it has brought into public life some of the most altruistic free spirits to be found in politics. It is perhaps this characteristic which upsets the sheepdog instincts of the present Government and which is driving it to expell this less selectable, countable or whippable element from Parliament. In future if the hereditaries want to exercise their legislative skills, for many of them are very skilled legislators and there is no immediate plan to abolish hereditary titles, they may have to wait to be appointed to the Upper House by an appointments commission, or stand for election like any commoner.

In the same way as there is no place for jokes in the European Union, there is no room in Parliament for the maverick politician. Joy and originality are to be bred out of the constitution and out of the national character, offered as a sacrifice, no doubt, on the altar of some strange millennium goddess.

Charlotte Horsfield is a regular contributor to the Journal.

… news in brief

Council of Europe "should intervene even more"

Speaking on the 50th anniversary of the foundation of the Council of Europe – the continent's primary "human rights" body – the president of the Council's parliamentary assembly, Lord Johnston (formerly Sir Russell Johnson) has said that, "The defence of democracy is a never ending task." "The war in the Balkans", he added, "should encourage us to continue our work." And for good measure: "The dominant characteristic of the Council's action in the next five years should be interference in the internal affairs of member states." Lord Johnston need have no worry: the Council will certainly be doing so, especially since the integration of the European Convention on Human Rights gives the Strasbourg Court the right to overturn criminal convictions in British courts. It has already indicated that it will do so for the two boys who murdered Jamie Bulger. [*Suddeutsche Zeitung,* 6th May 1999] NB: In recent years the Council of Europe has admitted all the former Warsaw Pact countries from Eastern Europe and several prominent members of the former Soviet Union, in the first place Russia itself but also Ukraine and, most recently, Georgia. This means that many of the "judges" who sit on the Strasbourg court are either "human rights activists" (of the kind whose activity the House of Lords ruled was incompatible with an impartial judicial activity) or old Communist functionaries.

Protests across Europe against war in Yugoslavia

Trades unionists demonstrated against the war in Germany, where they were addressed by the former Finance Minister, Oskar Lafontaine, who was making his first public appearance since his resignation. To the applause of some 12,000 people, Lafontaine said that the military planning of the war had not been thought through and that it was a mistake to ride roughshod over the United Nations. The Defence Minister, Rudolf Scharping, was greeted with chants of "Murderer, murderer!"

Elsewhere in Europe, similar Mayday celebrations took on an anti-NATO tone. In Kiev, Sofia and Moscow demonstrations were held against NATO. In Sofia some 20,000 people chanted "NATO's fascists are today's terrorists". In Madrid, 20,000 demanded rights for the Kosovo Albanians and an end to the war. 10,000 demonstrated in Istanbul. [*Frankfurter Allgemeine Zeitung,* 3rd May 1999]

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Lord Shore speaking on
"World Order and the Nation State"
The Cavendish Club,
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EUROWATCH

The ECB's attitude to the value of the euro was "benign neglect", said its president, Wim Duisenberg. He later modified that statement to say he meant not neglect, exactly, but that the Bank was not unduly concerned about the euro and would not intervene in the market to support it. True, the Bank's remit is to control the money supply and inflation and not the currency, but there is little the Bank could do anyway. Market intervention is never effective in the long run, as Britain discovered when it was forced to drop out of the ERM in 1992 and, before that, the Snake. Since the G7 summit, there has been no further suggestion from European politicians of concerted intervention or of fixing target zones for the euro to fluctuate within.

No; the value of the euro depends first and foremost on the fundamental performance of its member economies and specifically of France and Germany, as these make up more than two thirds of the euro bloc economies. The euro is struggling against the doubled edged sword of sluggish European growth and the unexpected buoyancy of the US economy. Apologists for the euro claim that over exuberance in the US economy is the principal reason for the euro's lacklustre performance. For Britain, whose business cycle is more closely attuned to the US, the pound has remained nicely in the middle of the two currencies; stronger than the euro but weaker than the dollar.

Some financial analysts argue that US equity prices are greatly overvalued and that P/E ratios have reached unprecedented highs. Nevertheless, the Dow Jones index shows little inclination to reverse its almost continuous upward trend. Unemployment in the US fell again in the first quarter of this year, while in Europe it rose again. The threat of worldwide recession now seems to have dissipated as the Asian economies show signs of recovery. The IMF and OECD have revised upward their estimates of worldwide growth in 2000 to 3.4%, but do not anticipate significantly stronger growth for the core European economies. The outlook for the euro is therefore one of further weakness. In the currency markets there is talk of not whether, but when, it reaches parity with the dollar.

Surprisingly, perhaps, we have recently heard less from the pro-euro camp about the disadvantages to the British economy of the strong pound. Our export sector and inward investment would suffer if we did not join the euro, it had been argued. But the pound is still competitive in the dollar market and forecasts that some 25% of world trade would be invoiced in euros within a year of the single currency's inception now seem wildly optimistic. Less than 10% of transactions even between the euro-zone countries have been transacted in euros. The number of private accounts so far opened in euros is minuscule as individuals continue to use their national currencies. High commission charges for eurocheques by the French banks, in particular, have hardly encouraged an enthusiastic switch to the euro. Inward investment continues to flow into the UK, attracted by its flexible labour markets and lower taxes than in Europe.

This government is, by stealth, preparing the UK for entry to Monetary Union. Selling off our gold reserves is another move in that direction. More worryingly, it will mean bringing our economy more into line with the rest of Europe.

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David Lascelles, author of
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Monday, 28th June 1999 6.30 pm
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Campaign for an Independent Britain

The European Foundation

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

Objectives

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

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

Activities

The Foundation pursues its objectives by:

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

The Foundation

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

It concerns itself with the following main topics:

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

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