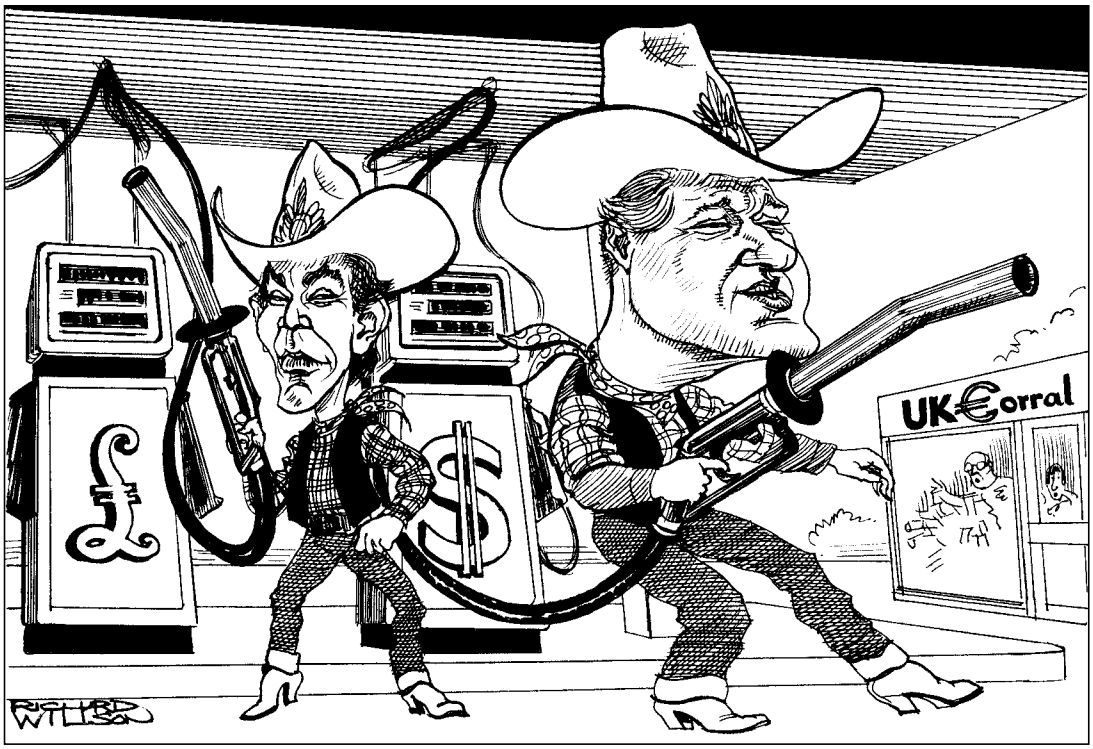
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THE EUROPEAN JOURNAL

The Journal of the European Foundation



Bill Jamieson

High Noon for Britain's Oil

&

Armand van Dormael, Greville Howard, Hans-Rüdiger Minow and Humfrey Malins, MP

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

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Editor: Tony Lodge

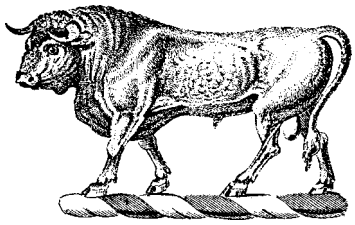
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European Union in Crisis

It takes two to tango, so Oskar, like the European Commission, had to foxtrot away into the night. It was not very surprising given the extent to which he had alienated the business community in Germany, the European Central Bank and the European political establishment with the direct and candid way he had exposed the contradictions between the expectations and the basis upon which Chancellor Schröder had won the German elections and the deflationary implications of the Maastricht Treaty. I was myself unsurprised because, a few years ago, I had spoken at a Conference immediately before him and he had expressed his grave reservations about the Maastricht criteria and agreed with me that they would lead to massive unemployment and instability in Europe and in Germany. Indeed, the writing was on the wall when, within a few days of the German election, on the 2nd October last year, the distinguished German economist, Wilhelm Hankel of the University of Frankfurt (a member of the Advisory Board of the European Foundation and who had been one of the four who had challenged the German Government on the Maastricht Treaty in the German Constitutional Court) predicted in *Die Zeit* that there would be a flight of capital from Germany in pursuance of the policies which the new Government would follow.

The removal of Oskar Lafontaine and the collapse of the European Commission does not alter the fact that the contradictions remain, nor that the continuing drive to political union remains 'at the very heart' of German policy and that of the Commission and of the Maastricht Treaty itself. These cannot be removed except by renegotiation of both Maastricht and Amsterdam, as I have argued both during the debates and since. We now know that Lafontaine's successor, Hans Eichel, is deeply committed to a federal Europe. Because of the treaties and the insistence by Germany on its own national interests, as I argued on Sky that day, nothing in essence will change in the medium, nor longer, term. We must also remember that Joschka Fischer, their Foreign Minister, has insisted on the European Union being a "legal entity in international law" as "the decisive task of our time" and describes himself as an "arch federalist". Moreover, Hans Eichel himself is equally committed to a single Defence and Foreign Policy with Chancellor Schröder, which poses fundamental problems for Tony Blair's Government. All this is quite apart from the question of the removal of the United Kingdom's rebate, which is deeply opposed by the British electorate, as is the prospect of our losing the pound.

In the *Guardian,* during the same week that Lafontaine departed, the opinion polls showed that support for the euro in the UK had dropped to 31%. In the week before, Peter Shore, Michael Portillo and I defeated Edwina Currie, David Curry and Willem Buiter (who is a member of the Bank of England monetary policy committee) in a debate in front of a random audience of about two hundred at Duxford in Cambridgeshire. What was striking about the debate was the clear insistence by our opponents in favour of a decisive vote for the principle of political union which, having heard our arguments against, the audience rejected.

All of this emphasises the need for a clear and simple message in the run-up to the Referendum. This may seem some time away but the winning of the 'No' vote must be based on a consistent and continuous programme for as long as it takes based on political principle and not merely on the economic arguments, strong as they are on our side of the debate. It was alarming, therefore, to hear John Major on the Frost programme on Sunday, 14th March, insisting on the economic case against the euro when he suggested that he would vote 'No' if the Referendum took place before the economic benefits of the euro were plainly in British interests. It will not be lost on readers of the *European Journal,* nor the people of the country, that it was only after a prolonged struggle beginning with the Maastricht Referendum Campaign (MARC), which I co-chaired with Bryan Gould (Lab) and Nick Harvey (LibDem), and our 350,000 petition to Parliament for a referendum on Maastricht in 1993 (even before the creation of the Referendum Party) and Richard Shepherd's Referendum Bill in 1991 and my own Bill in 1996, that a commitment to call a Referendum on the single currency was reluctantly conceded by John Major's Government. This has been adopted by New Labour under Tony Blair. They are now intent on spending "tens of millions" of taxpayers' money on their changeover (or rather handover) plan and the Referendum itself.

The reason why this history is important is because, as John Major made clear, it remains at the centre of gravity of the debate. I do not agree that we can win the Referendum with the economic arguments as the sole principle of our strategy. Nor can I see any merit in dodging the issue by saying 'No' now, but that we might say 'Yes' within seven years after the next election. The present Government and Opposition policy is another variant of John Major's disastrous 'wait and see' policy and simply loses the time we need, now, to get a clear and simple message across in good time before the Referendum vote itself. My EDM calling for a White Paper on Europe, on the constitutional, economic and political implications of joining EMU is signed by all major parties including front bench Conservative members (see p. 4).

It is not a question of insisting on principle, as if we were dancing on the head of a theological pin, but because the principle is in practice about whether we continue to govern ourselves. Nothing could be more practical on economic as well as constitutional grounds. For 'constitutional grounds' read, simply, 'preserving freedom and democracy'. The opposition to the Maastricht Treaty, at bottom, was exclusively based on this. As it becomes more obvious by the day that those who opposed it were right, so many of those who promoted the Treaty, which allowed the whole process to go ahead, and who now say they want a 'No' vote on economic grounds for the time being, continue to sell the pass. The historians will catch up with them. The European Foundation simply says "No, Never" to the euro.

Bill Cash, March 1999

Corpus Juris – The Thin End of the Wedge

by Humfrey Malins, MP

The difficulty when writing a serious article is first to engage and then to retain the reader's interest! Well, dear reader, can you bear to continue? The subject matter is important. Consider for a moment that you are one of those people who cares passionately about this country's independence. You are? So far, so good. Now, spare a thought for one aspect of that independence which is under severe threat from the EU, and that aspect is our independent British system of criminal justice. It is my belief that it is the EU's intention ultimately to abolish our British criminal justice system and replace it with a single, Europe-wide criminal justice system, administered centrally and binding on all EU states. This would mean goodbye to our cherished jury system. Goodbye to our lay magistrates, and hello to the European inquisitorial system with 'professional' (ouch) judges. The time to spot the danger and deal with it is now. Read on, if you have the will to do so.

On 17th April 1997, in the Spanish town of San Sebastian, something called the Corpus Juris was presented to a conference of people – people with influence in the EU – and a conference being paid for by the European Commission. What is the Corpus Juris? It is, in effect, a body of criminal law provisions, drafted by EU experts for and on behalf of the Commission, containing 35 articles. It was presented to the conference as a measure against fraud and, in particular, fraud on the EU budget, which is undoubtedly a problem, as we know only too well. Crimes of fraud are defined in the Corpus Juris, the territory of the EU member states is established as a single legal area and a European public prosecutor to be based in Brussels is therein set up. This person is to have some strong powers – he is to have a delegate in each member state's capital city, national public prosecutors will have to obey him, he can instruct a national judge to issue a Europe-wide arrest warrant, and he can hold a suspect in detention for months on end pending his investigation – with no public hearing at all. This looks rather like goodbye to habeas corpus and a defendant's rights which are so well protected in our jurisdiction. EU fraud cases are then to be tried by national courts consisting of professional judges – not jurors and not lay magistrates. All this, dear reader, is in the Corpus Juris.

It is an ambitious plan, but it is still only a plan, and we need to ask two questions. The first is, is it possible that the Corpus Juris with its accompanying rules can be forced on an unwilling country? This, I'm afraid, looks likely, despite the following comment by Home Office Minister Kate Hoey in Parliament last December. She said, "We disagree with many of the recommendations of the Corpus Juris study. None of the recommendations have been submitted to the Council of the European Union but, if this were to happen, unanimous agreement would be needed for them to be adopted and come into effect." Kate, I am sorry to say, is wrong and has been misled, albeit unintentionally, by her officials. Let me not get too complicated but the position is this. Since Corpus Juris is designed and presented to the world as a 'measure against fraud', the provisions of Article 280 of the Treaty of Amsterdam would apply – quite simply, this provides for co-decision co-decision between the Parliament and the Council of Ministers, and qualified majority voting will apply and the UK will have no veto! Indeed, Mr Santer, the Commission President, made it clear in Brussels on 10th November last that he intended to use Article 280 of the Treaty and introduce it. He added, "The creation of the European Public Prosecutor is unavoidable."

It is an ambitious plan, but it is still only a plan, and we need to ask two questions

I said there were two questions to be addressed, and the second is even more important than the first. Is the Corpus Juris the thin end of the wedge – that is, can it be expanded eventually to replace our own criminal justice system? I fear that it can and it will. Rather lamely, Miss Hoey told parliament in December last, "The Government sees no prospect that it could support proposals for a common criminal justice system". Hmmm! Echoes here of the comments of Lord McIntosh to the House of Lords on 24th March last year. Lord Pearson had asked him whether it was intended to extend the Corpus Juris to all areas of criminal activity. Lord McIntosh poured scorn on that suggestion. He said that the Corpus Juris report was produced by a group of academics and had never been considered by the institutions of the European Union, let alone approved by them. He added, "I have no indication that it will be." More misleading, I am afraid.

Let's go back to the conference in San Sebastian in April last where the President of the European Parliament, Don Jose-Maria Gil-Robles, said, "It is evident that the experience of co-operation within the community framework that we are advocating can constitute an important model for the realisation of a common European juridical and judicial space … against all and any criminal activity." The problem is that we in England are deliberately kept in the dark about what is said on the subject on the mainland of Europe. The push there is towards a European judicial area. Mrs Diemut Theato, hugely influential as Chairman of the Committee on Budgetary Control in the EU Parliament, said not long ago that the Corpus Juris could be a weapon capable of severing the Gordian knot of disparities and malfunctions currently existing between the different member states' judicial systems. She referred to the need to draw up common instruments to deal with common problems in accordance with the collective wishes of Europe's citizens. It strikes me that a lot of people pretend to speak for Europe's citizens, when in reality they do no such thing. Let me leave the last word on this question to the organisers of the San Sebastian conference; proudly announcing the Corpus Juris, they concluded that it was conceived as "the embryo of a future European criminal code".

Until the later part of last year, I knew next to nothing about these developments, and I expect the same could be said of you. But then I was asked by the Home Affairs Select Committee to attend an inter-

parliamentary conference on the protection of European Union citizens' financial interests in Brussels. I arrived with an open mind and in a happy mood. I left in a state of depression. Speaker after speaker called for a European legal area and common criminal law system. With breathtaking arrogance the authorities asked representatives to fill in a questionnaire. Look at the following two questions I was asked and decide if they make your stomach churn. Question 1 was, "How has public opinion in your country reacted to the proposals for standardising certain areas of member states' criminal law, or for co-ordinating criminal law provisions?" My answer to that is that nobody here knows anything about them. And then, "Has the concept of a European judicial area been sufficiently taken on board by the public? How could national parliaments and the European Parliament increase the public's acceptance and understanding of this idea, which is so important for civil society?"

Need I say more? I suggested at the beginning that you might be a person that cared deeply about our independence. I am convinced that plans are afoot to abolish our historic and proud criminal justice system and I, for one, will fight against them. Will you?

Humfrey Malins, CBE, is Conservative MP for Woking, a Recorder of the Crown Court and a member of the Home Affairs Select Committee.

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

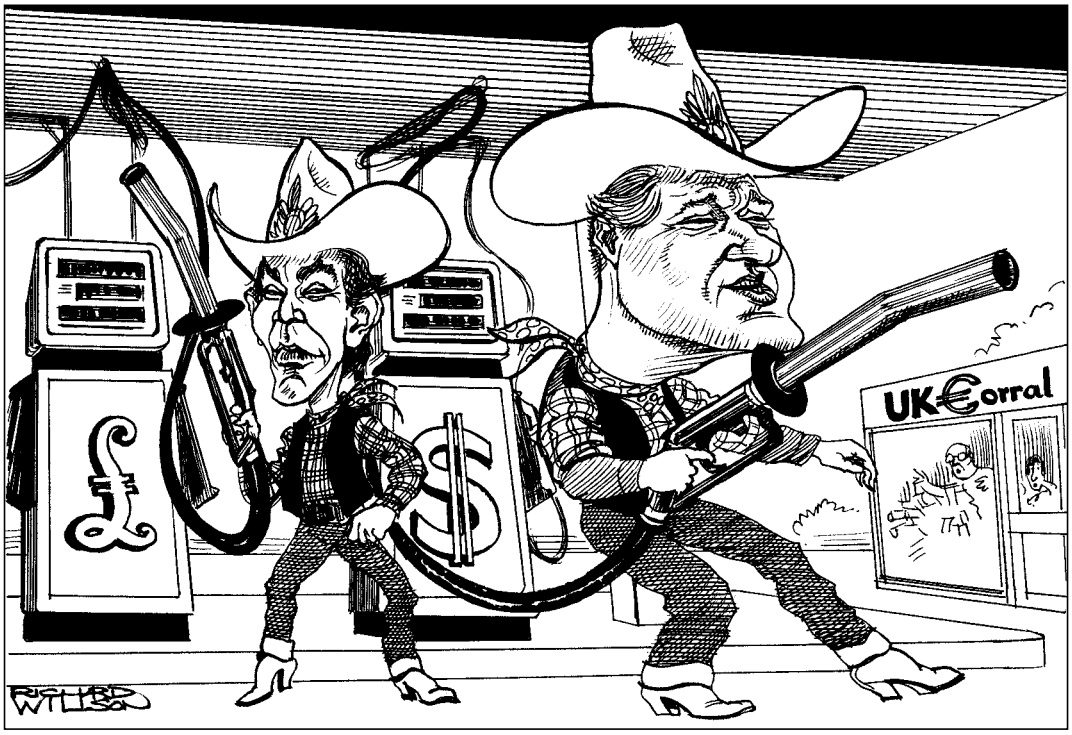
That this House calls on Her Majesty's Government to publish a White Paper on the constitutional, economic and political implications of the United Kingdom joining the European single currency.

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
Howarth/Gerald, Con
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
Donaldson/Jeffrey, UUP
Keetch/Paul, LibDem
Paisley/Ian, DUP – Ldr.
McCartney/Robert, UKU – Ldr.
Blunt/Crispin, Con
Harvey/Nick, LibDem
Drew/David, Lab
Duncan Smith/Iain, Con
Bruce/Ian, Con
Fallon/Michael, Con
Gray/James, Con
Mates/Michael, Con
Page/Richard, Con
Kirkbride/Julie, Con
Cryer/Ann, Lab
King/Tom, Con
Gillan/Cheryl, Con
Clark/Michael, Con
Laing/Eleanor, Con
Leigh/Edward, Con
Wells/Bowen, Con
Soames/Nicholas, Con
Ottaway/Richard, Con
Greenway/John, Con
Redwood/John, Con
Lansley/Andrew, Con
Shephard/Gillian, Con
Duncan/Alan, Con
Hammond/Philip, Con
Taylor/John M., Con
Evans/Nigel, Con
Viggers/Peter, Con
Norman/Archie, Con
Jenkin/Bernard, Con
Whittingdale/John, Con
Ainsworth/Peter, Con
Fraser/Christopher, Con
Cryer/John, Lab
Letwin/Oliver, Con
Wise/Audrey, Lab
McDonnell/John, Lab

The European Journal *recommends that all readers whose MP does not apear on this EDM should write to their Member. The present number of signatories is 105. More support would bolster this cross-party message to the Prime Minister. Address letters to: House of Commons, Westminster, London SW1A 0AA.*
Suggest suport of EDM 185–'White Paper on Europe'.

High Noon for Britain's Oil

by Bill Jamieson



A spectre is set to haunt plans for British entry into the single currency: a recovery in the price of oil. Any recovery would impact on sterling and on the convergence programme predicated on Britain locking into the single currency at a significantly lower level than the current rate soon after the next general election.

North Sea oil is the special ghost that haunts the Treasury's convergence feast. The UK is one of the world's largest oil producers and is the only significant exporter of oil in the European Union. She has massive reserves of oil and gas still to be exploited in the North Sea.

With the collapse of oil prices to below $10 last December – the lowest in real terms since the 1960s – the significance of oil to the UK economy, currency and balance of payments has tended to fade from view. But senior oil commentators believe that the December average price for Brent crude of $9.81 may have marked the nadir. Stephen Boyle, head of business economics and oil economist at the Royal Bank of Scotland, commented earlier this month, "December 1998 may have been the trough in this cycle."

The price has recovered in the early months of 1999 to give an average level for January of $11.16, or a rise of 14 per cent on the December average. This enabled a rise in oil revenues for the first time in five months, despite a fall in oil output of 44,000 barrels per day.

A continuing recovery in the oil price above current levels as the world economy embarks on an expected recovery later this year would put further downward pressure on the euro while putting upward pressure on sterling.

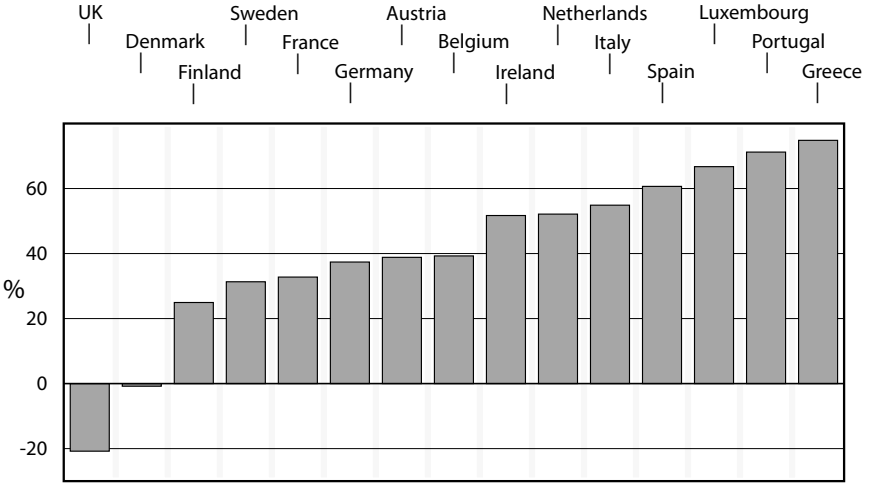
Such an outcome is viewed with consternation at the Treasury. Senior officials overseeing implementation of the Government's National Changeover Plan to prepare the UK for entry are already concerned at the poor performance of the euro since its launch on January 1.

The new currency has suffered a significant and sustained fall against the dollar and sterling, contrary to the expectations of most City economists at the end of last year. It is also totally contrary to the 'convergence' direction that the Treasury needs to see if it is to sell membership of the single currency to British business and the wider public: that is, a sterling entry level at some 10 to 15 per cent below the current exchange rate. This requires the euro to rise, or sterling to fall from current levels.

But currency markets have been increasingly concerned at the deteriorating economic performance of the core Euro-zone economies – Germany in particular – and evidence of policy rifts as underlying economic performance across the Euro-zone appears to be diverging rather than converging as policymakers had hoped. Increasing pressure for lower interest rates applied by Oskar Lafontaine, the German finance minister, on the European Central Bank (supposed to be independent of such national pressures) has further unnerved the financial markets.

Now a rise in the oil price would put further upward pressure on sterling and downward pressure on the euro. It would further exacerbate the fluctuations in the euro's performance against the dollar since inception and heighten the very volatility it is claimed to reduce. And it would lead to further questioning of how the British Chancellor intends to square the circle of the "five convergence tests" he has set for British membership of the single currency.

The inclusion of Britain as a major global oil producer and exporter in a currency zone comprising ten net oil importers (the only other net oil exporter is Denmark, though the surplus is small relative to the UK) would set up fundamental policy



tensions within the single currency zone. It would add to the problems of competitiveness facing the German economy while depriving the UK of exchange rate adjustment and flexibility. In particular, it would work towards further divergence between the economies and currencies of the Euro-zone and the US.

Britain would be caught in the middle. Oil is a dollar denominated global product and major companies involved in oil exploration and development are dollar driven. In addition, BP has more than 30 per cent of its operating capital in the US. In the words of Lord Simon, then chairman of BP, to the House of Lords Select Committee on EMU: "Fluctuations in the dollar have a greater impact on BP's operations than fluctuations in any other currency, including sterling."†

With the weakening of the oil price over the past 18 months, apologists for Britain's membership of the single currency have been able to brush aside concerns within the oil industry and the City over the UK's status as one of the world's largest oil exporters. The price has weakened with the fall in world trade growth following serious problems in developing country economies in 1997 and 1998.

There has also been a tendency by the convergists to play down the importance of the North Sea oilfields and to minimise any petrocurrency element in the sterling exchange rate. An impression has been created that UK North Sea production is set to fall substantially and that reserves are well past their peak. The reverse is true. According to the Department of Trade and Industry, estimates of remaining oil reserves in the UK North Sea stood at end 1997 at 2,015 million tonnes, compared with 2,075 million tonnes extracted since North Sea oil first came on stream some 25 years ago. These reserves are equivalent to 14 years production at current rates of extraction.

A significant feature of the profile of oil reserves is that the ratio of reserves to production has remained relatively stable while output has risen over the years, showing how more reserves have been discovered as output has increased.

An even more favourable picture emerges from analysis of the UK's gas reserves. These currently stand at 1,487 billion cubic metres, compared with total production to date of 1,223 billion cubic metres. In other words, reserves currently stand in excess of the total amount extracted thus far. To argue that the North Sea is a diminishing factor in the UK economy is thus highly misleading.

Much, of course, depends on the oil price. Changes in oil prices can have important effects on the value of currencies, as sterling found in the late 1970s and early 1980s. It was partly in response to the effect of the strong oil price on sterling that provoked then Chancellor Nigel Lawson into a policy of deutschmark tracking to bring the pound down against the mark ahead of our entry to the European Exchange Rate Mechanism. A rising oil price would invoke ominous comparisons with that period.

There is no reason to regard the December 1998 oil price level of $9.81 as any more sustainable for the purposes of policy than the price of more than $50 proved in the early 1980s. Any recovery in developing country economies would see an increase in world demand for oil. But the key point for policymakers is that, in the light of the UK's formidable reserves of oil and gas, the UK currency cannot be treated as just another continental currency for the purposes of convergence. Interest rate adaptability and flexibility are critical for the UK in helping to adjust to oil-related exchange rate fluctuations.

Finally, the oil question throws the relationship between the euro and the US dollar into sharp relief. Oil is traded in dollars and changes in the euro-US dollar exchange rate would, other things being equal, lead to changes in the domestic value of oil, fuelling the asymmetry throughout the EU.

Membership of the euro would expose not only the oil industry, but also other important dollar denominated exporters, such as telecommunications, aircraft, scientific instruments and biochemicals, to potentially more currency volatility, not less.

Such major considerations barely feature in the Prime Minister's much vaunted National Changeover Plan. How extraordinary that a British government, embarking on such a profound 'change of gear' for Britain and her economy should overlook the very oil that keeps our gears in working order.

Bill Jamieson is Economics Editor of the Sunday Telegraph.

† Memorandum submitted by Sir David Simon, then BP Chairman, to the House of Lords European Communities Committee. It is piquant that Simon, one of the loudest campaigners for British membership of the single currency (he is now government minister for European competitiveness) should have revealed in his evidence that EMU "will not make an essential difference" to BP and that "it would not matter greatly to BP if the introduction of EMU were to be postponed." He has not always been so candid.

Tax Threat to City

by Angela Knight

A few weeks ago the European Commission produced a document called *Financial Services: Building a Framework for Action.* It is not the easiest read, but it is certainly worthwhile doing so – and not just the executive summary.

Many of the points are all about achieving a single market in financial services, which with the skills and diversity of the UK financial industry would bring opportunities for our firms. But towards the end the question of what is referred to as 'tax distortion' and 'harmful tax competition between finance centres' is raised. It is in this area where City concerns are high.

The reason is that the City has survived and thrived because of its open door policy. It has looked overseas for its business and welcomed in foreign firms and foreign business, some of it captured as a result of mistakes of others.

In the 1960s the US put a ceiling on the rate of interest which could be charged by US banks. They then later imposed a tax on the interest payment on bonds and in the '80s made further changes to this 'withholding tax regime' as it is known. The result of these changes was that business moved from the US to London, and is one of the reasons why we have more American banks in London than there are in New York. The market which is now known as the Eurobond market has grown to be the largest source of these types of funds in the world.

From this experience, one would have thought that countries would have learned not to have taken such damaging action, but in the late 1980s the Swedes imposed a withholding tax on securities in their country and within weeks lost much of the trading business in major Scandinavian shares to London. Although their government later changed its mind and some business flowed back, it was not until huge damage had been done to their financial community.

Europe is proposing to do it again and not just from the depth of a Commission communication. Oskar Lafontaine, the German Finance Minister, is publicly calling for a European wide withholding tax and, significantly, Germany holds the presidency at the moment.

Most of Europe is not bothered about this proposal because their financial centres do not have this business so they have nothing to lose. It is London where the business takes place, which has been calculated by the International Primary Market Association (IPMA) who reports that in 1996 Eurobond issues raised over $560 billion in new financing with European borrowers being the largest sector. If this is taxed and so no longer gross paying, then this would place European companies at a disadvantage in raising their finance compared with their international counterparts as the effect would be to force companies to increase the return they offered. The alternative for them is that they would raise their finance in non-EU countries and it is this that will happen. The Eurobond business therefore will go elsewhere, mirroring what has been the experience in America and in Sweden.

It could move to Switzerland, for example, or another suitable tax haven – and if the business is lost, then thousands of jobs go too. The euro markets are a cornerstone of the City and such a loss has the potential to be very disruptive.

Some also cite the series of administrative problems that this proposal would bring and particularly for trusts and mutual funds, and others point out that there will be an impact on cross-border deposit business as well.

But the principal point is this. If this withholding tax is imposed in any way on business, either directly or indirectly, through reporting requirements, then it is the City that is adversely affected, not anywhere else in Europe. The government has said that it will not agree to anything which causes serious damage to London but this then begs the question as to what they would consider to be serious.

The European Union must not be allowed to take such decisions which adversely affect its largest financial centre. The government must ensure that the City is allowed to continue its huge contribution to the UK economy by continuing to block this proposal in all its forms.

Angela Knight was Economic Secretary to the Treasury 1995–97 and Conservative MP for Erewash 1992–97.

Eight reasons why the City matters

- Financial services account for seven per cent of GDP and employ more than one million people.
- There are more American banks in London than there are in New York and more German banks than there are in Frankfurt.
- There are more overseas companies listed on the London Stock Exchange than on any other Exchange.
- The City is the world leader for the trading of international equities.
- One third of the world's foreign exchange business is handled in London, amounting to as much as New York and Tokyo combined.
- London is a leading centre for international fund management.
- London is the world's leading centre of interest rates swaps.
- More people work in the City than the entire population of Frankfurt and its surrounds.

Unfair Exchanges and a New EU Tax Robbery

by Christopher Arkell

1998 was an annus horribilis for that dwindling band of EU supporters like Gordon Brown who insist that no essential sovereignty has been transferred from Westminster to Brussels, particularly in the field of taxation. The most obviously damaging contradiction of the Brown line came in November when Oskar Lafontaine and Dominique Strauss-Kahn publicly told our Iron(-filings) Chancellor that the EU would set direct tax rates for companies in future, whether he liked it or not. Brown's, and Blair's, resulting discomfiture was swamped by the Pete and Geoff Mortgage Show, clearly New Labour's modernisation of the Mr Bradford & Mr Bingley advertisement. But the threat has not gone away, and according to a PES press briefing issued on 16/1/99, tax harmonisation will be the main topic of discussion during the German EU Presidency, and it will be strongly supported by New Labour's EU political colleagues.

Yet the politicians are merely catching up with the giant strides taken over the last year by the EU's institutions. Two recent cases decided in the European Court of Justice – Safir *v* Skattemyndigheten and ICI *v* Colmer – demonstrated the ECJ's power to set aside member states' tax laws in favour of the Treaty's articles on the Single Market and non-discrimination in commercial establishment. The Code of Conduct for Business Taxation, issued in December 1997, began to bite with the Commission issuing the first Communication under the Code's section L in November 1998 aimed at banning low company taxes disguised as State Aid. The Commission also issued proposals to levy VAT on postal services (discussed by the Commission in 1998, reported *Taxation* 7/1/99 p.324), internet transactions (reported *KPMG VAT Brief* Issue 3/98 p. 3), and to harmonise the rules governing the claiming of input VAT on cars, car fuel, repairs and maintenance costs, business entertainment, and food and accommodation (published by the Commission in June 1998, reported in *Taxation* 10/12/98 p. 277).

Whilst these developments are disastrous enough for the UK's constitutional independence, and – in the case of VAT on postal services – will be an irritating expense for all of us, another VAT case decided in 1998 threatens the imposition of VAT at the standard rate of 17.5% on everyone's financial transactions including mortgage interest payments.

First National Bank of Chicago [1998] STC 850 (ECJ Case C–172/96) is a case that ostensibly concerns the right of businesses that buy and sell foreign exchange for profit to claim input tax deductions for VAT incurred on their costs. Foreign exchange is a supply which is treated as exempt according to the 6th VAT Directive (77/388 Art. 13B(d)4, represented in UK law by VAT Act 1994 Sch. 9 Group 5 Item 1). If a supply is exempt from VAT, generally speaking a company cannot reclaim input VAT incurred in making that supply. This distinguishes exempt supplies from 0% rated supplies, where a company can reclaim input VAT incurred in making the 0% supply.

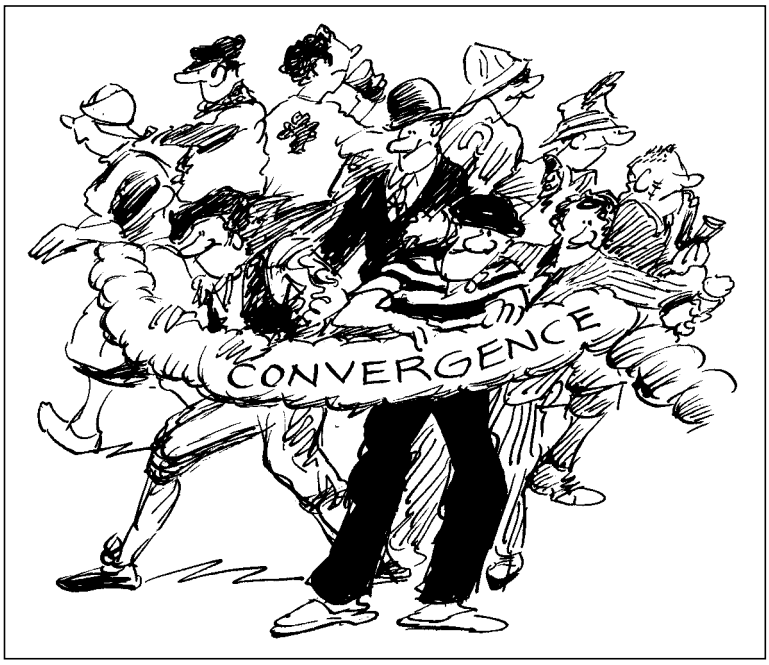
The bank, encouraged by its advisers (PriceWaterhouseCoopers) was obviously keen to construct an argument which would enable it to recover input VAT on the direct costs it incurred in its foreign exchange business. To do so, it had to convince the court that its foreign exchange profits derived from the spread between buy and sell prices represented consideration for the supply of a service which itself came within the scope of VAT. The company was supported by the European Commission and the French Government, which had joined itself to the proceedings as an interested party. (The ability of other member states to attach themselves a interested parties to our domestic tax quarrels is a little known, but very significant aspect to the formation of UK tax law under the European Treaties.) The Commission said that the bank was making supplies for consideration, this being the exchange profit realised and any other remuneration obtained. The Commission referred to its proposal for a draft Council Directive (which has since been withdrawn) which set out methods to identify taxable amounts in circumstances similar to the bank's. It is a remarkable fact of legal life in the EU that draft legislation, since withdrawn, can be adduced as evidence in a case, and by an institution not directly party to the proceedings. Still, that's the ECJ for you!

HM Customs and Excise, on the contrary, argued that such foreign exchange profits could not be regarded as consideration for a service, since they were almost impossible to ascertain with any certainty (measured transaction by transaction), unlike specific transactions undertaken for a specified commission or fee. In any case, VAT by definition could not be levied on profits, but only on turnover.

The bank won the case, which *The Time*s reported (15/7/98) will cost the UK Treasury around £300m in VAT repayments of principal and interest. However, it is not just the result of this one case which will prove costly to British taxpayers. The ECJ's reasoning shows with astral clarity the goal on tax matters to which EU institutions are aiming and their absolute determination to let nothing – least of all a member state like the UK or its Chancellor – get in their way.

Gary Burnes and Peter Mason have written excellent detailed analyses of the case from the VAT practitioner's point of view (*Taxation* 27/8/98 pp. 582–3; 5/11/98, pp. 146–8; 12/11/98, pp. 174–5) and all quotations and references here are drawn from their articles. From their standpoint – that of VAT specialists representing large banks – the decision in the case is a great success. From the point of view of Britain's fiscal sovereignty, it is a disaster. The ECJ chose to accept the bank's arguments because it saw in HM Customs' approach a VAT tax-avoidance loophole which it could close. 'To hold that currency transactions are taxable only when effected in return for payment of a commission or specific fees, which would thus allow a trader to avoid taxation if he sought to be remunerated for his services by providing a spread between the proposed transaction rates rather than by charging such sums, would be a solution incompatible with the system put in place by the Sixth Directive' [*loc.cit.* p.148].

This reasoning shows that the ECJ regards financial products as services no different from any others on which VAT is levied. Peter Mason considers this ruling as being influenced by the specifically European (rather than UK) principle of law known as equality, whereby legally similar transactions with different contractual obligations should be treated similarly [*loc.cit.* p.148]. He concludes that 'the final effect of First National Bank of Chicago is likely to be to include all financial instruments, contracts for differences or



delivery to be brought within the scope of VAT' [*loc.cit.* p.175].

Gary Burnes is even more far-reaching in his summing up of the case. 'It establishes a new principle that VAT can potentially be imposed by reference to profit. It could also provide a new impetus for the supporters of the option to tax financial services. The judgment provides backing for the research being undertaken for the European Commission which is looking at methodologies for removing the existing exemptions [i.e. those contained in Art. 13, Directive 77/388] and introducing arrangements for taxing the financial sector. The radical approach adopted [in the case] is a further step down the road in this respect.' [*loc.cit.* p. 583]

The research referred to by Guy Barnes is that being undertaken by Ernst & Young for the Poddar working group, which held its last discussion meeting in Milan just before the ECJ gave its judgment in First National Bank of Chicago [The *Tax Journal* 6/7/98, p. 4]. The purpose of this committee is to look into the practical ways of levying VAT on finance. The Milan meeting concluded that the proposals devised by Ernst & Young are workable in principle, but that a large number of practical difficulties had to be addressed before the final report could be published in February 1999. VAT on finance will hit people in the UK disproportionately hard. For example; in other EU member states mortgage debt totals 33% of GDP in the EU as a whole, but 57% in the UK. In the UK 66% of homes are owned; In the EU as a whole, only 56%, and as little as 38% in Germany [*The Euro: Bad For Business*, publ. ERG, December 1998, p. 20]. With UK householders having higher mortgages and outnumbering 2 to 1 those who rent, the burden of VAT at 17.5%, or even at the lowest rate of 5% at present permitted for items coming within the scope of VAT for the first time, will be a significant drain on monthly budgets. The UK is also the EU country most addicted to credit card and store card spending, in line with USA patterns rather than Continental ones. VAT will be levied on the interest and card charges too. Whilst the tax will be bad for UK individuals, it will be good for UK financial institutions since their financial service operations will become fully taxable traders with full rights to claim 100% input tax (all other things being equal). The Treasury have no strong feelings either way. Stewart Kingaby, Head of VAT Commercial Division, considered that the tax would be 'revenue neutral' when he gave a talk on the matter to the Tax Faculty of the Institute of Chartered Accountants early last year [reported *Taxation*, 5/3/98, p. 545].

'A fair exchange is no robbery' goes the old saying. The ECJ judgment effectively turns this inside out – the definition of an unfair exchange is now Euro-tax on British mortgages, a Euro-robbery indeed. So the British mortgage payer and credit card user is dependent for his protection against this fiscal theft on Gordon Brown standing up to the European Commission – with its Cressons, Marins and Kinnocks – and to his ideological comrades, Lafontaine and Strauss-Kahn.

Better phone the estate agents right now!

Christopher Arkell is the editor of London Miscellany *and an accountant specialising in tax.*

… news in brief

EU gives Russia food aid

During the European/German-Russian summit the delicate matter of EU food aid to Russia was discussed. The EU is ready to give Russia food aid to help Russians survive the winter but bureaucratic hurdles prevent anything arriving before March. $500 million worth of wheat, beef and milk powder should have been dispatched long ago to the Russian regions. But Russia has been blocking these shipments, demanding that she certify each lorryload as being in conformity with Russian health standards. Not surprisingly, this certificate 'costs' $500 to issue, giving the Russians a convenient excuse to extort more money from the Euros. Meanwhile Brussels is demanding assurances from the Russians that the aid will not fall into the wrong hands – a pious wish. [*Handelsblatt,* 18th February 1999]

Does the euro help bring budget deficits down?

According to Eurostat, the countries outside the euro zone are more financially prudent that the ones inside it. Most Euroland countries have reduced their budget deficits, leaving them with an average rate of 2.1% of GDP. (France is at 2.9%, Italy at 2.7%, Germany at 2.1%). Some Euroland states even have budget surpluses: Luxembourg, Ireland and Finland, for instance (2.1%, 2.3% and 1% respectively). But whereas only three out of eleven euro states have surpluses, three out of four non-euro states have them: Sweden has a surplus of 2%, Denmark of 0.8% and Britain of 0.6%. In other words, those states who are economically strong enough to join but who have stood aside are all doing better than those who have gone in. Furthermore, the EU country with the lowest debt-GDP ratio of all is … the United Kingdom at 49.4%. German debt is 61%, in spite of its Maastricht ceiling of 60%. [*Die Welt,* 9th March 1999]

Explain it to the Workers

by Greville Howard

One of the arguments put forward by those in favour of Britain joining the single currency is the resulting increase in investment and employment. From the perspective of a business, this will not be the case; indeed, it is peculiar that such a claim should be made when the evidence to the contrary is so strong. Gerhard Schröder has recently admitted that nothing can be done to cure Germany's unemployment problem. I do not believe that those in favour of Britain's joining the single currency fully understand the damage it will cause. Within the group of companies in which I am involved, there are businesses making a broad range of products from tools to service power stations to jack-plugs for hi-fi equipment.

Some of the products have no special geographical or technical advantage. This type of product is under continual price pressure, in both home and export markets (exports are to over 35 countries with under 5% going to the EU) from competitors in countries with low production costs.

By hard work and investment, we have managed to remain competitive in spite of declining prices: in some instances, only half the price is now achieved compared with the selling price three years ago.

For two reasons, I do not believe businesses such as these can continue to be located in Britain if we join the single currency.

First, there is the impossibility of having a monetary policy that suits so many different countries. Eddie George, governor of the Bank of England, recently commented on the difficulty of managing the British economy in such a way as to reconcile the differences between the north and south of the country. How impossible, therefore, with a single currency, to reconcile the differences between what would be 12 different nations if Britain were to join.

What makes it worse for Britain is that our economic cycle is out of line with those of the continental countries which we would be joining, the result being that most of the time a centrally managed European currency would work against British interests. Proof of this is Britain's membership of the exchange rate mechanism. During that sad period one million people in Britain lost their jobs and 150,000 businesses failed. It is strange that this has been so quickly and easily forgotten. The second reason is that the political motivation behind the single currency will generate larger and swifter increases in taxation and social costs. Not a week goes by without another leading European politician explaining how the single currency is but a step towards a federal state; and it is.

What makes it worse for Britain is that our economic cycle is out of line with those of the continental countries which we would be joining

How can you have a single currency without the governments behind that currency having a single political direction?

The movement to 'harmonisation' and 'fairness' has already done considerable harm in Britain. Our fishing fleet has been almost destroyed. The effect of VAT on our imports and the *'droit de suite'*, both imposed by Brussels, will be to move major (and not so major) art sales from London to outside the EU. A withholding tax on offshore bonds is proposed (Japan has just removed such a tax) which will move a large part of the business of the City of London outside the EU.

There is talk of harmonising corporation tax which, translated, means increasing the British rate so as to stop Britain being the largest recipient of foreign investment in the European Union. These are the actions, detrimental to Britain's interests, that are already happening. Imagine the lethal state of affairs with a single currency driving forward the 'harmonisation' and 'fairness' required by a federal state.

From time to time, my business colleagues raise the issue of whether our companies should stop manufacturing in Britain and move our factories to one of the low cost production countries. We could either buy outright or invest in a suitable factory, and so reduce our cost of manufacture. There are good arguments both for and against this course of action. So far, our decision, I confess biased by respect for those who work for us, has been to continue to manufacture in Britain. If Britain joins the single currency, I will be forced to say to my colleagues that the risks of continuing to manufacture in Britain are now too great and we must move our production overseas.

Win or lose, we are content to compete with anyone so long as it is on equal terms. But this will no longer be possible with our hands tied behind our backs by the massive increases in taxation and social costs which monetary union would bring.

Once we have moved production outside the EU (following the example of German companies who are falling over themselves in the rush to escape German social costs by getting their factories out of the EU), Britain will become one of a number of export markets.

The next logical step would be to move the companies owning those factories out of the EU and out of range of the dead hand of the Eurocrat. The greater freedom from interference will enable to companies to prosper, but at the cost of making hundreds of loyal employees redundant.

Perhaps those shouting so loudly for Britain to join the single currency could explain to the workers, before they set off for the dole queue, how losing their jobs is justified for a theoretical 'influence' in Europe.

Greville Howard is chairman of Arlen plc and has interests in a number of manufacturing companies. He was the first holder of the Fruit & Nut bar awarded for disrespect to the Cadbury code of corporate governance.

Seductions and Fallacies of Socialism

by Armand Van Dormael

Time Magazine of 19th April 1993 proclaimed that socialism was 'burnt out'. The collapse of the Berlin Wall, the implosion of the Soviet Union and of Eastern Europe's communist regimes had decisively exposed the bankruptcy of the collectivist doctrines that lay at the heart of socialist thought. In France the alliance of conservatives had swept 460 of the 577 National Assembly seats, leaving the Socialists with only 54. Lionel Jospin, describing the Socialists as "isolated and humiliated", gave up all his party posts and announced his withdrawal from active politics. Laurent Fabius was ousted from party leadership. Germany's Social Democrats had been frozen out of government for more than a decade. In Scandinavia the long ruling Social-Democratic Parties had been forced to give way. The Spanish Socialists, in power for ten years, had lost their parliamentary majority. Scandals discredited Socialist Parties in Italy, France, Greece and Spain. *Time's* presentiment that "prosperity and the death of communism have brought socialism in Europe to the verge of extinction" was widely shared.

A few years have gone by. Socialists are in power in 13 out of the 15 countries of the European Union. Communists have important posts in the French government. Italy's prime minister is a one-time communist. The new German chancellor, while calling for a 'new centre', proudly acknowledges his Marxist past. The traditionally undecided portion of the electorates has swayed the parliamentary majorities to the left and returned to office political parties they ousted just a few years before.

The new governments have come into power, burdened with a baggage train of promises that certain groups of people deserve special treatment and will be taken care of by means of more generous welfare benefits, shorter working hours, higher wages and earlier retirement. Captives of history, they are burdened with the dilemmas accumulated over the years. The electorates in all of these countries have also entrusted the Socialist Parties with the solution of Europe's most pressing and intractable problem – unemployment. The irony is that European unemployment is largely the outcome of socialist policies. In 1981, when the French Socialists took power, the unemployment rate stood at 7.4 per cent. In 1993, when they were chased out of office, it had increased to 11.7 per cent. In Spain, unemployment rose from less than 5 per cent in 1977 to reach 24 per cent under the socialist government of F. Gonzalez. Western Germany had an unemployment rate of one per cent in the early 1970s. During the Social Democrat regime it rose to 7 per cent and continued to increase after Helmut Kohl was elected in 1983. Once socialist legislation has been put into effect, it becomes part of the system. When socialist governments are voted out, they leave problems behind.

International differences in unemployment performance are largely the consequence of divergent labour market behaviour. When the first oil price shock put an end to the post-war boom and plunged the world into a half understood crisis of inflation and insecurity, the reaction in the industrialised countries was very much the same. When the second oil crisis hit in 1979, the United States and Japan opted for wage restraint and aggressive competitiveness.

After the first price increase, Japanese firms responded to union demands and granted huge wage increases. This caused a severe stagnation in the export markets. By the time the second oil crisis came about, Japanese unions had learned the lesson. Ever since, 'incomes policy, Japanese style' focusing on international competitiveness, has predominated in labour negotiations.

American industry was equally losing out against its main competitors. After several years of stagflation, recession and rising unemployment, voters put their faith in Ronald Reagan who launched his rallying cry that "America is back!" His election produced a shock therapy. Determined to restore competitiveness, industry reduced labour costs, against strong trade union opposition. Striking workers were replaced, strike went into eclipse and organised labour lost its main weapon. The United States regained control of its destiny. Today American unemployment and inflation levels are the lowest in 30 years, but for more than two decades real wages have been stagnant. Wage inequality has increased and most Americans have to work more to maintain their living standard.

Regardless of the effect on employment, Europe gave preference to the immediate benefits of higher wages over the prospective ability of industry to maintain a satisfactory share of world markets. By ignoring the laws of the market, Europe priced million of its people out of work. Over the past two decades governments have clearly demonstrated their palpable inability to assure a cost-of-production equilibrium that satisfies the trade unions and guarantees a sufficient degree of global competitiveness to ensure the future of a satisfactory level of industrial activities, thus preventing the displacement of manufacturing jobs to other parts of the world. The official rhetoric is no more than a ritual incantation; the issues are never clearly explored or explained.

Nothing novel or original is to be said about the European unemployment problem. It has been the subject of massive amounts of research by academic economists and by international institutions who put forward a fairly convincing analytical account of the causality and persistence of the contrasting unemployment rates in the individual countries. There is no consensus, but few professional analysts disagree with the central findings.

The conventional wisdom regards European unemployment as the logical consequence of the refusal to adapt labour markets to the challenge of global competition and an unintended by-product of the policies pursued since the end of World War II: generous social security benefits, uncompetitive labour costs due to high wages and high taxation, institutional rigidities of the labour market making it difficult and expensive to contract. Wage increases generate forces working in different directions. They create jobs and destroy jobs. They increase domestic demand and diminish international competitiveness. They compel industry to transfer production to low wage countries. To make matters worse, Europe has lost the race in the high technology vanguard industries whose output and employment are increasing fastest.

The struggle against unemployment is a war of words. The adjustment to change is a political minefield. What is socially acceptable depends on the prevalent

political balance and the resulting labour relations in any given country. In continental Europe nothing important can be undertaken against the trade unions.

The starting point of any study on how to reduce unemployment must be the analysis of the mechanism governing job demand and offer. The diagnosis of the experts seems to have been passed over or discounted. Between professional economic research and non-professional discussion in politics, a wide gap has developed. Economic thought based on empirical analysis and historical study does not seem to have reached the corridors of power or the economic mentality of the electorates. Popular understanding of economics is shallow and election campaigns do not lend themselves to a rational debate on the subject. Political power of the masses is evidently not matched by an equal awareness of the facts of economic life.

Europeans, guided by socialist ideology, have been led into believing that they can defy common sense and the laws of economics, that internationally uncompetitive labour costs can be maintained and even increased and that the world's most generous welfare system can be expanded on the back of a declining industrial base.

This way of thinking is a perversion of the policies inaugurated after the second world war. The post-war boom was the result of private enterprise, presided over in most countries by conservative or centre-right governments. West Germany became a bastion of free trade; Erhard's social market economy, based on personal freedom, private initiative, individual responsibility and open competition as an engine of growth, produced an economic miracle. Thanks to the inventiveness and energy of thousands of small and medium entrepreneurs, Italy became a leading exporter of manufactured goods in the absence of a *de facto* government. Britain emerged from the war with the highest living standard. The policies of the Labour governments had a disastrous effect on the country's industrial performance until the Thatcher government turned the managed decline into an economic renaissance.

During the prosperous 1950s and 1960s industry bought social peace by giving in to organised labour's demands. Year after year living standards of the population exceeded historical records. Governments, expecting economic growth to continue, embarked upon ambitious programmes of income redistribution, welfare benefits and generous subsidies to endangered industries. These policies required a massive increase of taxation and a vast expansion of government bureaucracy. As long as the creators of wealth were able to expand production and employment, general prosperity increased and everybody benefited. When the distribution of income took precedence over the will to compete with the rest of the world, jobs moved to former underdeveloped countries where enterprising businessmen had caught up, copied and improved on manufacturing processes and were eager to capture an increasing share of the world market.

Globalisation, putting European workers in direct competition with the workforce of these countries, changed the rules of the game. Radical measures to liberalise world trade through the GATT were put into effect. Increased competition caused disruptive change and generated winners and losers. In Europe during the past half century the 'destructive' part of the 'creative destruction' involved in the process of structural change has been the most visible. Several industries that once dominated world commerce lost much of their markets at home and abroad; some all but disappeared. Shipbuilding, steel, textiles and many other industries expanded worldwide while regressing in Europe. The lost ground was never recovered. Once the jobs are gone, they do not come back.

Armand Van Dormael is the author of Bretton Woods: Birth of a Monetary System *and* The Power of Money, *both published by Macmillan.*

… news in brief

Euro fails to take off in France

Two months after its launch, the euro remains a virtual currency for most Europeans including the French. Its use by consumers is marginal. For instance, Carrefour, the biggest French supermarket chain, has used the euro in only 0.1% of its transactions, while Monoprix-Prisunic, another chain, has effected a grand total of 80 operations in euros. Casino says fewer than 500 of its clients have used the euro since January. In Promodès, the number of payments in euros "is so ridiculously low, it's not even worth mentioning," according to the company's CEO.

This is in spite of the considerable efforts both companies have undertaken to promote the currency: prices are listed in euros and cashiers have been trained to accept cheques in the currency. Some of the companies protest that the rate of use is increasing but one reason why consumers are reluctant to use the euro is that they are afraid of incurring transaction costs when changing from francs to euros.

The European Commission is planning a publicity offensive during the summer holidays in favour of the euro. Yves-Thibault de Silguy has expressed the wish that people start to use the euro before the final change-over to banknotes. "The 70 million tourists who travel in Europe will soon realise the advantages of using the euro," he said. In other words, the single currency is all about going on holiday and lying on beaches. [*Le Monde,* 10th March 1999]

D'Alema wants to amend NATO treaties

While Italian-Iranian relations were burgeoning, Italian-American ones were taking a severe knock. The acquittal by a US court martial of an American air force pilot for cutting the cable of a ski-lift with his tail and thus killing 20 people in the Dolomites last year was met with shock in Italy. The Communist Italian Prime Minister told the Chamber of Deputies, "If responsibilities are not faced up to, then we will have to review the 1951 accords [on American bases in Italy] because they will have shown themselves to be inadequate." He has announced that he wants to lift the secrecy which the arrangements currently enjoy in order to be able to place information on the accident at Cermis in the hands of the Italian authorities. [*La Stampa,* 11th March 1999]

Lafontaine or Prodi?

This was the headline of *La Stampa* on Monday, kindling speculation again that Oskar Lafontaine might succeed Jacques Santer as the next president of the European Commission in Brussels. The Frankfurt correspondent of the paper suggests that he knows that Lafontaine is already tired of his job in Bonn/Berlin and wants to take over Europe instead – rumours which have been strenuously denied by the German government. It seems that disagreements over personnel are so deep that the original intention of deciding on appointees for the presidency of the Commission, the European Investment Bank and as Mr CFSP (foreign policy High Representative) at the Cologne summit in early June will not be achieved. [*Die Welt,* 9th March 1999]

Right Wings: Anglo-American *vs* Continental Politics

by Andrew Lilico

Right-wing politics differs between the UK and the Continent. Anglo-American philosophies differ, but belong, to a common Whiggish tradition, in which an elected sovereign legislature, liberty, tolerance, and free markets are central. In contrast, Continental right-wing political philosophy has revolved around authoritarianism, ethnic identity and corporatism. A Single European State in which our right-wing tradition (which has usually formed our government) was out-numbered and subsumed would be a shock to many Britons, and have a great impact on their lives.

Continental Right-Wing Philosophy

Continental Europe has had many right-wing movements, though none with the organization and numbers of British Conservatives. Until the twentieth century, Continental right-wingers usually rejected democratic principles and institutions. They preferred monarchies (e.g. France, 1814–48) or authoritarian despotism (e.g. Bonapartism, 1799–1814 and 1851–70). After WWI some right-wingers even supported totalitarian movements such as Fascism and Nazism. Spain was ruled by the dictator Franco until 1975.

A significant right-wing economic doctrine in many European countries has been Corporatism. Corporatism is an expression of Roman Catholic social doctrine, and was inspired by two Catholic encyclicals – *Rerum novarum* (1891) and *Quadragesimo anno* (1931). It has been particularly significant in the latin countries of Europe (Portugal, Spain, Italy and France). The connection between Catholicism and the Continental right-wing is most obvious in the various Christian Democrat parties (where for 'Christian' we can read 'Roman Catholic'). However, its influence goes much wider.

Corporatism advocates close co-operation between employers and workers, with the state as overseer, over working conditions, wages and prices, production, and exchange. Its aim is to substitute collective (i.e. 'corporate') considerations in the place of competition and the price mechanism, to promote social justice and order. Edouard Balladur, former French prime minister expressed this anti-market ethos well with his comment:"What is the market? It is the law of the jungle, the law of nature. And what is civilization? It is the struggle against nature."

This is the famous European 'Social Model', so beloved of centrist anti-Thatcherites in Britain, who, until the late 1980s, liked to point to the higher growth and supposed higher social cohesion in Continental countries. But Corporatism has another side, as we have seen clearly in the past 25 years, when its inflexibilities have generated mass unemployment.

The UK and The US – A Common Whig Heritage

Unlike Continental factionalism, right-wing thought in the UK have been virtually monopolised by the Conservative Party, and in the US dominanted by the Republican Party, for some 150 years. The Republican Party was formed in 1854 after the collapse of the American Whig Party, mainly from northern Whigs who sought a new party structure after southern Whigs supported pro-slavery measures. The southern Whigs joined the southern Democrats and formed the nucleus of that other form of American right-wing thought. Thus, in the US, modern right-wing thought is straightforwardly the descendant of Whiggish thought.

The British Whig Party dominated eighteenth-century politics. Among today's right-wingers, probably its most famous members were Edmund Burke and William Pitt. During the 1780s there was a dispute between William Pitt and Charles Fox. The Pittite Whigs came to be called 'Tories' – though few of them reflected older Tory ideals – and went on to form the Conservative Party in 1830. Furthermore, many Foxite Whigs who were not in the Conservative Party initially joined shortly thereafter, culminating in 1895 in the coalition with Hartington's Whigs, who were also called 'Unionists'. Thus in the UK, as in the US, for the past 150 years right-wing thought has been Whiggish thought.

After recent prevarication, the British Conservative and Unionist Party has emerged as a Whiggish party in the Anglo-American tradition, rather than a European Corporatist party. Corporatism is not dead in the Conservative Party, but current Conservative thinking clearly reflects a New Whig agenda, rather than a Corporatist agenda, as we shall see. In contrast, with its 'stakeholder' rhetoric New Labour is intended, by its architects, to be a European Corporatist party. Whether traditional British Radicalism can recover remains to be seen.

The Principles of Whiggish Philosophy

Whiggish thought is based on four key principles:

- *favouring Parliament over the Executive*
- *favouring the interests of small traders over concentrated wealth*
- *promoting ordered liberty against the arbitrary powers of the State*
- *favouring toleration of non-conformists*

Parliament and the Executive

"Whig" was a Scottish term for a horse-thief, used of supporters of a proposal in 1679 to block the succession to the throne of the Catholic despot James II. Whigs opposed him, and later opposed the Jacobite cause. The underlying issue was whether Britain should be ruled by Parliament or by the King under Rome. Thus we have the first and founding principle of Whiggism: *Whigs favour Parliament over the Executive.*

Old Whigs favoured Parliament against the King. New Whigs support Parliament against the European Commission and the Council of Ministers. They oppose an independent Bank of England and a Single Currency. We should not be ruled by European Commissioners or Central Bankers. That would be, at best, benign despotism. Parliament must be sovereign

Continental autocratic forms (e.g. absolute monarchy, despotism) and Continental 'democratic' forms (e.g. Communism, proportional representation) have often failed. But Whiggish trust in the Lockean separation and balance of Executive, Judiciary and Legislature has been vindicated by centuries of peace and stability. Our system has not failed, and we should not exchange it for systems which have.

Small Traders and Concentrated Wealth

The Whig Party was the party of the merchant, and aimed to promote his interests over those of landowners. Thus Whigs favoured Free Trade, and opposed unnecessary regulation. This leads to our next principle: *Whigs favour the interests of small traders over concentrated wealth.*

For the New Whig this principle means paying special regard to the needs of small and medium-sized enterprises. It means opposing regulations, promoting competition and closely scrutinizing monopolies. It means, again, opposing the Single Currency, which would certainly harm smaller companies. For the Whig, big is not best, and might is not right.

Whigs and Ordered Liberty

Our third Whiggish principle: *Whigs promote ordered liberty against the arbitrary powers of the State.* The State is a valuable instrument. It guarantees (and thereby creates) property rights. It offers people security to go about their business without continuous threat from the unscrupulous and the violent. Order is immensely valuable, and anything which threatens order is anathema to the Whig.

In Britain the rule of law has been dominant for centuries. But on the Continent there has been a tradition of bloody revolution and the rise of the mob. Even today we see how unwilling French police are to clear the roads to permit lorry traffic to flow. The French tradition is of permitting mob protest, because historically attempts to suppress it have failed.

Order is valuable. However, to create order, we must make the State immensely powerful. With this power comes a danger. The State becomes the largest power, so the State becomes the most potent threat to our liberties. Who could be more oppressed than the man unjustly arrested and imprisoned? Who confiscates more of our property than the taxman? Who can interfere with our sport more effectively than the legislator who bans it? Thus the Whig belief is that the invasion of our liberties by the State should be restricted to those instances where it is absolutely necessary. Too often, Governments regard liberties as something the State grants, rather than something the State takes away. British governments have sometimes been far from perfect in this regard. Continental governments have often been awful.

Whigs and Non-Conformists

In any society some people choose to live differently from the norm. Some people do not adhere to the state religion, others do not use the national language. People take different numbers of wives, do not have weddings, or prefer sexual partners of the same sex. Even, occasionally, there are those who just wear different clothes and do not support the national sports teams.

In some such cases, clearly, there is no right or wrong way to do things. Equally clearly, in other case there will be. However, for the Whig, provided that there is no threat to order (such as inciting riots or burning animal testing labs) we have our final principle: *Whigs favour toleration of non-conformists.*

Anglo-Americans have been far from perfect in race relations, or in dealing with social and religious diversity. However, for some centuries ours has been a history of some errors marring a tradition of tolerance. Sadly, many parts of the Continent have a long dark history of unspeakable intolerance, broken by a few shining examples of liberty and brave stands against oppression.

Conclusion

British right-wing politics belong to a separate and incompatible tradition from the Continental right-wing. The British right-wing is more like the American right-wing. It has a Whiggish heritage, favouring a sovereign legislature, liberty, tolerance, and free markets. In contrast, the Continental right-wing tradition is one of autocracy, ethnic considerations, and Corporatism.

If Britain joins a Single European State we will lose our right-wing tradition – the principal source of our governments. The political philosophy which, through most of the past century and a half, has been chosen by Britons, would not even be available to be voted into government. The Conservative Party is a powerful machine and would doubtless survive. But Whiggish Conservatism as we have known it – the philosophy of British government – would be dead.

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.

… news in brief

Haider wins in Carinthia

The Freedom Party led by Jörg Haider has increased its share of the vote in elections in the Austrian region of Carinthia. Scoring 42.1% of the vote, Haider's emerged as easily the largest party (the Social Democrats won 32.9% and the Austrian People's Party [Christian Democrat] won 20.7%). Haider has said that he now expects to lead the region, although both he and the other parties have ruled out co-operating with one another. The Austria Chancellor has said that his party (ÖVP, Christian Democrats) will not support Haider but the SPD mayor of a town in Carinthia has said that, "Any choice other than Haider as leader of Carinthia would be a severe mistake." These traditional parties are in a dilemma: if they remain faithful to their promise not to support him, they risk making him a political martyr, which may only increase his appeal. The last time Haider was elected to this post, in 1991, he resigned after two years having caused an outcry by saying that Hitler had had a good employment policy. Whatever the outcome in Carinthia, the Freedom Party is now in a very strong position for next year's legislative elections. Haider has never hidden his ambition to become Austrian Chancellor. [*Die Welt,* 9th March 1999]

Ice Queen attacks German presidency

The EU's environment commissar, Ritt Bjerregaard, has complained that the Germans are blocking an EU environmental measure which aims to take old cars out of circulation. She claims to have reached an accord with Jürgen Trittin, the German environment minister, upon which the German government has now reneged. "It is important that the German presidency does not allow environmental issues to fall under the table," she said. [*Handelsblatt,* 11th March 1999]

German Christian Democrats keep up the pressure

German Christian Democrat MEPs have been keeping up the pressure on the two Brussels commissars who are most severely accused of corruption and negligence, Edith Cresson and Manuel Marin. The CDU/CSU group has repeated its call for their resignation, claiming that new allegations have now surfaced since the no-confidence vote failed to remove the whole Commission in January. The Belgian paper, De Morgen, has reported that Madame Cresson is heavily criticised in a new internal Commission report. "If this report is withheld from the European Parliament's budgetary committee," said CDU MEP Reimer Böge, "then confidence in the Commission would be destroyed for a long time." [*Handelsblatt,* 11th March 1999]

The Common EU Withholding Tax Trap

by Howard Flight, MP

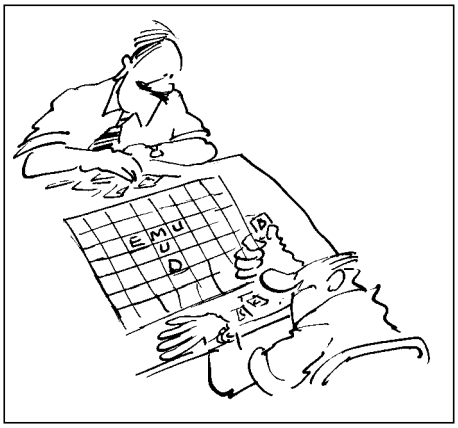
Britain and, more particularly, the City of London are in danger of waking up to find in a few years' time that London's pre-eminent position as the world's leading international financial centre has been undermined as the result of the widening coverage of a common European withholding tax.

The EU is in earnest in wanting to introduce a common withholding tax, targeted at 20%, where a decision is looked for by the end of this year.

From a Continental European perspective, there are two key points. It is recognised that labour is over taxed with add on employment costs of between 40 and 50%, representing a major cause of massive structural unemployment, while returns from capital are relatively under-taxed, particularly where most Europeans evade paying tax on their interest income. The hundreds of billions of DM deposited in Luxembourg to evade German income tax are well known; but there is widespread reluctance throughout Continental Europe by individuals to declare and pay income taxes on their interest income. The practical solution to this is to introduce a common withholding tax on interest income, estopped at source. To be effective, however, such a tax would need to apply to all interest payments to both EU and non-EU individuals and companies, or there would be widespread avoidance and evasion, booking deposits in the name of companies or foreign nominees.

The second big issue is that a single currency, serving very disparate economies will require, inevitably, massively greater cross-subsidy, transfer payments to the less successful economic areas, which will find it difficult to compete under the Euro. Portugal may be the first major candidate here. A major attraction of a pan-EU withholding tax, is that it could raise substantial tax revenues to finance the increased transfer payments which will be required.

While UK law provides, in principle, for a 20% withholding tax, interest paid by one bank to another bank, whether resident or non-resident, is exempt; non-resident companies may also receive interest gross from UK banks under certain circumsances and all owners of Eurobonds can receive their interest gross free of withholding tax. Ironically, it was the co-operation of Harold Wilson and Gordon Richardson which put in place this tax regime, which enabled the Euro markets to develop and blossom in London, following the introduction by the US of an equalisation tax (a withholding tax) in the 1960s.



Where we stand presently, is that the EU savings directive is proposing a common withholding tax on interest payments, both by Banks and on Bonds to EU resident individuals, but not to companies – the European Parliament has already voted in favour of the former. Most of the City's low-profile campaign has been directed against a common EU withholding tax applying on Eurobond interest, which it has been estimated might cost 14,000 City jobs. This is, however, a risky approach The EU is likely to propose in response an initial deal, either exempting Eurobonds entirely, or exempting EU withholding tax applying on existing Eurobonds. The UK would find it very difficult not to accept such a deal, given that it has already its own 20% withholding tax. The problem is, however, that such a limited EU withholding tax would be seen quite quickly not to work as individuals would repackage their assets via companies or foreign nominee names; the conclusion would emerge inevitably that for the EU withholding tax to be effective, it will have to be extended to cover both EU resident companies and non-EU resident individuals and companies. The City should be campaigning against any pan-EU withholding tax, in principle, and rousing citizens of the South East of England in support – as their jobs will be at risk.

Stage one, as proposed, of an EU withholding tax would be inevitably 'the thin end of the wedge'. An effective EU withholding tax could cost the City of London its international deposit, lending, related foreign exchange and derivatives business – as well as its Eurobond issuance business – all of which would move to other financial centres without a withholding tax, such as New York, Hong Kong and Zurich. The Government of Hong Kong is already, and quite justifiably, making a play for Eurobond issuance business. The jobs which could be lost in total are at least 100,000 of the 600,000 employed by the City of London, rather than the 14,000 in just the Eurobond markets.

In the UK, Financial Services represent some 21% of GNP and have been a growing source of international invisible earnings. Indeed, it has been our most successful industry over the last 20 years. Like fishing and the art auction business before, this major success is now under serious threat from a common EU withholding tax.

The Treasury has not given any firm reassurances that it will oppose a common EU withholding tax in principle; it has merely focused on the Eurobond interest issue. The statement with the widest comfort so far, was Tony Blair's answer to my PMQ on 28th October, 1998, that the Government would certainly use our veto to stop any EU measure that will harm the City of London. None of the Treasury Ministers have gone further than supporting a Eurobond exemption.

The City lobby is nervous of undermining international confidence in London as the world's leading financial centre, by stirring up public opinion on this issue. I believe this is mistaken, particularly after UK experience with the Art Auction business; and where Continental European tax specialists are making it quite clear that the full objective with an EU withholding tax is for it to be effective and, therefore, to apply to all interest payments, whether to companies or individuals, EU resident or non-resident.

Howard Flight is Conservative MP for Arundel & South Downs. He is Deputy Chairman of Guinness Flight Hambro and a member of the UK Advisory Board.

Europe and the Electronic Revolution

by Frank Glyn-Jones

There is much talk of a new Atlantic economy in which the USA and the European Union, two giants of roughly equal size, are the twin driving forces behind the world economy. In population, number of listed companies, GDP and share of world trade the blocs are roughly identical and, so the argument goes, in those areas where the EU is lagging behind such as market capitalisation, rate of growth and unemployment, the gap will soon start to close. A recent article in *Fortune* argued that "Europe is now ready to challenge the US for economic primacy." The reality could not be more different and, in fact, as the tidal wave of electronic commerce sweeps over the world, Europe is running out of time.

The US is leading the way into what looks like a revolution on the scale of the agrarian and industrial revolutions. Not only is Europe many years behind the US in information technology and e-commerce (electronic commerce) but is ill equipped to catch up. In the US the e-economy is generating major structural changes in which the entrepreneur is king. Enterprise is penalised in the EU by lack of seed capital, high taxes and business costs, regulations, a protectionist attitude to legacy practices and older industries and, in the world of the Internet, by a language problem.

Europe's different mentality towards e-commerce is exemplified by the European Commission's interest, which is more in the tax opportunities of electronic business than in the prospect of creating jobs.

Europe's economic strength lies in mid-tech industries, notably cars, aircraft, defence, machines tool, metals, engineering, chemicals, plastics and textiles. In terms of growth and profits these sectors have passed their prime and suffer from global overproduction. The USA is racing ahead in the new knowledge-based industries, computer software and services, consultancy, telecommunications, PCs, semiconductors, entertainment and finance and above all in e-commerce. Its exports, primarily high-tech based, are growing at three times the rate of the total economy. Computer networks and e-commerce are pouring productivity and growth into American business.

Last November *Business Week* published a survey of the world's 100 best performing IT companies based on sales volume and growth, return on equity (profits) and shareholder return. 75 were American, six were British and the whole of the rest of the EU had five of which Scandinavia had four and Germany one. Britain's list included Vodaphone and Orange and Scandinavia boasted Nokia and Ericsson. Many derive their success from the Internet such as America Online, Dell, Amazon, CISCO, Yahoo, Excite, Lucent, MCI and Qwest. Nokia accounts for one third of Finland's GDP growth which illustrates the role that one company can play in national growth. Europe leads in mobile telephony and but in most other spheres of IT and especially e-commerce it is dangerously exposed.

Since 1992 America has been investing at least twice the EU average per head in IT (OECD). Last April the Department of Commerce announced that IT including telecomms accounted for 8 percent of USA GDP. The comparable figure in the UK is 4 percent (Office of National Statistics) and in Europe between 4 and 5 percent (European IT Organisation). That means that the US has been investing twice as much as Europe in IT for seven years and this represents a formidable gap. The US is enjoying on of the longest periods of growth in its history and there is agreement that this is largely due to IT and e-commerce. Economists, looking at conventional data, forecast US growth of 1.9% for 1996, 2.1% for 1997 and 2.2% for 1998. The actual growth rates were 3.8%, 3.8% and 4.1%. They failed to comprehend the power of IT and e-commerce and are seemingly repeating the error in 1999.

One could carry on with this statistical banquet. 90% of the world's websites are American; 40% of the world's investment in computing is in the USA; the USA has five times more computers per worker than the EU; mass production is being replaced by intellectual output from knowledge-based industries; the end of the federal deficit has released huge sums for investment; there is a boom in business training.

There is a synthesis about the US scenario. The commanding production base – IBM, Microsoft, Intel *et al.* – breeds a network of innovative companies including Silicon valley and has set University research on fire. It is an educative force for other business sectors and for Government which are early adopters of new technology. It permeates the whole population which has learnt to welcome technological change and is a ready market for IT products. It all hangs together, it is self-accelerating. In Europe the IT industry is largely in the hands of foreign multinationals. It is true that FDI (foreign direct investment) produces many benefits for recipient countries. It creates jobs and exports, pays taxes, invests heavily per worker, raises productivity and sets new standards and hence is encouraged by governments. But the synthesis is missing. The recipient countries have little innovation or research and development capability of their own, the big jobs and decision-making are in the parent countries which enjoy most of the growth benefits, imports generally exceed exports especially if royalties and other invisibles are included (Britain's worst trade deficits are in IT and autos where FDI is strong), the population tends to be technophobic and governments find it hard to come to grips with the e-economy.

World trade has been one of the main drivers of economic growth but today the sales of the overseas affiliates of the top 50,000 multinationals exceed world trade and these multinationals have become the main engines of global growth. IBM, ICI and Zeneca prefer to manufacture overseas than to export, provided the market is large enough to support a plant, because it is more profitable. This factor works both ways, of course. Britain's record in outward FDI is excellent and the dividends often pay off the visible deficit. But British FDI is primarily in mid-tech industries not the knowledge-based ones that are the most rapidly increasing sectors of world output.

The Internet is the world's fastest growing technology of all time and excitement over e-commerce is mounting. E-commerce can be divided into two categories. The first is business-to-business which the Forrester Group forecasts will reach £1 trillion turnover in three years, greater than UK's GDP. Their forecast last year was lower and no doubt next year's will be larger. Research by Andersen Consulting shows that aggressive use of e-commerce has already enabled businesses to increase revenue by up to 20 percent, cut costs by up to 45 percent and to reduce working capital and physical infrastructure requirements by up to 60 percent.

The second stage is business-to-household trade which is beginning to rocket in the USA and is transforming trading channels and business structure. Dell enjoys phenomenal growth by marketing over the Net and no longer carries stocks as every item can be tailor-made to customer needs. Why do not other PC makers do the same? Because that would mean bypassing their dealer channels, or, as some put it, 'eating their own children'. Insurance companies have the same problem. By going direct to clients they can alienate agents and brokers. The leaders in one business paradigm are rarely the leaders in the next. The leaders in e-commerce are firms like Priceline. The customer specifies his interests and Priceline seeks out the best deal whether it be cars, airline tickets or mortgages. Another company, Buy.com, is selling on the Internet at cost with a flat $10 charge for delivery. It may fall flat on its face or it may be establishing a new model but for several years its growth has been phenomenal. The buyer is king in the e-economy.

Tesco is innovative in being the first to introduce electronic shopping, but will it follow this through to its logical, fully automated conclusion?

Andersen Consulting conducted a survey of e-commerce in 1998 and found that the US commanded an 80 percent share of global e-commerce revenue and that while Internet based e-commerce was beginning to grow rapidly in Europe the trends indicated that Europe may already have missed the boat and its share of world e-commerce might settle down to a 10–12 percent. Across Europe only 39 percent of executives agreed "that e-commerce forms a significant part of the way we currently operate" compared with 77 percent of US executives. European business leaders in general do not see e-commerce as a strategic issue, they adopt a 'wait and see' attitude and feel that if they set up a website they have done their duty. A typical comment is that e-commerce may be a temporary fad, or suitable for niche markets or inapplicable to cities where there is easy access to shopping. The verdict of Robert Baldock, senior partner in Andersen's, is that Europe is running out of time. Huge retail businesses operating purely online are being constructed in the US and there are reports that they plan an assault on the cream of opportunities in Europe.

The Internet will affect almost every nook and cranny of the economy. The Institute of Chartered Accountants has published a report *Accountants in 2005* which foresees much accountancy work in smaller and medium enterprises being handled by software and the Law Society doubts if face-to-face appointments will be the norm in a few years' time. The next generation of mobile phones will have screen and keypad and incorporate e-mail and other services such as online banking. As the cost of the high street rises, online lawyers, accountants, stock brokers, banks and building societies will flourish. In the US it is normal for patients to search the Internet for insight into their ailments and doctors are being trained on how to cope with a more informed public.

Network and multimedia technologies are transforming distance learning. The demand for learning in Asia is the equivalent of one new University every week and English is the *lingua franca* of business. The Open University is a world leader in exploiting these new technologies but the opportunity is vast. Online learning could become the Internet's – and the world's – most rapidly expanding industry.

There is no doubt that the cost of local calls affects the use of the Internet. Local calls are generally free in the US and are low cost in Finland which also has a high percentage of homes connected. A new tariff structure to reflect the fact that there is already more data traffic than voice on the phone lines is long overdue in Europe. The number of homes having access to the Internet is increasing in the UK spurred by Dixons' service of free access to the Net. This was an imaginative move by Dixons and looks like becoming the norm. A year ago 5 percent of British homes were connected to the Net but a survey by ICM in January 1999 revealed that this had almost trebled to 14 percent. Apparently there are doubts as to whether telecomms companies can cope with this new volume of traffic. What on earth have they been doing for the last decade? But while Net access is galloping ahead in Europe over 30 percent of homes are already connected in the US and the rate of increase is even more rapid.

Old-fashioned copper wires that were installed for voice phone calls make access to the Internet maddeningly slow. In the US there is a race between phone and cable companies to get high capacity fibre optic to the home. This is the holy grail that will enable all services – TV, Internet, voice, fax and data – to reach the home though one wire. Mobile telephony is also competing at breakneck speed. Cable has an advanced network in the UK but the BBC licence fee deters most households from paying twice for a TV service.

Old industries contract while new industries and occupations multiply. This process has been going on since the days of flint tools but is speeding up. In 1948 there were 900,000 miners in the UK and fewer than 100 people engaged in computing. Today there are less than 10,000 miners and between one and two million employed in computing and related industries. It has been forecast that Britain will require almost 100,000 new website designers in the next few years and an even greater number of programmers. Since 1980 the US has lost 44 million jobs and created 73 million private sector jobs, a net gain of 29 million. 55 percent of the American workforce are in new jobs. The EU has gained only 4 million jobs in the last ten years, all in the public sector.

The twin flagships of the e-economy are innovation and venture capital. The US has plenty of both and represents the enterprise culture *par excellence.* The number of start-ups in the EU has been increasing substantially but the overall statistics present a dismal picture. In 1997 the private equity market in the US amounted to $50 billion of which 55 percent was invested in high-tech. The venture capital market in Europe was a total of $15 billion of which 15 percent went into high-tech. This means that the US invested $27 billion in high-tech compared to Europe's $2 billion of which the UK invested four times more than either Germany or France.

Across the Atlantic lies a culture that loves technology and is dedicated to free enterprise and low government spending and is enjoying the one of the longest periods of growth in its history. E-commerce which is spreading at breakneck pace and is already beginning to transform trading channels and business structure, both within nations and internationally, needs this free enterprise culture on which to thrive. Asia is well placed in that although it has still to sort out its debts, it has abundant energy, intelligence and low Government spending and is beginning to innovate. Britain enjoys close business and attitudinal links with the US and today, more than ever before, these links need to be nurtured.

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BOOK REVIEWS

The English: A Portrait of a People

By Jeremy Paxman

Published by Michael Joseph, ISBN 0 7181 4263 2, 308 pp, Price £20

Reviewed by James Horsman

I don't think this is meant to be a book for academics. But it might still be a book with a purpose – and if it happens to be an engaging and entertaining piece of naval gazing along the way, then why not? Don't expect to find any great empirical argument regarding 'The English', for as Paxman points out, they are a race consisting of everything and nothing at the same time. Because of this fact, perhaps the format of analysis chosen is actually rather good, in that it draws upon particular strands of Englishness in each chapter, and by collections of anecdotes, poetry and literature we find ourselves ever closer toward establishing who the English are. Or do we?

To many, Paxman may simply be re-inventing the wheel in writing about the English in this way. However, there does seem to be a certain historical symmetry to the timing of similar texts – quite often when the country has hit upon a turning point. Some, such as Winston Churchill's *A History of the English Speaking Peoples*, have formed part of the great literary heritage from which Paxman quotes so frequently and so appropriately. And, while *The English* is a far more modest effort, with no general argument – there are clearly perceptible strands of intellectual argument delivered in a palatable and poignant way.

One quickly gains the impression that the author is not very impressed by his subject matter. A.J.P. Taylor once said that "England has a great deal to be proud of – but it also has an immense amount to be ashamed of too." It can seem at times that the focus of analysis privileges the latter to a far greater extent than what might be 'fair' in an English sense. Yet in view of the fact that this is not a book for undergraduates of social anthropology, need we complain that much about the lack of intellectual integrity?

An oft referred to and amusing pillar of the author's analysis is his observation of 'The Breed'. These are the group of men that made the Empire what it was, the people that relished the ritual beatings of Eton and the homosexuality of Victorian Oxbridge. They were scoundrels and varlets. One example of which the author chooses is the writer Simon Raven. Here is a man who, upon learning of the imminent arrival of an accidental child, absented himself on the basis that "children use up money which could be better used for high-grade pleasures for oneself." He shortly received a telegram from the child's mother: "SEND MONEY, WIFE AND BABY STARVING", to which he is said to have replied, "SORRY NO MONEY, SUGGEST EAT BABY". The English Breed are "bold, unreflective and crashingly pragmatic, men you could trust" – a Club with qualities that our present Scottish Chancellor Brown undoubtedly aspires to be remembered for.

It is not difficult to see from the greater body of this work that any serious observer of the English would soon realise that their perceived anti-social outlook is not founded on petty personal prejudice but is part of the national obsessions of privacy, independence and personal freedoms.

"The English dream is privacy", writes Paxman. "Given a choice between their own back garden and life in a communal living project where they might share the benefits … most will choose their own plot of ground", he determines. Disappointingly, the great majority of the exploration of the European issue is rather plain and lacks the characteristic incisiveness present elsewhere in the text. Instead, it is Paxman's explanation by metaphor that provides the most powerful and interesting pillars of the entire work. One is able to look at the template that the author has set for himself, and it is the sum of the text that enables one to come to terms with why the English are the way that they are.

Although this is not a historical work, there is useful discussion of exemplary Englishness throughout the centuries, which has much to offer in understanding England's present day position. He argues that the reason why the English have a preoccupation with their history is that it provides them with an identity. Aside from the fading Establishment institutions, the English have precious little else to hold on to. "Uncertainty about national identity is acute", writes Paxman. And who can blame them? For while our subject is England, and not Britain, it is clear that we are talking of the same animal when it suits the English to do so. Yet the political device of Britain is failing too, as devolution tears apart the

… news in brief

Two weights, two measures

This French expression seems apt to describe the outburst of fashionable outrage at the capture of the leader of the PKK, Abdullah Ocalan – a movement whose ideology even one of its supporters describes as "a Maoism as primitive and rigid as that of Sendero Luminoso in Peru" and whose leader is "not the most enlightened of Kurds". [Gérard Chaliand in *Le Monde,* 19th February 1999] Yet Patrick Beaudoin of the International Human Rights Federation attacked the way in which Öcalan was captured as being "outside any legal framework". One wonders if he said the same thing about Klaus Barbie, the head of the SS in Lyon who was similarly captured "outside any legal framework" and brought back to France for trial in the 1980s. Barbie's defence lawyer, universally reviled at the time by the *bien-pensants,* used exactly the same arguments as Beaudoin. [*Le Monde,* 19th February 1999]

love-hate alliance of the relationship between England, Wales and Scotland.

The English have always wanted to be free, it would seem. But their freedom has always been tempered by self-imposed order. For example, it was the break with Rome that demystified 'the Good Book', and made it clear that the English could win salvation free from the fetters of a foreign autocracy. The spirit of English individualism "is one of the reasons that it has never been necessary for English people to submerge their identity within the State", writes Paxman. In respect of the Channel Tunnel rail link, 'The French government is simply readier to impose its will, while the English hold planning inquiries. The different priorities – the centrally decreed needs of the State and the individual worries of the citizen speaks volumes… The French believe the State *is* the people, while in England, the State is something else – 'them'.

Paxman makes the acute observation that every time England has played any significant role in history, it has been by finding itself steadfastly in the minority and at risk of subjugation to another (usually sinister) influence. And the interesting thing, is that every time such a story is told, it is always the minority view of the marginalised country that seems to prevail.

On the subject of continental integration, England may now rest on the precipice of the greatest historical threat to the qualities which it holds so dear. And what of it? George Steiner provided Paxman with an answer: "If the Lord God came to England and started expounding his beliefs, you know what the English would say – 'Oh come off it!' – in the end, the English don't care enough about ideas to suffer their consequences."

James Horsman is a Hardwicke and CPE Scholar of Lincoln's Inn, a Research Analyst at the European Foundation, and is shortly to commence practise at the London Bar specialising in EC Commercial law.

Weak Dollar Strong Euro?

Further comment: a letter from ***Howard Flight****, MP*

Alastair Heath's review of Fred Bergsten's book, *Weak Dollar Strong Euro?* (*EJ* Jan/Feb 1999), argues much the same case which I have presented (December Guinness Flight *Market and Funds Review*) – of the risks being tilted heavily looking out over the next two years of excessive euro strength and dollar depreciation. I have made the point, moreover, that such exchange rate movements are also likely to be the mechanism which brings deflation and recession to the West, i.e. both Europe and North America.

An easy monetary policy in the US in the seventh year of a growth cycle is justified by the immediate need to keep the world economically afloat. Looking forward, the problem is not just the international oversupply of dollars which this will create *via* the ballooning US currency account deficit; there is, moreover, the risk of international dollar over-supply being exacerbated by financial support from the US for South America, given its importance as the US's main export market. There is separately the issue that an increase in the use of the euro as a reserve currency, where Europe has a $120 billion current account surplus will put sharp upward pressure on the euro – rising demand with negative supply. The world is already on notice that the Central Banks of Asia, collectively controlling some $800 billion of reserves, are already looking to diversify their reserves and reduce their high dollar exposure, although they appear not to have done so as yet.

The ECB may react to looser, Keynesian fiscal policies, by tightening monetary policy, although it, too, is well aware of the dangers of currency over-valuation and analogous to the Fed at present, the ECB may feel that it has no choice for the time being but to follow a loose monetary policy for fear of causing a massively over-valued euro. Moreover, while much of Euroland's economic problems are structural – excessive employment taxes, and social welfare, and too high an overall government tax take, Euroland's current account surplus also suggests (as is the case also in Japan) adequate consumer demand.

What is clear is that anti-US bravado calls in Continental Europe for the euro to become a major reserve currency are wholly inappropriate to Europe's present economic and financial posture; and if effective will cause massive unemployment as a result of currency over-valuation – where core Euroland already has, alarmingly, the highest costs of labour per hour in the world.

The exchange rate markets have not as yet behaved in this fashion – the dollar has strengthened some 5% against the euro since its launch. I believe, however, that this largely reflects the euro's newness and that the Central Banks of the world have not as yet started to diversify their reserves: moreover, what is worrying about international dollar over-supply is the rate at which the US current account deficit is expected to rise this year; we are now only at the beginning of the year. I remain of the view that there is a high probability of significant dollar weakening and euro strengthening by the end of this year, notwithstanding interest rate differentials in the dollar's favour.

Howard Flight is Conservative MP for Arundel and South Downs. He is Deputy Chairman of Guinness Flight Hambro and a member of the UK Advisory Board.

… news in brief

Emma for president

The EU's Commissar for Humanitarian Aid, Comsumer Protection, and Fish, Emma Bonino, is making a bid to become president of the Italian Republic. Numerous Italian politicians, especially on the Left, seem to regard women politicians with the same trepidation as women drivers – *donna al volante, pericolo ambulante.* One said, "This is a terrible misfortune. She does not understand the rules of our constitution." On the other hand, one supporter held a placard saying, "Emma – the right man at last."

The 51 year-old Mrs Bonino is a veteran radical. At 27, she became the leader of a pro-abortion pressure group and then joined the Radical Party to which she still belongs. She describes herself as "an extremist for justice" [the pun with 'right-wing extremist' works better in Italian] since she had been arrested several times in different parts of the world for protesting in favour of 'human rights'.

Germany Plc

by Hans-Rüdiger Minow

"Yesterday I sat for a long time with the Chancellor in order to discuss my idea of the new Europe, i.e. how to cast a veil over our will to power. The central European Reich of the German Nation. The interlocking system which is usual in joint-stock companies, the German Reich a company with a majority Prussian shareholding. Any increase in the number of new shareholders will destroy this majority. That's why we need a confederation of states around the German Reich.

"There is no need to talk of any Anschluß with the central power. The European idea, if it is thought through, leads on its own to the same consequence."

Kurt Riezler, adviser to the German Chancellor Theobald von Bethmann-Hollweg, writing on 18th April 1915 in the German camp in Charleville (Ardennes).

The united Germany, now governed by a coalition between Social Democrats and Greens, has entered the new year with optimism. The 10th anniversary of the Anschluss of the GDR is approaching and people are looking forward to the re-birth of a new power which the Potsdam Agreement had wanted to destroy for ever. At the very beginning of the year a conservative financial weekly, *Witschaftswoche,* which is popular with company directors, placed an advertisement with a picture of the former Chairman of the State Council of the GDR, Erich Honecker. His photo from younger and happier days was illustrated with the slogan, "Every merger has its losers".

This advertisement, free from all nationalist ballast and reunification enthusiasm, is remarkably laconic. It leaves all anti-Communism to one side and refers to German reunification as if it were nothing but a movement of capital. Using the concept of a merger, it makes it clear that the acquisition of the East was and remains a highly profitable deal. It calls a spade a spade when describing what has driven Germany's rise in the 1990s. The German post-war state, which was supposed to be a provisional arrangement, has expanded economically, territorially and politically. Now it has mutated into the 'Berlin Republic': a 'merger' with European consequences.

The economically-oriented advertisement sends yet another message to Germany's neighbours. The sight of a head of state who opposed the planned merger (and who had his smile wiped off his face and his state taken away from him) is meant to tell the reader that German dynamism in economic take-overs knows no boundaries. Its sights are always set on control, political control, beyond borders. It also vibrates with a threat: woe to the loser.

Germany's back yard

The Berlin of the 'Berlin Republic' has changed in appearance. The clouds of the old Imperial Capital may no longer fill its skies but its location, its economico-political situation, have remained the same. Berlin looks towards the East. Within 10 years, the German economy has been able to regroup its forces and to use this city as its springboard. Its aims are the resources in the states of the former Communist bloc, in other words in the immediate vicinity.

It is as far from Berlin to the Polish border as it is from the centre of London to Reading. To the Czech border is about as far as from London to Bristol. To go from Berlin to Kalingrad, the former Königsberg which has been Russian since 1945 and which the German economy thinks about so attentively, it is about as far as from London to Edinburgh. The biggest European bank, the Deutsche Bank, looks after the future of Kaliningrad. It is from its board that the plan originated to create a 'special economic zone' there, a plan which would 'internationalise' this former German territory. So far this international expansion has created a fulcrum for the German economy, a culturally active exchange institution called the German-Russian House, which encourages the German consulate to take sovereign decisions in Kaliningrad which are a source of constant irritation in the Russian Foreign Ministry.

Because the logistical and operative proximity of the former Warsaw Pact states is enormously advantageous for German exports (and because German capital investments can be easily controlled just on the other side of the border) Eastern Europe has proved to be a back yard for Berlin which is as ripe for development as ever. Following the general takeover of the Czech press and media, among others by the Bauer Press, the publishing company Gruner + Jahr from Hamburg is now also expanding abroad with new vigour. Gruner + Jahr, which already publishes 14 titles in France (*Capital, Femme Actuelle, prima, Télé Loisirs,* and so on), 8 titles in the United States (*Parents, ym, Family circle, McCall's, American Homestyle, Child, Fitness*) and 3 titles in Britain (*prima, best, Focus*) sells 4 million papers every month in Poland and 10 million a month in Russia. Whereas the profits of this company were DM 450 billion in 1996/1997, they had risen to DM 781 billion by last year, an increase of 73%.

Mercedes-Benz, the Stuttgart-based automobile and arms manufacturer, which is now called Daimler-Chrysler since it bought its main American competitor, is making magnificent sums of money and strengthening the links which bind the East to Berlin. A subsidiary of this company has started to plan a glass fibre optic link, costing $90 million, whose purpose is to connect the data network between the German border and Moscow in order to speed up economic communications.

Such plans are evidence of long-term intentions, unaffected by present financial crises, to establish strategic control over Russian natural resources. In this area, the Essen-based Ruhrgas AG is also operative. At the end of December 1998, Ruhrgas paid DM 1.1 billion (several million deutsche marks over the odds) in order to push Interoil Finance Ltd out of the struggle for a stake in the Russian state gas monopoly,

Gazprom. Gazprom and Ruhrgas founded a joint venture which is intended to enable the German gas supplier to obtain further shares. The background is that Gazprom manages one third of the world's gas reserves and provides significant parts of the Russian government's revenue. In other words, one can assume that the acquisition would have been accompanied by advice and suggestions from political quarters.

Trade surpluses at a record level

German industry's privileged engagement in the East awakens historical memories which culminate in the fear that Germany and Russia could, as in the 1920s, establish a secret alliance which would be directed against the West. German industry habitually counters such fears by arguing that only a small part of its trade concerns Eastern Europe: economic relations with the West are decisive. This statistic truth is intended to lull people into reassurance, but it is irritating when one knows that Germany's expansion to the East is indeed accompanied by an equal and increasingly dynamic expansion into the West, and that what is being presented as an economic binding-in into the West is in fact giving way to explicit hegemony.

According to the most recent data available, the percentage of cars produced abroad by German automobile manufacturers rose to 36% – a rise of 9% since German unification. In other words, the medium term added value that is realised in Western Europe and America is greatly increasing, whether through productivity rises, through the modernisation capital flowing abroad from Germany, or through mergers. Exports to Western Europe rose from around 2 million automobiles in 1997 to 2.4 million in 1998, an increase of 20%. The increases in exports to the USA are 26.6% and 92.2% to Latin America! Such results reflect that "economico-political sphere of influence of German companies", according to a laconic and apt press statement issued by the Alliance of the (German) Automobile Industry at the beginning of this year.

And as the Federal Statistical Office in Wiesbaden also announced in January, German exports rose to DM 871 billion in 1998. When imports are subtracted, this represents the highest export surplus for 8 years, more than DM 150 billion. By comparison, the development in Great Britain is the opposite. The trade deficit there continued to increase between September and November 1998, reaching £6.3 billion, the worst results in 10 years.

German assets abroad rose by 13% in the first half of 1998 to DM 3556 billion. The lion's share of this increase was in Western Europe: the 'Berlin Republic' is Europe's biggest creditor. The figures show that for a long time now there has been no question of binding Germany in with any imaginary alliance. German economic weight decides which Western partners may participate with it and which may not.

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In this way, the German mega-concern Metro used a French partner, Carrefour S.A., in order to disguise the expansion of its supermarket business into Italy in Latin clothes. The Deutsche Bank behaved in the same way when it made acquisitions in Rome and Madrid. In Greece, Deutsche Bank took a stake in the second largest private bank, EFG Eurobank, a few months ago and at the same time took over the Belgian subsidiary of Crédit Lyonnais. The third largest media concern in the world, Bertelsmann, which was in the papers recently because it published Nazi books during the war, continues its acquisitions in numerous European countries as well as in the USA where it has bought Random House (making it the biggest English-language publisher in the world). In other words, the German economy is systematically and intentionally aiming for the same position in the West which it has established East of the Elbe in less than 10 years since unification.

This German thrust of expansion is profitable for Western sellers and merger partners because, as with the stake taken in Gazprom or the purchase of Rolls-Royce, fantasy prices are paid, which force numerous competitors to give up. This immediate advantage for the seller, however, has another side to it. For inasmuch as the over-bidded counterparties belong to a regional economic market (in Italy, France or Spain) the transaction weakens their remaining influence and leads to further acquisitions and thus to a deepening split within economic élites – collaborators here, resistant losers there. In particular in Britain this rift seems to opening up ever deeper graves. There the German economic saying that every merger has its losers has a meaning which is both valid and dangerous for the whole of Europe. The political result is the inner subversion of nation-states which are subjected to the new hegemon.

Corporative expansion

It is astonishing that the expansion of the German economy, which at the same time has to assert its hegemonial position against its competitor the USA, can rely on a seemingly unending source of energy and readiness for sacrifice on the part of German society. Although the hyperactive course, which has been steered with ever greater success since unification towards a world-power role for Germany, leads to losers in the domestic structure of the new Germany, there is no significant opposition to it. The fact that some 3 million people in Germany live on social benefit, and the fact that for instance in Munich, where the luxury car producer BMW is located, 6,000 people are regularly fed from soup kitchens because otherwise they would starve, leads to no upset whatever.

Instead of this large sections of the population hope for a new orientation in the state's social policy, which is why they voted for the Social Democrats and the Greens. These parties promised an 'Alliance for Jobs', i.e. to fight against the unemployment which is, in particular, extremely high in East Germany, in some urban areas as high as 40%. At the same time the prospect has been held out of environmental reform.

Both promises were misinterpreted to indicate a fundamental change in direction. It is a more a matter of putting short-term brakes on the consequences of this enormous tempo of expansion. Since the German economy has been acquiring what there is to be acquired in Europe, it has placed its domestic personnel under stress and could soon be in danger of losing its traditionally problem-free society.

Since the SPD/Green coalition came to power a series of social absurdities from the old government have therefore been retracted. The middle classes are being

pacified, for they fear a decline into poverty or hope for a change in environmental policy. Their ecological concerns can be understood allegorically, as a fear of the further excesses of social deregulation and industrial relocation which are the inevitable consequence of hegemonial economic expansion.

Simultaneously the SPD and the Greens promise that their pacification programme is compatible with economic exigencies, so that the consensus can be preserved in Germany between master and slave. This promise should be taken seriously. Numerous Social Democrats in the Bundestag and in the government come from the state administration in the Länder or were trained in the trades unions to exercise surveillance functions in big companies like Ruhrgas. They owe their rise to a corporate culture which tries to avoid social conflicts as much as possible. This leads to 'the negotiable differences of interest between the social partners' being ironed out, i.e. to conflicts being subject to a bureaucratic system of rules. The German state functions as the highest instance for conflict resolution, and thus the state ensures that there is a overarching lid covering social and political thought. Corporate compromises serve its order and its continued existence – so that economic and political life can continue to pulsate quietly and without disturbing anyone even in the 'Berlin Republic'.

In view of these credible promises to structure the pacification programme in a manner compatible with economic necessity, one does the majority wing of the German government no wrong when one establishes that its 'Alliance for Jobs' is in fact an alliance for Germany as an economic power, and that after German industry has made a donation for the lame, the onward march of Germany PLC can proceed with an even fresher step than before.

Whether the political protagonists will then still be called Schröder, Lafontaine or Fischer remains an open question. In the meantime, clear bids for power are being made by the prime ministers of North-Rhine Westphalia, Wolfgang Clement, and of Bavaria, Edmund Stoiber. Although they belong to different political camps, they are pursuing a common programme, based on strategic discussions with each other. It is euphemistically called 'modernisation' but in fact implies the further development of the national competitive state, which intentionally puts itself into competition with Germany's neighbours in order quickly to direct the blame for the supposedly inevitable fate of those who lose out in mergers onto others.

Germany as a role model

That Social Democrats are the ones who have become economic Darwinists can come as a surprise only if one overlooks their new belief in old prejudices. German social democracy is a child of the industrialisation of the last century: ever since it naïvely burst forth from the Bismarck years, German Social Democracy has always seen the future wherever a new factory opens up for business. Whoever becomes a skilled worker in a well-known company or even, beyond that, a member of the factory committee, grows into a social relationship which fills him with pride. In Mercedes, for instance, belonging to the company continues to confer a certain status despite 'lean production' and 'outsourcing management'. The historical symbiosis between German skilled labour and German enterprise survives here in an illusory but still productive relationship.

The Social Democratic pride in large industrial processes has already contributed to numerous transformations in German industrial policy. In particular it has always been a companion of German expansion, whether by marching together with it or by opposing no resistance to it. The fate of individual protagonists who ended up in the Kaiser's prisons because they opposed the conquest of coal mines in Lorraine, or who died in the Wehrmacht's firing quads because they opposed the subjugation of the East by Hitler, should not blind us to the consensual cooperation between German Social Democracy, German industry and the German state. Social Democratic participation in political power was always made possible when economic crisis situations demanded solutions which would have remained blocked without the sacrifice of large sections of the population.

In the present period of merciless competition for the mastery of European and worldwide markets it is essential to delay domestic crises so that industrial expansion can be corporately structured. For this reason, German Social Democracy is in a more favourable position in the medium term than other parties. The Social Democratic economic officials' talent for organisation and mediation can provisionally reconcile significant portions of the population with the present social situation without the threat of decisive losses in productivity.

The most recent example of corporate leadership is the Social Democrats' attempt to establish a 'tertiary' labour market in Germany, i.e. a market for low-paid workers. German business representatives are engaged in negotiations on this with the trades unions' leaders and, naturally enough, these are taking place in Mr Schröder's office, i.e. under the auspices of the German government. The government's ruling on low wages shows that what is presented as an event in the market is in fact a state-regulated arrangement in which absolute priority is given to Germany's capacity for expansion by providing German industry with cheap labour.

Schröder's influential Secretary of State in the Chancellor's Office calls this strategy "reconstruction of the social market economy". Bodo Hombach, the man who sits in the Chancellor's antechamber, means thereby an "ethic of breaking through" which promises "not prosperity for all but work for all". However improbable this latter promise may be, given that there are 6 million people out of work in Germany, it belongs to the process of setting up an industrial society which, bundling its powers together and free from reactionary frictions, is preparing its path into the next millennium.

Since similar strategies are also coming into action in Britain and France – indeed they count as models – the potential which has to be mobilised is now being directed against the economic competitors abroad, despite the veiling of German power in Europe and despite the illusion of co-ordination. It is game of all against all. The 'New Centre', above all the Germany which is united and with a hefty trade surplus, is only accelerating an inevitable clash which it is convinced it can prevent.

Hans-Rüdiger Minow lives near Cologne and works as a journalist with the WestDeutscher Rundfunk. He has published (with Walter von Goldendach) Von Krieg zu Krieg *in 1997 (From one war to the next: German foreign policy and the ethnic dismemberment of Europe). This followed his 1994 study of state funded pan-German movements,* Deutschtum Erwache! *(Germanhood Awake!).*

EURODATA

Common Agricultural Policy

Reform of the Common Agricultural Policy (CAP) is the centrepiece of the Agenda 2000 package for controlling EU spending and restructuring revenues. The projected cost of the CAP for 1999 is EUR 45.2 billion – just under half of total EU spending. A number of member states in Euroland are calling for this money to be redirected to the Structural Fund to offset the adverse economic effects of a one-size-fits-all interest rate. However this would require reform of the CAP, a very contentious issue.

The first element of the reform proposals is a reduction in price support. The *Financial Times* argues that 'The main test [of reform]should be the depth of cuts it makes to the guaranteed prices the EU pays to its farmers' (11th March 1999). At the time of writing, it appears that price support for cereals and beef will be reduced by 20% and for milk, by 15%. Compulsory set-aside remains the same, at 10% per farm and although the reform package pays lip service to the importance of preserving rural heritage, no money is allocated to improving and diversifying Europe's rural economies.

The second proposal for reform is 'co-financing' the CAP. This is essentially a half-way house to a 'renationalisation' of agricultural support. Co-financing is not a new concept to the EU; Structural support for EU regions is financed on a 50:50 basis, shared between the EU and the recipient member state. However the French are currently vetoing co-financing for agriculture because they dread the cost of national payments.

The 'winners' from these proposals would be Germany and the United Kingdom, who would benefit by EUR 678.2 million and EUR 429.6 million per year respectively. The losers would be France (by EUR 648.5 million), Spain (by EUR 528.2 million) and Greece (by EUR 451.7 million). It is unsurprising that there is significant opposition to co-financing. (Source: *The EU Budget: an agenda for reform?* Centre for European Reform, working paper February 1999)

The major obstacle to reform of the CAP is the unanimity voting procedure used for agricultural matters in the Council of Ministers. It is a strange paradox that while pressure for QMV grows in virtually every other policy area, change to this contentious and wasteful policy can still be vetoed by any one member state.

Advertisement for a Public Meeting
'The euro is wrong for us'
3.00 pm on Saturday 10th April 1999
in the Lecture Hall Westminster Central Hall
Storey's Gate, London SW1
Campaign for an Independent Britain
in association with the Anti-Maastricht Alliance

Advertisement for The Bruges Group Meeting
At 6.30 pm on Tuesday, 30th March, 1999
At the Westbury Hotel, Conduit Street,
London W1 (off Regent Street)

€EUROWATCH

Monetary Union is facing one of its first crucial tests since the single currency came into being at the start of the year. France and Germany want to bring in protectionist policies to stabilise the value of the euro.

The euro had an impressively untroubled birth into the world's financial markets. Since then, however, it has relentlessly fallen in value from 1.17 against the dollar to 1.11, a depreciation of over 5%. Its value against sterling has similarly weakened from its initial value of 0.7055. This weakness has been far greater than anyone anticipated. Market sentiment had been overwhelmingly bullish in the run up to its launch. In contrast, the market in euro denominated bonds has gone better than anticipated. The issuancee of bonds has exceeded that of dollar bonds since the new year. Both corporate and sovereign borrowers from outside as well as inside the Eurozone have tapped the market. Borrowers have perhaps been encouraged by the low coupon rates but demand to take up the bonds has also been good. Issues as big as the EUR 2 billion 10 year bond by the German bank KFW, and the EUR 1.7 billion for BAT were placed very quickly, and many issues were soon trading at a premium.

This activity in the bond markets, however, has not been enough to stop the euro from falling. With a population and GDP of the combined member states slightly exceeding those of the US, the euro's founders had anticipated a currency to rival that of the dollar and the yen, a new major reserve currency.

But just being big is not enough. The underlying fundamentals of the economy in the US inspire more confidence among investors than do those of the Eurozone. The US economy defiantly refuses to slow. GDP was still rising in the last quarter of 1998 while GDP in both the German and French economies fell over the same period. Recent figures for the German economy show unemployment has risen to above 4 million and is now at 11.5%. The IMF has been recommending a cut in interest rates to offset Europe's worsening economic growth but at its monthly meeting on 18th February the ECB voted to keep its base interest rate at 3%.

At the G7 meeting of Finance Ministers on 10th February, the respective Ministers of France and Germany, Dominique Strauss-Kahn and Oskar Lafontaine, proposed better international co-ordination of macroeconomic policies and closer surveillance of exchange rates. In particular, they suggested the introduction of target zones for the major exchange rates with fixed bands within which currencies may fluctuate. A tendency of any currency to move outside these bands would trigger concerted central bank intervention.

Although Japan concurred, as might have been expected, this idea produced firm opposition from the US. Robert Rubin, US Treasury Secretary, argued strongly against currency zones, or indeed any formalised market intervention. This can actually prove counter-productive and destabilising as speculators test the limits of the defined bands. The only practical solution is greater monitoring and transparency of financial markets and their institutions.

In a frank discussion with M. Chirac prior to the G7 meeting, Alan Greenspan, chairman of the Federal Reserve, told him that the way to promote a stable currency is through sound economic fundamentals. As the US economy attests, free markets work best and, in short, Europe should put its own economy in order before trying to tell the US how it should run theirs.

Advertisement for a Public Meeting
in The Town Square,
South Molton, North Devon
Saturday, 27th March at 10 am

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;
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- security and defence;
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