The New Irish Question

St Patrick's Day Issue
Volume 8 Number 4
March 2001
£2.50

THE EUROPEAN JOURNAL

The Journal of the European Foundation



Stephen Tromans
How the European Union Blights our Cities
&

Bill Cash, MP • Daniel T. Griswold • Anthony Coughlan
Andrew Lilico • Allister Heath • Sara Moore
Christopher J.K. Arkell • Stuart Jackson • André Monteyne
Austin Mitchell, MP • Lynette Swift • Lionel Bell
Matthew Elliott • Dr Brian Hindley • StateWatch
Daniel Hannan, MEP • Nicholas Boys Smith • Dr Lee Rotherham

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

THE EUROPEAN JOURNAL
The Journal of the European Foundation

Contents

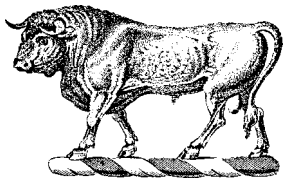
For reference, numbers on pages are as in the printed copy Articles below are hyperlinked – use the hand icon, point and click	Original Page	PDF Page
Editorial *Bill Cash, MP*	2	3
The EU's Senseless Transatlantic Trade Policy *Daniel T. Griswold*	3	4
How the European Union Blights our Cities *Stephen Tromans*	5	6
The Irish Referendum on Nice: An appeal to Europe's democrats *Anthony Coughlan*	7	8
Ireland, the ECB, and the Maastricht Treaty *Andrew Lilico*	12	13
Research Roundup: Unfunded Pensions in the EU *Allister Heath*	14	15
How Many Poodles were on the *Promenade des Anglais*? *Sara Moore*	16	17
Will the EU Impose VAT on Doctors' Services? *Christopher J.K. Arkell*	18	19
Kingdom At Bay – Part one : The psychology of apostasy *Stuart Jackson*	20	21
The End of Belgian Neutrality: Trouble ahead for Europe? *André Monteyne*	21	22
Labour and Europe *Austin Mitchell, MP*	24	25
Eurowatch *Lynette Swift*	25	26
Britain's Entry into the European Community by Sir Con O'Neil *Reviewed by Lionel Bell*	26	27
CAP: A Catalogue of Failure by Ruth Lea *Reviewed by Allister Heath*	28	29
The Bow Group: A History by James Barr *Reviewed by Matthew Elliott*	29	30
Lessons for EMU from the History of Monetary Unions by Michael Bordo and Lars Jonung *Reviewed by Dr Brian Hindley*	30	31
Spain and Italy Pioneer a "Common Area of Security and Justice" *StateWatch*	32	33
Should Euro-Sceptics Support Enlargement? *Daniel Hannan, MEP*	33	34
The Cost of Europe *Nicholas Boys Smith*	33	34
Chunnel Vision: The Fundamental A to Z of Federalist Flim-Flam *Dr Lee Rotherham*	36	37

Editor: Tony Lodge
Executive Editor: Allister Heath

Publisher: The European Foundation, 61 Pall Mall, London SW1Y 5HZ
Telephone: +44 (0) 20 7930 7319 Facsimile: +44 (0) 20 7930 9706
E-mail: euro.foundation@e-f.org.uk
ISSN 1351–6620
For subscription and advertising enquiries, please contact the editorial office.
A subscription form is printed on the inside back cover.

The European Journal is published by The European Foundation. Views expressed in this publication are those of the authors themselves, not those of The European Journal or The European Foundation. Feature articles and reviews should be sent to the editors at the address above, if possible by e-mail or on 3.5" IBM compatible disc in MS Word. No part of this publication may be reproduced in any form or by any means or stored in a retrieval system without the written permission of the publisher.

Typesetting by Nelson & Pollard, Oxford



The Irish Referendum on the Nice Treaty and the New Irish Question

The European Foundation has always viewed European governmental integration as a fundamental issue of democracy for Europe as well as for the United Kingdom. We are proud of the fact that our Board members come from across the world, because what happens here in the UK as well as in Europe affects the principles on which democracies and institutional accountability are based in every corner of the globe. In particular, our influence in the Danish Referendum, a victory for the Danish people, as compared to the élite, owed much to our veteran Board member Jens-Peter Bonde. Now the spotlight is on Ireland. This month's *European Journal* carries a seminal article by Anthony Coughlan, another Board member, who has played a vital role in addressing the European issue in his own country. It is pro-European to fight for democracy in every member state.

Parnell's statue in O'Connell Street in Dublin, which I have passed so many times, is inscribed with his immortal words, "Let no man set a boundary to the march of a nation." I believe Parnell would have been appalled at the thought of Ireland being absorbed into a European superstate. I recall discussing this as I walked around Parnell's house and grounds at Avondale in Co. Wicklow. So would O'Connell and Burke, for all the reasons Anthony Coughlan sets out in this issue.

Given the European and international implications of the Treaty on European Union and now in particular the Nice Treaty, which interacts on the internal affairs of all the member states, it is not only justifiable but constitutionally right for those in other member states to seek to influence the outcome of the Referendum on that Treaty in the Republic of Ireland, precisely to show solidarity with the 'No' voters in Ireland who will be voting for Europe as a whole. Indeed, given also the deep historical ties of our two countries based on family and economic relationships, not to mention the profound emotional feelings which exist between people in both islands, this is especially so in the case of the implications for both countries as the Republic prepares itself for its Referendum in May or June. This is the only Referendum being held on Nice, although the Conservative Party has promised one if it wins the General Election.

Irish citizens are entitled to vote in British elections in recognition of the depth of the relationship. Now, in this Parliament, an Act has been passed, whatever one thinks of it, enabling members of the Irish Dail to become members of the United Kingdom Parliament. Nothing could more specifically emphasise the constitutional links between our two countries. To this should be added the Good Friday Agreement and the obvious impact of terrorist activities on both sides of the Irish Sea.

As Anthony Coughlan rightly emphasises (and as I have frequently written in the *European Journal*), one of the most objectionable aspects of the Nice Treaty is the so-called provision for "enhanced co-operation" – otherwise known as flexibility. This is embedded in Nice following on from Amsterdam and Anthony Coughlan's arguments are completely accurate. Indeed, nothing could be more cleverly designed to create a two-tier, upper and lower class Europe with a central axis based on Berlin and with those countries dependent economically and geographically on Germany voting with her as majority voting moves ever deeper into the arena of European government. This will affect both the UK and Ireland and, as the Republic of Ireland finds itself receiving less in subsidies, so the message will become clearer to its voters – that European government will increasingly marginalise the outer sphere. There is no level playing field. It is worth remembering that even ten years ago the European Commission said of Economic and Monetary Union (the central plank of European government) that "EMU is the best form of flexibility yet devised." The integration of these two features into the political landscape of the island of Ireland would indeed "set a boundary" within it, to quote Parnell – a shamrock dike – and at the same time the Republic would increasingly continue to lose its right to govern itself.

All of this is bearing in on the Irish people and the Government of the Republic, as the recent censure on their present economic policy by the European institutions made very clear. Gordon Brown was given a similar message from the same quarter.

I warned about these invasions of the democratic rights of the Irish and British people in a memorable Conference held at Malahide and Dublin Castle in November 1996 when I was invited to speak by the European Movement in the Republic. I engaged in debate with Alan Dukes, the former Leader of Fine Gael, the main Opposition Party, which led to 'fireworks', drawing me into a special and personal new dimension with Ireland. This revived my deep-rooted emotional and ancestral links, including my own grandmother and the involvement in Irish politics of my nineteenth century relations such as Frederick Lucas, MP, who represented County Meath in the 1850s and John Bright, MP. John Bright was a close friend of the Liberator, Daniel O'Connell. One of Bright's greatest speeches was on Ireland in 1866, just before he presented the petition for Ireland in 1867. In that speech he said, "We want men of higher temper, men of higher genius, men of greater patriotism to deal with the affairs of Ireland."

As Bright's biographer, R. Barry O'Brien, puts it "For nearly a quarter of a century (as he reminded the House) he had advocated the cause of Ireland, but advocated it in vain. He had foreseen, foretold, forewarned, but all to no purpose. His advice and his proposals were flung to the wind. He now, with a courage, a dignity, and a moral grandeur which only one of his oratorical stature and splendid Irish record could assume in the discussion, rebuked English statesmen and English Parliament, not only for their misgovernment of Ireland, but for their inability to understand the Irish Question."

History repeats itself but so too does human nature.

Now in the context of the European issue there is every reason for the electors of the United Kingdom and the Republic of Ireland to find common ground and to strive for the preservation of democracy in our respective countries and to give one another mutual support to this end against the Treaty of Nice and our mutual absorption into a European superstate. This could transform our relations and have great impact on the issue of North/South relations within Ireland; particularly as the undemocratic imperialist nature of the European Union becomes clearer and the USA counters this by reinforcing its relations both with the United Kingdom and with the Republic at the same time. That is the new Irish Question.

Bill Cash, March 2001

The EU's Senseless Transatlantic Trade Policy

by Daniel T. Griswold

The European Union and the United States need to sort out a number of prickly transatlantic trade disputes before any of them erupt into a full-scale trade war. A tit-for-tat game of trade retaliation would harm far more people than it would help while shaking the foundations of the multilateral trading system.

The longest-running of the disputes, of course, have been US complaints against Europe about its import barriers to beef and bananas. Specifically, the European Union bars the sale of beef from cattle that have been treated with growth-enhancing hormones, which happens to include much of the beef that American cattle ranchers raise and would like to export to Europe. On bananas, the EU has reserved preferential quotas for produce grown in former colonies in Africa, the Caribbean, and the Asia–Pacific region, discriminating against lower cost bananas grown in Central and South America and distributed by the American multinational Chiquita. The United States has challenged both the banana and beef import regimes, through the General Agreement on Tariffs and Trade and, since 1995, the World Trade Organisation, and has prevailed at every stage of the dispute.

In 1999 the United States imposed sanctions against a combined $300 million in EU exports in an effort to 'enforce' the WTO's decisions on beef and bananas. So far the sanctions have been a failure. They have not budged the EU from its intransigence on the beef and banana disputes. The sanctions have inflicted some pain on EU exporters of the targeted goods, but at the expense of US consumers and import distributors.

Frustrated with the lack of progress, the US Congress in May 2000 enacted 'carousel' legislation that requires the US Trade Representative to rotate the list of targeted EU exports every six months. Like a sadistic dentist searching for a fresh nerve, carousel supporters hope a new set of sanction victims will spur the EU to conform to the WTO's beef and banana rulings. The Clinton administration, however, dragged its feet on implementing carousel out of justifiable fear that it could provoke trade retaliation from the European Union, and the new Bush administration has yet to declare if it will enforce the law.

Meanwhile, the European Union has been rattling its trade sabre against the United States in the dispute over the US Foreign Sales Corporation tax law. The FSC law as originally challenged by the EU extended tax advantages to US corporations that exported through overseas foreign sales corporations. The EU argued successfully before the WTO that such tax breaks were dependent upon export performance and thus constituted a form of export subsidy prohibited by negotiated WTO rules.

After the United States lost the case last year, the EU prepared a list of $4 billion in targeted US exports commensurate with the damage the FSC has allegedly inflicted on competing EU exporters. The US Congress passed a FSC revision in November 2000 that congressional leaders claim has fixed the problem, but the EU remains sceptical and has asked the WTO to examine the revised law to see if it complies with WTO subsidy rules. EU officials have made it clear that if the new and improved FSC laws fails the test, and if the US decides to implement carousel, the EU will pull the trigger on its threatened sanctions over FSC.

This growing threat of transatlantic trade retaliation as an instrument of WTO enforcement is an ominous development for international trade, and a losing proposition for all countries involved.

Trade retaliation fails the most basic test of economic logic. Contrary to press reports, approval from the WTO to impose sanctions is not a 'reward' or a form of 'compensation', but a cost the sanctioning country imposes on itself and the targeted member in the hope that the other country will improve its trade policies. Retaliation is a fine that both parties pay but nobody collects.

Despite its free-trade rationale, WTO-sanctioned retaliation promotes protectionism, with domestic producers clamouring for 'enforcement' not just to open foreign markets, but also to close their own against foreign competition. A prospect of compiling a list of imports to be slapped with 100 percent tariffs can incite a feeding frenzy among domestic producers to ensure their foreign competitors make the list. For example, the National Pork Producers Council lobbied the US government to include all $250 million of Europe's pork exports to the United States in the retaliation list over the beef dispute. The US pork producers' agenda was not to promote free trade or the rule of law but to hobble their foreign competition.

Proliferating trade retaliation undermines the WTO's main mission of promoting freer trade. It reinforces the mercantilist notion that trade liberalisation is a 'concession' countries grant to persuade other countries to open their markets, rather than a favour they do for themselves. It puts a WTO stamp of approval on economically destructive practices while feeding the fears of those, like French farmer-activist Jose Bové, who see globalisation as a threat to national sovereignty.

All this threatened pain promises little gain. Nations raise trade barriers, and bring them down, primarily for domestic reasons – not because of outside pressure from a 'hegemonic' power or international body. The EU maintains its ban on beef from hormone-treated cows not because of credible scientific evidence that the beef is harmful to humans, or primarily to protect the domestic beef industry, but because a large majority of constituents opposes its sale within the EU. Sanctions, however painful, won't alter that hard political reality.

None of this should excuse the EU's intransigence. The beef and banana import regimes make no scientific or economic sense. The EU's banana quotas encourage domestic consumers to enrich a few favoured distributors, with only a fraction of the benefits trickling down to banana producers in former European colonies. On a global level, the EU's defiance has weakened the international trading system. But trade sanctions are not the answer.

One alternative to retaliation would be to emphasize compensating trade liberalisation as a 'payment' for violating WTO commitments. Instead of facing the 'mutually assured destruction' of trade retaliation, the non-conforming party would lower trade barriers on other imports to compensate the plaintiff (and reward its own consumers in the bargain). Domestic pressure to conform would then come from import-competing industries rather than exporters.

Another alternative would be to suspend certain WTO privileges of members who refuse to implement WTO rulings. A WTO member who refuses to comply with a dispute settlement ruling after a certain grace period would temporarily lose the privilege of lodging complaints against other members. The world would be spared the hypocrisy of the EU talking tough about its neighbour's export-friendly FSC tax law while refusing to budge after a string of losses on beef and bananas.

The WTO dispute settlement mechanism does not need sanctions to work. The world's trading nations made remarkable progress on trade liberalisation through four decades of the General Agreement on Tariffs and Trade with virtually no resort to sanctions. Enlightened self-interest, and a bit of social pressure to be a member in good standing, proved enough to keep most WTO members on the right track.

As the WTO's two largest trade areas, the United States and the European Union possess power to inflict tremendous damage on the global trading system. By refusing to comply with WTO rules that they themselves committed to follow, while threatening trade sanctions against others who do the same, they could inflict real damage on the WTO and the cause of trade liberalisation.

Daniel T. Griswold is associate director of the Center for Trade Policy Studies at the Cato Institute in Washington, DC. He holds an M.Sc. in the Politics of the World Economy from the London School of Economics.

… news in brief

Commission proposes to abolish freedom of movement

As part of the ongoing tractations over the admission of new member states, indeed, the Commission has put forward a proposal to remove one of the 'four freedoms' on which the whole European project is based: the freedom of people to move and work wherever they like within the EU. (The other freedoms of movement are for capital, goods and services.) The Commission's idea is now to change the right to work for all citizens of member states of the EU in order to find a way out from the bilateral confrontation which currently exists between Germany and Poland. The Commission has said that while transitional periods are one solution (although Poland currently rejects this idea) another solution would be to impose a system of quotas for the movement of workers, or a more flexible system which would apply to specific border areas or for certain areas of the economy. The Commission is proposing, in other words, to regulate the labour market to favour regions and favoured industries, a suggestion which is completely incompatible with the (in any case bogus) claim that the EU is all about promoting a free market. For the time being, the Germans are sticking to their idea of a transitional period, such as was used for Spain and Portugal in 1986, when their workers had to wait six years before they could move freely. But the very fact that the Commission has even made this suggestion shows that it is not fulfilling its primary task as guardian of the treaties but is instead a power unto itself. [*Handelsblatt*, 8th March 2001]

Germany "not ready enough" for war

The head of the German Free Democrats has said that the German armed forces are "not reliable". Wolfgang Gerhardt pointed to claims made by senior German military officers that the armed forces budget in Germany needed to be increased by at least DM 1 billion (£300,000). Gerhardt said that it was therefore no surprise if the United States did not have sufficient confidence in its German ally. He accused the government of undermining Germany's role as a reliable NATO member. He said that the fact that Berlin was not informed about the US–UK attacks on Iraq was itself proof that Germany was not doing enough to ingratiate itself with Washington. "It is a sign that our American friends do not have full trust in us," he said. He called on Joschka Fischer to re-establish the partnership – in the very week when Fischer came under attack from the former Communists for being an American lackey. Gerhardt welcomed the fact that the Chancellor had abandoned his initial hostility to the US plan to build a National Missile Defence system and said that he expected Mr Fischer to fall into line as well. "The federal government's task," he said, "must be to ensure that Germany enjoys technological participation in the project" – i.e. that German firms get their hands on some of the money. [*Die Welt*, 7th March 2001]

Democracy in Switzerland

By a huge majority, the Swiss have rejected a proposal to begin negotiations to join the European Union. 76.7% of voters, in the biggest turnout for 8 years, voted against the "Yes to Europe!" initiative. Even in the traditionally pro-European French-speaking parts of the country, there was a clear majority in favour of a 'No'. Not one single canton, indeed, voted for Europe. To this extent, the Swiss have once again shown their extraordinary spirit of independence and love of freedom.

Their government, however, is a different matter. Even before the voting had finished, the federal government in Bern issued a statement saying that the expected 'No' result would in no way deflect it from it pro-European course. It reaffirmed its desire to seek EU membership in due course. With quite breathtaking cheek, it said that the 'No' vote could in no way be interpreted as meaning a rejection of EU membership as such. Instead, the government said, the result merely indicated that the Swiss did not think the time was right now to start negotiations. Quite how the government has arrived at this conclusion is not clear: it seems more likely to be evidence of the government's simple contempt for its voters' settled opinion that the EU is a bad idea. The Foreign Minister and other ministers thus confirmed that they would seek to decide on EU negotiations during the next legislature, i.e. between 2003 and 2007. Moreover, in confirming that the government was sticking to its plans, the Foreign Minister said that a new Europe was arising and that it was essential for Switzerland to play its role – in other words, he used the very same arguments which the roundly defeated pro-Europeans had used in their campaign. [*Neue Züricher Zeitung*, 5th March 2001] By the same token, the Commission's spokesman had evidently co-ordinated its line with the Swiss government, for he too said that the Swiss vote did not mean that the Swiss were opposed to EU membership, rather that they did not want to begin negotiations now.

These events should cause the Swiss to reflect seriously on the soundness of their political system. The Swiss are very rightly proud of their ancient democracy. When matters of cantonal or national importance are put to referendum, as they frequently are, this is democracy at its most direct. There is, however, one potentially very important weak link: the Swiss retain a proportional system for their federal government. This effectively means that the same parties remain in power at federal level whatever the outcome of the elections. The Swiss parliament's web site actually boasts of the fact that the parliament looks pretty much the same as it did in 1919 and that the national government has not changed its composition since 1960! Under such a system, it is virtually impossible to vote into power a party which will obey the will of the electorate on the single most important political matter of all, the country's future sovereignty. [http://www.parliament.ch/poly/Framesets/E/Frame-E.htm]

How the European Union Blights our Cities

by Stephen Tromans



The House of Commons Environment, Transport and Regional Affairs Committee is a forthright body not prone to mincing its words or pulling any punches. Indeed, in one of its recent Reports (*The Implications of the European Commission Ruling on Gap Funding Schemes for Urban Regeneration in England*, Session 1999–2000, 16th Report, HC 714), the Committee is scathing in its condemnation of a European Commission decision that has seriously derailed efforts to achieve urban regeneration in England. *"Perverse and bizarre", "illogical and ill-considered"* are the epithets applied to the decision, the consequences of which the Committee deems *"nothing less than disastrous"*. Having received expert evidence, and having held discussions both with officials at the Commission and in England, the Committee was forced to conclude that *"… the European Commission took its decision casually without regard for the consequences of its action."* The decision of 22 December 1999 – a less than welcome Christmas present for the Department of the Environment, Transport and the Regions (DETR) – was that the government's "Partnership Investment Programme" (PIP) – Britain's main instrument for urban regeneration – was contrary to EC rules on state aid. The Government immediately closed the scheme to new applicants for funding.

'Urban regeneration' has been firmly on the political agenda since the inner-city riots during Margaret Thatcher's government, through to the more Tuscan overtones of 'Urban Renaissance' under Tony Blair. An essential part of such regeneration is the reclamation and development of derelict, and in many cases contaminated, sites. The current target is for 60% of new housing to be on such 'brownfield' land. The problem is that the relatively low property values realised for 'difficult' inner-city or metropolitan locations may not be sufficient to offset the high development costs incurred in cleaning and servicing the sites where such development is most needed. In various guises – most recently the PIP scheme operated by English Partnerships – what is termed 'gap funding' has been used to encourage private investment by closing the financial gap which makes the development unviable. Over the course of its six years, the PIP programme has provided gap funding to the tune of £1.1 billion and has levered in £2.5 billion in private investment. The Committee's Report gives numerous examples of beneficial schemes made possible by gap funding. These include cleaning and utilising sites that have been eyesores or worse for decades, with improved urban design, saved historic buildings, the provision of accommodation for firms wishing to set up in previously deprived areas, and jobs and housing for those in need. In some cases, gap funding has proved the catalyst for the transformation of whole communities. Even more importantly, the initial successful project has often been enough to engender confidence in an area for developers, funders and occupiers, leading to further projects.

Enter at this point Commissioner Mario Monti, described by the Committee as "an academic with renewed zeal and determination to search for breaches of state aid rules". Despite the fact that his predecessor had considered the scheme and found it acceptable, Commissioner Monti decided to initiate a formal review of PIP for compliance with the state aid provisions of Article 92 of the Treaty. Subject to various exceptions, any aid granted through state resources in any form which distorts or threatens to distort competition by favouring certain undertakings is incompatible with the common market in so far as it affects trade between member states. The Commission's view was that gap funding

could distort competition in three ways: by providing a possible windfall to the owner of the land, by subsidising the developer, and by subsidising the end user, in each case giving an unfair advantage. The Committee found it difficult to see how the Commission could have properly and competently reached this conclusion. The scheme is subject to rigorous 'clawback' provisions in the event that land values turn out to be higher than those used in calculating the funding and the premises created were let at local commercial rates. If it is hard to see how the scheme could distort competition at domestic level, it is even harder to see how it could affect trade between member states, particularly since companies domiciled outside the UK were equally eligible to apply for funding. Since the land or property involved is never transferred at anything other than market value, the Committee, rightly, could see no distinction from the situation, common in Europe, where the public sector develops land itself. As the Chairman of the RICS Regeneration Panel pointed out in a memorandum to the Committee, the only impact the scheme could have would be to increase the supply of floor space, thereby decreasing rents and transferring economic activity to areas of deprivation and need: "*This impact is identical to that produced by the continental system of direct public sector intervention, the only difference being that their system of direct public sector intervention is less efficient and results in a higher overall tax burden in those countries.*" Indeed, the cursory memorandum offered to the Committee by the Competition Directorate itself does little to engender confidence that this was a decision taken in a rigorous and reasoned manner.

The decision has had immediate and serious effects on urban regeneration in England. This is apparent from many sources in evidence to the Committee, but is put most succinctly in a Memorandum by Deeley Properties Limited, a Coventry based company with long experience in regeneration projects in the Midlands:

"*In short we believe that the current European Commission ruling will halt the majority of urban regeneration projects, previously supported by the gap funding programme as nothing is available to replace it and, in any event, the suggested alternative schemes currently being discussed are not, in our view, adequate to deal with the problems.*"

To add insult to injury, the Commission described their decision as "partially positive", in that funding could continue for projects in 'Assisted Areas', subject to strict quantitative limits. The DETR estimated that only 10–20% of activity undertaken under PIP would qualify on this basis. Long-term, the solution might be to seek agreement with the Commission as to a new framework for regeneration, but the Committee could see little progress within the DETR in initiating such a framework, nor did they have confidence that the Commission would allow such a framework to be negotiated over a timescale of anything other than many years.

Pending such agreement, if the urban regeneration programme in the UK is not to be hugely curtailed, the public sector (in practice, the newly formed Regional Development Agencies (RDAs)) will need to engage in a greatly expanded programme of direct development, either in its own right or by procuring services from the private sector. One difficulty is that the public sector lacks the experience of such entrepreneurial activity. Whilst this could be overcome by using the procurement route, it leaves two serious problems. One is that it would require an immediate and massive increase in the public sector resources devoted to regeneration. The other is that in Britain urban sites are often in fragmented private ownership, as compared with continental Europe where large tracts are in public ownership. This would entail a major programme of compulsory purchase by the RDAs.

The predicament arising from the Commission's decision is naturally of no concern to the anti state aid zealots. Mrs Gwyneth Dunwoody MP, a Committee member whose forthright turn of phrase is matched by her reserves of common sense, caught the unsavoury whiff of the Commission's approach in an exchange with Mr Richard Beattie, Director of Projects at English Partnerships, which administered the scheme:

(Mr Beattie): "*They [the Commission] do understand the scale of the impact of what they have done now [note the use of the word 'now'] but they do not see that as their problem. They see that as evidence.*"

(Mrs Dunwoody): "*I can see that. After all, it is only those Britons.*"

The Committee's parting shot is that "*Illogical and ill-considered Commission decisions such as this … bring the European Union into disrepute.*" In the sphere of environmental protection, the Community is in the gold medal league when it comes to enacting what are often ill-considered and carelessly drafted laws. In monitoring and enforcing them it is not in the medal winning class at all. This case is particularly bad: we have a decision that is a breathtaking example of environmental, social and economic damage in one neat package. When the Commission spends less time on concocting proposals such as its ill-conceived White Paper on environmental liability, and more time on ensuring that its decisions do not undo tangible efforts towards real environmental gains, it might be possible to have some degree of confidence in its custodianship of Europe's environment. Until then, this saga is another good reason for Britain to re-appraise the benefits and negatives of EU membership.

Stephen Tromans is a barrister at 1 Serjeants' Inn, London.

… news in brief

The mouse that roared

The Belgian Foreign Minister, Louis Michel, has said that the European Union should boycott Italy if, as expected, the right-wing coalition wins the elections this spring. Mr Michel is particularly exercised, as are many euros, by the fact that this means that the leader of the Northern League, Umberto Bossi, would enter the government. Mr Michel describes Mr Bossi as a fascist, although oddly enough Mr Bossi believes in a Europe of the regions just like Mr Michel does, and so he says that the same treatment should be meted out to Italy as was given to Austria last year – even though that caused the Danes to vote against the euro and the Swiss to vote against the EU altogether. Mr Michel said that the EU's new "early warning system," laid down in the Nice treaty to provide for when "a clear danger exists of a member state committing a serious breach of human rights". "I would like to put the new early warning system into operation now," Mr Michel told an Austrian weekly. Belgium takes over the EU presidency in July. Mr Bossi is widely deemed a fascist in Euro circles because he opposes the adoption of children by homosexual couples and supports traditional family values. [*Agence France Presse*, 4th March 2001]

The Irish Referendum on Nice: An appeal to Europe's democrats

by Anthony Coughlan

The Republic of Ireland will be the only European Union member state to have a referendum on the Treaty of Nice. Democrats in other EU countries should urge their governments on no account to proceed with the ratification of this Treaty until the Irish people have given their verdict on it.

The Republic's Deputy Prime Minister, Mary Harney, said recently on radio that the Irish referendum would be held in May or perhaps early in June. The exact date has not been announced at the time of writing.

The one practical chance of stopping the Treaty of Nice is for the Irish to vote 'No' to it. EU treaties must be ratified by all 15 EU states if they are to come into force for any. If the Irish vote 'No' to Nice, the Treaty will have to be re-negotiated. It will become the Treaty of Stockholm, or Gothenburg, or Brussels instead. The whole political can of worms that is Nice will have to be re-opened.

That is why democrats all over Europe need to give the Irish democrats who will be urging a 'No' vote to this Treaty all the help they can. For in their Nice referendum the Irish will be voting for EU citizens everywhere, including British ones. Democrats in every EU country must be hoping they vote 'No'. Of course, the apparatchiks in Brussels and their acolytes across the EU will be hoping for an Irish 'Yes'.

Irish referendums are not merely advisory. Under the Republic's written Constitution, the people themselves are legislating directly in referendums. The Irish Constitution states explicitly that *"all powers of government, legislative, executive and judicial, derive, under God, from the people."* Therefore any surrender of sovereignty by transferring governmental powers to Brussels must be agreed by the people themselves by referendum. Any new EU Treaty that entails further such surrender requires a constitutional amendment in Ireland to permit its ratification. The Treaty of Nice is such a Treaty. Hence the Republic's referendum to amend, or not to amend, the Constitution, as the people should decide.

What chance is there of the Irish voting 'No'? There is a chance, a growing one, and Brussels fears these days that it could be a good one. For the Irish are becoming more and more concerned about the direction of the EU. Their concerns, which are shared all over Europe, are likely to be specially focused in the national debate around the Nice referendum.

The one practical chance of stopping the Treaty of Nice is for the Irish to vote 'No' to it

The Irish 40% 'No' to Amsterdam

In the Republic's referendum on the Amsterdam Treaty in 1998 nearly 40% of Irish voters voted 'No'. This was in spite of the fact that the four main parties in the Republic's parliament, the Dail, were urging a 'Yes' vote. In Ireland as elsewhere, and particularly in relation to the EU project, there has been a growing division between the political élites and the mass of citizens. Traditionally the Republic's politicians have been ultra-europhile, but the comment by Deputy Prime Minister Harney last year that Dublin was "spiritually closer to Boston than Berlin" served notice that its politicians are starting to catch up with public opinion.

They have much catching-up to do, not only in relation to the EU. Some of Ireland's leading politicians, the best known of them former Taoiseach Charles Haughey, have been mired in corruption scandals. Three different public tribunals are currently in session in Dublin, probing these scandals and reminding the public daily of their political leaders' feet of clay.

In February the EU Commission and Council of Ministers reprimanded Dublin for its allegedly over-expansionary Budget, the first ever such reprimand for a Eurozone country. This was despite the Republic's high economic growth rate, budget surplus, low unemployment and low national debt. The EU was really trying to get at Italy, which has relatively far worse public finances, but it was easier to pick on little Ireland. The reprimand was widely viewed by Irish people to be as unfair as it was arrogant. It should be worth a few percentage points to the 'No' side in the Nice Referendum. Reports from Brussels say that the Commission is going to treat the Irish with kid gloves until its Nice referendum is over!

Mad Cow Disease and the Foot and Mouth scare are making Irish farmers disillusioned with Brussels. The root of popular europhilia in the Republic since it first joined the EEC in 1973 has been the fact that, as a state which exported most of its agricultural output, it has been the biggest net recipient of EU funds per head. That is changing now. Because of the 'Celtic Tiger' economic boom since 1993, the Republic is expected to become a net contributor to the EU budget within three or four years. Brussels money is no longer the dampener on critical thought in Ireland that it was for decades. There is no money for the Irish in the Treaty of Nice – only loss of voting power, influence and democratic control.

The propaganda campaign to prepare the Republic to switch from pounds and pennies to the euro during the first six weeks of 2002 is cranking up these days, as it is throughout the Eurozone. Suddenly Irish citizens are beginning to realise that this is going to cause significant personal inconvenience to everybody, quite apart from leading to a likely inflationary consumer rip-off. It will be interesting to see how this reacts on public sentiment in the Nice referendum.

Ireland's uncritically europhile politicians voted in 1998 to join the Eurozone, on the assumption that the UK would join too within a couple of years. That has not happened and Britain may well never join. They are starting to ask: have they made a ghastly mistake? The Republic does two-thirds of its trade outside the Eurozone. On 8 March 2001, a month after its reprimand on the Irish budget, the European Commission told the Dublin Government that it should postpone infrastructure projects outlined in its National Development Plan, to avoid fuelling inflation. The same day Ireland's Central Bank Governor said that the Bank is almost powerless to halt the rise

in Irish borrowing, which *"is on course to make Irish people amongst the most indebted in Europe… The Bank is concerned,"* he said, *"about the rapid expansion of credit, but does not have the authority to impose ceilings."*

Second-hand houses in Ireland now cost on average £200,000. Workers in the booming construction business, wanting a slice of the action, have just lodged a pay claim for £1000 a week. These trends will provide background mood music for the Irish Nice referendum.

Will it be Fair?

One reason for the near 40% 'No' vote to the Amsterdam Treaty in the Republic was that this referendum was much fairer and more democratic than previous ones. In the referendums on the Single European Act (1987) and Maastricht (1992), Dublin governments spent huge sums of taxpayers' money entirely on one-sided advertising. "A Vote 'No' Disempowers Women" was one of the Government adverts on Maastricht! On that occasion the country was plastered with huge billboards with the figure "£6,000 million". This was the sum allegedly promised by Brussels if only Irish voters voted 'Yes'. This blatant abuse of public funds by the Dublin Government was in addition to the 'Vote Yes' campaigns of the Republic's main political parties and the European Movement. In the 1995 McKenna case, taken by Dublin Green MEP Patricia McKenna, the Irish Supreme Court declared such one-sided expenditure by Dublin Governments to be unconstitutional. This led to the 1998 Referendum Act in which the Dail provided for the setting up of a Referendum Commission that is given public money to inform citizens what the subject of the referendum is, and to set out the main arguments for and against the referendum proposition in advertisements the Commission places, and in booklets posted to all households. No public money is given to campaigning organisations in Irish referendums. The Referendum Commission did as good and fair a job as it could in recent referendums and will probably be reconstituted for the Nice referendum.

At present Dublin Government politicians are talking about putting two or three constitutional amendments before the people, in addition to the amendment needed to ratify the Treaty of Nice. A referendum is required to permit the Irish State to accede to ratify the International Criminal Court convention. In previous Irish referendums there were never more than two referendum propositions. Government Ministers are clearly hoping that a multiple referendum involving three or four different issues will confuse the public, give the Referendum Commission an impossibly hard task and head off the impact of possible "Vote-'No'-to-Nice" advertising by the Commission.

> The Treaty of Nice is bad for the EU, bad for Ireland and bad for the twelve EU Applicant States

In a follow-on from the McKenna case, the present writer won a constitutional action in the Irish Supreme Court last year, which established the principle that there should be equality in the free uncontested broadcast coverage of referendums. Either no free broadcasts at all, or else fifty-fifty, irrespective of the referendum issue. This will have the effect of preventing a spate of 'Vote Yes' broadcasts from the Republic's europhile political parties in favour of ratifying the Treaty of Nice, as against no broadcasts, or scarcely any, from the democratic side. Not surprisingly, Patricia McKenna MEP and I are not too popular with the Republic's politicians!

Diverse Interests

Who will be urging the Irish to vote 'No' to Nice? As in every EU referendum there will be diverse interests and organisations on each side. There will be general democratic and nationalist opinion, concerned at surrendering more power to Brussels. There will be the influential peace and neutrality lobby, concerned at EU militarisation and the effect of its 60,000-soldier "Rapid Reaction Force" on the Republic's traditional military neutrality.

There will be sections of traditional Catholic opinion, concerned at the proposal to put the EU's Charter of Fundamental Rights into the Federal Constitution that Germany and France envisage as coming from the Year 2004 treaty-making conference which Nice commits everyone to. That would put vast areas of life under the European Court Justice and make such sensitive issues as the right to life, with its implications for abortion and euthanasia, justiciable by the ECJ for 300 million Europeans.

Team and the National Platform

The National Platform, of which I am Secretary, will be providing these different interests – some of whose leading lights would normally not sit in the same room together – with analysis of the Nice Treaty appropriate to their concerns. Our organisation is more or less *persona grata* with all of them, and in successive EU referendums in the Republic it has acted as the recognised counterpart of the Irish Council of the European Movement, providing among many other things personnel for radio and TV debates.

Nationalplatform.org is the address of the National Platform web-site, if readers of the *European Journal* want to follow our Nice referendum. When the campaign gets going, regular information on it will be given also by the free daily Brussels-based news service, Euobserver.com, which gives excellent coverage of euro-critical activity around Europe. The National Platform is also affiliated to The European Anti-Maastricht Alliance (TEAM). TEAM now links together in an information and speaker exchange some 40 euro-critical parties and non-party organisations, inside and outside the EU, on the centre, left and right of politics. Membership of TEAM is open to any organisation that is critical of EU developments, so long as it is not racist or fascist in character. The Danes and Norwegians took the initiative in establishing it in 1997. Most of the Scandinavian euro-critical bodies are affiliated to it. So are several British ones on the political right and left.

I mention TEAM here because it has just launched the TEAM EU Referendum Fund, to collect money from democrats across Europe and to use it to help TEAM's affiliates in whatever countries will be holding EU-related referendums. The first of these will be the Irish one in May or June. Later on there will be EU referendums in Britain, Malta, Slovenia, Sweden and others. The co-ordinator of TEAM is Hans Lindqvist, who is chairman of Sweden's 'No'-to-EU campaign and a former MEP for Sweden's Centre Party.

The best way people living outside Ireland can help the Irish referendum

campaign against the Treaty of Nice is to send money or cheques to TEAM's EU Referendum Fund. These may be sent direct to Hans Lindqvist at Backvägen 8, S-13930 Värmdo, Sweden (e-mail: Hans.Lindqvist @centerpartiet.se) Further details on TEAM's EU Referendum Fund will be carried shortly on its web-site: www.team-alliance.org. Irish democrats and euro-critics need money essentially to pay for newspaper advertisements urging the Republic's voters to vote 'No' to Nice for the sake of Europeans everywhere, and to counter the press adverts of the European Movement and the Irish political parties, who will be urging the opposite. If people would like to help the National Platform directly, they should make out cheques to the National Platform, Bank of Ireland, A/C No. 30081817, 24 Crawford Avenue, Dublin 9.

The Nice Referendum Issues

The Treaty of Nice is bad for the EU, bad for Ireland and bad for the twelve EU Applicant States. 'Good Europeans' as well as euro-realists and euro-critics should be against it. This will be a central issue in the Irish Nice referendum, and the theme that my organisation, the National Platform, will especially stress.

The main message of Dublin Government Ministers will be that Nice is necessary for EU enlargement. That of course is nonsense. The Treaty of Nice is fundamentally about shifting power to the Big States from the small ones inside the EU, and about opening a legal path to a two-tier EU in which Germany, France and others can form an EU Federal State among themselves. It is not, except incidentally, about enlarging the EU.

The Nice Treaty is a hundred pages long. EU enlargement is dealt with in a few pages of declarations and Protocols at the end, where the member states say that they welcome the Applicants provided they successfully conclude their accession negotiations. This is a statement of policy, no more. No date has been fixed for admitting any Applicant State. The possible allocation of Council of Minister votes and Euro-Parliament seats for an expanded 27-Member EU – outlined in the Treaty – is not legally binding on the Applicants. The vote-population ratios are so full of anomalies for the EU Applicants compared to the existing member states, that some of them at least will have to be revised in any accession treaties.

The other main argument of Dublin Government Ministers is that enlarging the EU will give the Republic wider markets. That too is nonsense: East European markets are already wide open for Ireland and the other EU states. Irish firms and banks are all over Eastern Europe – Irish businessmen fly there daily. Economically, EU enlargement is far more about opening Western Europe to the Easterners, than the other way round.

Nice is about more EU centralisation, not enlargement. It abolishes the national veto for 34 new areas, as against some 20 in the Treaty of Amsterdam. This means that 90% of EU decisions will henceforth be taken by qualified majority vote on the Council of Ministers. That means that Small State governments like Ireland's, national parliaments and national electorates cannot control them.

But the most constitutionally revolutionary, and most objectionable, feature of the Nice Treaty – and the main legal reason why a constitutional referendum is necessary in the Republic – is how it allows the Big States, in practice Germany and France, to hijack the EU for their own purposes, against the interests of the smaller states and, I believe also, against the democratic interests of the United Kingdom.

Nice enables them to do that in two ways. First, by trebling their own voting weight on the Council of Ministers in an enlarged EU, while only doubling the votes of the smaller states. This changes the relative power of the Big States *vis-à-vis* the small. The Treaty provision that EU voting must take population size into account also shifts the balance of power in the same direction. As Chancellor Schröder said at Nice: *"Without us highlighting it, Germany's weight has grown."* These voting weight changes take place from 2005, and are independent of EU enlargement.

A Two-Tier EU

But the real betrayal in the Treaty of Nice of what was good and genuine in the original European ideal is the way in which, if it is ratified, it will open a legal path to a two-tier EU. If Nice is ratified, an upper-tier or *avant-garde* of Big States will be able do their own thing, set up the Federation and EU Single Government that they now openly speak of, and confront the rest with continual political and economic *fait accomplis* without having to get the agreement of all EU members.

For Nice abolishes the unanimity requirement for any such development that was laid down only three years ago in the Amsterdam Treaty, and substitutes for it Qualified Majority Voting. This is the change Germany and France most wanted politically from Nice, although such a two-tier EU is not in the interests of most EU Members. This is the real response of Germany and France to EU enlargement – to move the goal-posts for the Central, East and Southern Europeans, who will find themselves in the lower tier or outer circle of a two-class EU, which is no longer the partnership of legal equals the EU has been up to now.

The Treaty does not mention a two-tier EU of course. It uses instead the seductive phrase, "enhanced co-operation." But Nice opens the path in EU law towards the single EU Government which German Foreign Minister Joschka Fischer spoke of last year when he said:

> *"The last step will then be the completion of integration in a European Federation… Such a group of states would conclude a new European framework treaty, the nucleus of a constitution of the Federation. On the basis of this treaty, the Federation would develop its own institutions, establish a government which, within the EU, should speak with one voice … a strong parliament and a directly elected president. Such a driving force would have to be the avant-garde, the driving force for the completion of political integration… This latest stage of European Union will depend decisively on France and Germany."*

Nice makes possible what former Commission President Jacques Delors was referring to when he said: *"We will have to create an avant-garde… We could have a Union for the enlarged Europe, and a Federation for the avant-garde."* The Treaty, moreover, contains a specific commitment to a conference in three years time to draw up what Germany and France have flagged as an EU State Constitution for a two-tier Europe. This will be the content of the "Year 2004 Treaty" they envisage as coming from that conference.

Which tier of a two-tier EU would the Republic of Ireland be happy in? In the upper tier of a Federal EU State alongside Germany and France, in which population size, not equality, determined policy, and with all hope of long-term national

reunification with Northern Ireland – an aspiration subscribed to by the Irish Government and all the Republic's political parties – ruled out for ever, for the UK will never join such a Federation? Or in the lower tier faced with the continual diktats from the upper?

Federalism Equal and Unequal

Up to now the EU has formally and legally been a partnership of equals, even if some states were bigger and more powerful than others. This equality was enshrined in the principle that no major constitutional departure could take place without everyone agreeing. Embodying a classical principle of what one might call 'egalitarian federalism', the EU has been like a convoy, with all states moving together at the speed of its slowest ship. The Treaty of Nice substitutes for this an 'inegalitarian federalism' that will serve the power interests of the large population countries. It proposes breaking the EU 'convoy' into two parts for the first time, by permitting the 'big ship' countries, probably the original EEC Six plus a couple of others, to move ahead of all the rest. If Germany and France want to form the Federation that their leaders now openly speak of – that is, a state – they are entitled to, if their own peoples give their free consent in fair referendums. But they have no right to hijack the existing EU institutions for that purpose, the Commission, Council, Court and Parliament, which up to now have existed, in principle at least, to serve a community of fifteen legally equal partners.

By rejecting the Treaty of Nice – which I believe the Republic's voters will do – the Irish people will be showing themselves to be guardians of the integrity of the European ideal in its best sense. They will be voting on behalf of all Europeans, and indeed doing a favour for the whole of the EU, and for the Applicant States, by sending this Treaty back for fundamental re-negotiation, especially to have this profoundly objectionable provision removed. And in doing that they can expect the plaudits of all those who are being genuinely true to the better ideals of Monnet, Schumann, De Gasperri and Adenauer, as well as of the EU's more conventional euro-realists and euro-critics.

On behalf of democrats in the Republic of Ireland, may I appeal to Britain's democrats and to democrats all over Europe, to show us whatever solidarity you can in our referendum campaign against the Treaty of Nice.

Anthony Coughlan is Senior Lecturer Emeritus in Social Policy at Trinity College Dublin. He is a member of the European Foundation's International Advisory Board, a Board member of The European Anti-Maastricht Alliance (TEAM), and is Secretary of the National Platform, Ireland.

… news in brief

The rules of the Serb judicial system in full

Numerous journalists have flooded to Belgrade on rumours that the former Yugoslav president, Slobodan Miloševic was about to be arrested. When he was not, they had to file endless "the-streets-were-tense-but-quiet" stories instead. But the issue of Slobbo's showed up the contradictions in the new "democratic" government in Serbia. On 1st March, the Yugoslav Interior Minister, Zoran Zivkovic, when asked about rumours that the arrest would occur by 10th March, said, "In this country, arrests will not be based on political decisions any more – the judiciary will be in charge of these issues. Any comments related to arrests are not legally valid, even if made by my colleagues from DOS [the governing party]." Yet on the very same say, the Serbian Interior Minister, Dušan Mihajlovic told the BBC that legal action would "soon be taken" against Miloševic. Less progress has been made, Mihajlovic said, in the investigation against Miloševic for embezzling state money and taking it out of the country. He added that there was no proof so far about Miloševic's involvement in political murders and kidnappings, or in the attempted assassination of prominent opposition leader Vuk Draškovic. [*Tanjug*, 1st March 2001]

Fool's gold

One of the reasons why "less progress" had been made in the investigations into Miloševic's alleged shipment of gold and money out of the country is that a leading Swiss metals trader has flatly denied that it ever happened. The Geneva-based MKS Finance SA has said that it was "actively involved in the investigation conducted in Switzerland to assess the exact origin of the gold deliveries made to Switzerland by a Yugoslavian metallurgical complex producing gold as a by-product." These checks "did not establish any link between the gold that has transited through the MKS refinery and Miloševic or any individuals or companies related to Miloševic." Geneva investigators and Swiss federal authorities have now lifted a freeze on funds involved in the case. Interestingly, Swiss customs have confirmed the arrival of four shipments of unrefined gold from Yugoslavia's Bor mines - one of 42 kg on 21st September, another 42 kg on 22nd September, 59 kg on 27th October and 30 kg on 2nd November [*Reuters*, 2nd March 2001]. In other words, the bulk of these gold operations was conducted after the new democratic government was installed in power.

Fischer and Védrine meet to settle common position on Europe

The German and French foreign ministers have met to work towards ironing out any remaining differences between their two countries on the future of European integration. Such attempts have usually proved unfortunately very successful in the past. Differences arose between the two countries at Nice and so now they have decided to discuss them "point by point" and thereby to deepen the Franco-German relationship. They were discussing not only the next summit (to be held in Stockholm) but also more pressing issues like BSE, foot and mouth disease and Eastern enlargement. These monthly meetings were decreed by Chancellor Schröder and President Chirac shortly after Nice precisely to avoid in future the kind of differences which had arisen there. The next Franco-German summit meeting is planned for 20th March. [*Handelsblatt*, 6th March 2001]

More spokes in the wheels of enlargement

Following Commissar Verheugen's admission that Poland and the other candidate countries cannot join the EU because the present EU members cannot withstand the effect it will have on their unemployment levels, German trade unions have protested strongly at a position paper published by the Commission which says that the transition period before Poles and other citizens of new member states can enjoy freedom of movement to go and work in other EU states should be only four years. One leading trade unionist said that the period should be seven or eight years, while the leading representative of the construction industry in Germany said it should be even longer. The German Chancellor and the French president, who ultimately will decide the matter, have said that they regard a transitional period of seven years as necessary. [*Handelsblatt,* 1st March 2001] The Poles will no doubt find this very tiresome; on the other hand, they are holding out for a fifteen year transition period before the Germans can come and start buying back their old homes in Silesia. In which case, one might ask, what is the point of joining the EU at all?

Advertisement

Ireland, the ECB, and the Maastricht Treaty

by Andrew Lilico

On 24 January 2001, the European Commission recommended that the Republic of Ireland be reprimanded over its budget, which duly happened at the ECOFIN meeting of 12 February 2001. This caused some confusion in the UK and Irish press, as Ireland runs a budget surplus and its Debt/GDP ratio is not as high as that of some other Eurozone members. Ireland was not in violation of the explicitly budgetary elements of the Maastricht convergence criteria or of the Fiscal Stability pact. So how could it be criticised over its budgetary policy? Was this some attempt by the EU to extend its powers through the back door?

No. These powers were introduced by the front door. As we shall see, Ireland was in flagrant violation of its obligations under the Maastricht Treaty – obligations which apply to the UK as well. However, it is not true (as suggested in some reports) that Ireland will eventually face fines if it does not come into line. Indeed, it is not clear that there is any mechanism at all to force Ireland to meet its Treaty obligations and thus stop destabilising the euro.

The Maastricht Treaty Articles

The relevant articles to our discussion are Articles 2, 102a, and 103(2). We shall quote them in their original form, dating back to the original Treaty on European Union, so that it is clear that this is no new development but rather an integral part of the project of Economic and Monetary Union from the beginning. Article 2 stated:

> *"The Community shall have as its task, by establishing a common market and an economic and monetary union and by implementing the common policies or activities referred to in Articles 3 and 3a, to promote throughout the Community a harmonious and balanced development of economic activities, sustainable and non-inflationary growth respecting the environment, a high degree of convergence of economic performance, a high level of employment and of social protection, the raising of the standard of living and quality of life, and economic and social cohesion and solidarity among member states."*

Article 102a of the Maastricht Treaty began:

> *"Member states shall conduct their economic policies with a view to contributing to the achievement of the objectives of the Community, as defined in Article 2, and in the context of the broad guidelines referred to in Article 103(2)."*

Article 103(2) stated:

> *"The Council shall, acting by a qualified majority on a recommendation from the Commission, formulate a draft for the broad guidelines of the economic policies of the member states and of the Community, and shall report its findings to the European Council.*
>
> *The European Council shall, acting on the basis of the report from the Council, discuss a conclusion on the broad guidelines of the economic policies of the member states and of the Community.*
>
> *On the basis of this conclusion, the Council shall, acting by a qualified majority, adopt a recommendation setting out these broad guidelines. The Council shall inform the European Parliament of its recommendation."*

Since the beginning of the euro project, it has been clear that all member states of the European Union were obliged to follow policies which promoted the smooth progress and functioning of monetary union, convergence in economic performance between member states, and sustainable non-inflationary growth. Furthermore, states which did not promote these things have agreed from the beginning that they would be subject to peer review – i.e. to criticism by other member state governments. Ireland's tax cuts run counter to all these objectives, so are in violation of the EU's Broad Economic Guidelines, and hence invite reprimand.

The Irish Situation

Why should cutting taxes at a time when Ireland has a budget surplus of 4.7% be an improper policy? The answer goes to the heart of the euro project and illustrates some of the difficulties the UK would face were it to join. Irish consumer price inflation, was 1.5% between Jan 1998 and Jan 1999, and had been expected to be about 2–2.5% during 1999. But in January 1999 Ireland joined the euro, and Irish interest rates halved to 3%, despite strong growth in Ireland, because interest rates were from then on set for the Eurozone as a whole and inflation was not a concern for France and Germany.

Irish inflation promptly, and unsurprisingly, took off. Consumer price inflation was actually 4.0% (twice what was expected) between Jan 1999 and Jan 2000, and averaged 5.6% during 2000, reaching 6.8% in October. At that time, even the Eurozone's standard *Harmonised Index of Consumer Prices* measured Irish inflation at 6% – the highest in the Eurozone and more than twice the average. This represented a considerable divergence in economic performance, and showed that Irish growth was manifestly not 'non-inflationary'. Inflation has recently fallen slightly, to 5.2%, as lower prices have fed through the economy, but the fundamental divergence will re-assert itself in time.

The Perils of Divergence

If Ireland becomes significantly divergent from other euro members, that will tend to undermine the euro. The European Central Bank (ECB) tries to control inflation for the Eurozone as a whole. As we might say, it is interested in average inflation for the Eurozone. If Eurozone economies are reasonably similar and stay reasonably similar (i.e. if there is a high degree of convergence), this can be done successfully, because policies which are appropriate for one member state are roughly the same as those appropriate for another. However, if economies diverge significantly, targeting averages means implementing policy which is wrong for everyone.

Suppose there are two economies, one with low inflation and low growth and one with high inflation and high growth. But suppose that on average growth and inflation are moderate and close to the target for the area as a whole. The high inflation country needs interest rates to be raised to prevent inflation from racing away even further, but interest rates won't be raised because inflation for the zone as a whole is close to target. Hence inflation will race away in the high-inflation country and matters will get even worse.

Similarly, the low inflation/low growth country needs interest rates to be lowered or else recession may turn into slump. But interest rates won't be lowered, so the slump will come. But the average of the boom in

the one country and the slump in the other might stay close to the average for a long time, and this very targeting of the average itself creates further divergence. Eventually, of course, even the boom country will crash, but by then everyone will be in a slump, so that is hardly a desirable way to resolve the problem.

Ireland is a relatively small country within the Eurozone, comprising only about 1% of GDP, so its effect on the average is small. But if a process of divergence is allowed to begin and continue without efforts being made to achieve convergence once more, divergence among slightly larger states may also prove difficult to combat, and the whole euro project might gradually unravel – causing enormous harm across the continent.

There are other mechanisms which might automatically combat divergence, but the most important ones don't operate well within the Eurozone. In particular, there is almost no labour mobility between Eurozone states (labour mobility would combat inflation divergence by moving people to where wages were high, so bidding down wages and tending to equalise them across the Eurozone), and almost no automatic fiscal stabilization (whereby tax receipts would be higher in high-growth areas and welfare payouts would be higher in low-growth areas, tending again to create convergence). Perhaps, if divergence started to become more widespread, pressure would grow for the EU to become more activist in these areas – for example, creating explicit EU tax collectors and EU benefit payments.

Controlling Inflation

To control inflation, governments have a number of tools at their disposal. They could use monetary policy (which, these days, usually means raising interest rates to cool off demand). They could use fiscal policy (raising taxes and/or cutting government expenditure). Or they could use supply-side policies (such as improving competition and labour-market flexibility, welfare reform, or even old-fashioned incomes policies).

As members of the euro, Ireland cannot use monetary policy – there is no such thing as a monetary policy for a country within a currency union. Furthermore, the ECB cannot use monetary policy to control Irish inflation either. The ECB is obliged to set policy for the Eurozone as a whole, and interest rates at levels which would have an effect on Irish inflation would cause grave recessions in other Eurozone economies. Monetary policy is not available to combat Irish inflation.

Some supply-side reforms go on all the time in economies, but they usually take many years to have any significant effect. The UK economy is probably reaping the benefits today of supply-side reforms introduced in the early to mid-1980s, and it will probably be another 10 years at least before New Labour's supply-side reforms take their full effect, for good or ill. Supply-side reforms in Ireland, either today or in the past, might eventually have some effect on inflation, but that will not prevent the divergence which is going on now.

The Eurozone has little or no fiscal policy of its own, and little ability to target expenditure on low-inflation areas. On the contrary, Ireland has continued to be in receipt of considerable EU grants and subsidies, well above those received in low-inflation areas such as Germany, despite the situation there. Thus, if the Irish government is to combat its divergence in inflation and growth rates with other Eurozone members, it must use fiscal policy. And that means cutting expenditure and raising taxes.

These tax rises would not be for the reasons usually offered in recent years. There is no problem funding Irish public expenditure. The Irish do not have any particular problem with the sustainability of its Debt/GDP ratio. That is why there is so much confusion. The reason tax rises are required is purely macro-economic. It is purely because it is necessary, if Irish inflation is to be controlled, to raise taxes to cool off the economy – i.e. to perform the task which we have usually, in recent years, thought to be the proper job for interest rate rises. The Irish can't raise interest rates, so they'll have to raise taxes. It is true that the Irish already run a budget surplus, but it is clear, from the accelerating inflation rate, that the current Irish surplus is not sufficient to bring Irish inflation under control. It needs to be higher. There really is no alternative, if divergence is to be avoided.

This may seem brutal – to tell a successful economy it needs tax rises which it doesn't want at a time when it is already running a surplus. But it is precisely what the Irish signed up for when they signed up for the euro. They have known that situations like this might arise ever since they agreed to the Maastricht Treaty. It is no new situation or new imposition by the EU. It is simply what being in the euro means. And if the UK were to join the euro, that is what it would mean for us as well.

We should note one final thing. It is well-known that the Fiscal Stability Pact contains the possibility that countries face fines for breaking the EU's rules on debt levels. But this does not apply to the Broad Economic Guidelines under which Ireland has been reprimanded. All that can happen is that Ireland is criticised. It is expected that Ireland will bow to pressure, and eventually raise taxes as it must. Whether a larger state, creating a more imminently dangerous divergence, would similarly bow to pressure remains to be seen. More probably such a scenario will not arise. Soon, other countries will learn from the Irish that they must put in place automatic stabilisers, and that will mean Eurozone tax collectors enforcing Eurozone taxes, thus stripping away one of the few remaining vestiges of that statehood which members still pretend to possess.

Andrew Lilico teaches macroeconomics at University College London.

… news in brief

"No candidate country ready for EU admission."

The commissar for EU enlargement, Günter Verheugen, has said in Poland that not one single candidate country is yet ready for EU membership. This confirms the view, once memorably expressed by the former Czech prime minister, Václav Klaus, that EU membership is always five years away. Verheugen said that in no circumstances should "political consideration" be allowed to prevail and cause countries to be admitted to the EU if the practical considerations had not been dealt with first. Among these he mentioned the danger that new EU member states might "export unemployment" into old member states, i.e. that the wages in the new member countries might undercut those in the richer old ones. In other words, we see that the purpose of the EU is not to promote the four freedoms and competition but instead to serve the interests of powerful rich states at the centre at the expense of weak poorer ones on the periphery. For form's sake, he added that there were other criteria which the candidate states did not fulfil, but it is fairly clear what the real concerns are. [*Handelsblatt*, 21st February 2001]

RESEARCH ROUNDUP

Unfunded Pensions in the EU

Although the European Union publishes thousands of studies, reports and memoranda every year, the bulk of these are not worth the paper they are printed on. Shoddy research, turgid prose and bureaucratic obfuscations are very much the norm and seldom does one actually find unbiased and relevant information. Fortunately for those of us who seem to spend hours every day trailing through EU websites, there are a few needles in the Euro-haystack. The *Progress Report on the impact of ageing populations on public pension systems* is one such document.[1]

This *Progress Report* was commissioned by ECOFIN and written by the EU Economic Policy Committee's Working Group on the implications of ageing populations. The Secretariat of the Paris-based OECD also took part in the project. The Working Group based its calculations on two scenarios: a so-called 'current policy' scenario and a 'Lisbon' scenario. The assumptions underlying the 'current policy' model include the convergence of unemployment rates (although levels are not assumed identical across countries) as well as an increase in labour market participation rates (especially for women.) These assumptions are arguably relatively reasonable, both in terms of demographics and of macroeconomics. At any rate, they contrast starkly with the assumptions underlying the 'Lisbon' scenario. These use the laughably optimistic targets for employment set by the European Council at Lisbon, which proclaimed that the EU would become the most competitive economy in the world by embracing the IT revolution. Employment rates would increase from 61% to 70% by 2010 and the proportion of women in work would rise from 51% to 60%, EU leaders declared. They added that: "Member states should consider setting national targets for an increased employment rate. This, by enlarging the labour force, will reinforce the sustainability of social protection systems."[2] There are less than nine years to go. Given that there is no such thing as a free lunch in economics, it seems unlikely that Brussels will somehow conjure up millions of jobs simply by proclaiming a few targets.

Interestingly, the quote from the *Presidency Conclusions* reproduced above confirms that the primary reason the EU wants to increase employment rates is to solve its perennial retirement problems. A recent article in *Le Monde* perfectly summed up this received wisdom when it argued that *"the real problem with pension systems is unemployment"*.[3] The truth of the matter is that the real problem with pension systems is that they are unfunded. Merely pretending that unemployment rates will miraculously increase over the next few years and that EU labour participation rates will eventually reach 80% is a recipe for disaster. It definitely invalidates those conclusions reached in the *Progress Report* using the 'Lisbon' scenario.

Current Policy

As such, the most interesting and relevant figures come from the 'current policy' case, where the working group simulated what would happen to Europe's pension systems. Government spending on pensions is set to rise substantially faster than GDP in every EU country with the exception of the UK, where it is forecast to decline. The results are summarised in the tables overleaf. First, it is worth taking a look at the latest available figures for current expenditure on pensions.

At present there is a massive discrepancy between Austria and Italy, which spend respectively 14.5% and 14.2% of GDP on state pensions, and the UK, which only spends 5.1% of GDP.

The *Progress Report* argues that Britain's excellent performance is set to continue. Although not really made clear in the paper, this is in large part thanks to the UK's highly developed pension funds and for the country's increasing reliance on the private sector since the 1970s.

Table I shows that different countries are hit in different ways. Public pension expenditure as a proportion of GDP reaches a peak in Denmark, France, Italy, Austria, Portugal and Sweden in about 2030. Belgium, the Netherlands and Finland reach their peak in 2040. Finally, expenditures continue to rise as a proportion of GDP and don't peak until 2050 at the earliest in Germany, Spain and Ireland.

The report predicts that during that peak period only 1.7% of GDP is added in Italy and Sweden, 3.7% in Belgium, 4.5% in Denmark, 4.3% in Germany, 3.9% in France, 4.4% in Ireland, 3.1% in Austria and 4.7% in Finland. The pressure is even higher for Spain (an extra 8.3% of GDP), and in the Netherlands and Portugal (an extra 6.2% of GDP).

The *Progress Report* also demonstrates that old age dependency is set to rise considerably over the next few decades. For example, between 2000 and 2050 the ratio of old age dependency increases from 28.1% to 49.7% in Belgium, from 26.0% to 53.3% in Germany and from 26.4% to 46.1% in the UK.

The increase in total age dependency is also very telling. The ratio (of total age dependancy to working population) increases from 60.6% to 99.5% (almost one child or elderly person per potential worker) in Italy between 2000 and 2050.

Projections of the 'very old age dependency ratio' in the EU (the ratio of people over the age of 85 to the working age population) show a continuing increase.[4] The ratio rises from 3.1% now to 5.8% in 2030 and 10.0% in 2050.

Will the UK Bail Out the EU?

The recurring problem for Britain is quite simple: will other European countries attempt to use the EU to force the UK to bail out their bankrupt retirement systems? The best way to try to find out is to study the Treaties:

Where a Member State is in difficulties or is seriously threatened with severe difficulties caused by exceptional occurrences beyond its control, the Council may, acting unanimously on a proposal from the Commission, grant, under certain conditions, Community financial assistance to the Member State concerned… [Article 100(2) TEC]

One might argue that this article, originally intended for "severe difficulties … in the supply of certain products" (see Article 100(1) TEC) could well be twisted by the courts to bail out a member state.

The main counter-argument is contained in Article 103 TEC

1. The Community shall not be liable for or assume the commitments of central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of any Member State, without prejudice to mutual financial guarantees for the joint execution of a specific project. A Member State shall not be liable for or assume the commitments of central governments, regional, local or other public authorities, other bodies governed by public law or public undertakings of another Member State, without prejudice to mutual financial guarantees for the joint execution of a specific project.

Table I

Pension expenditure projections (as a percentage of GDP, before tax)[5]

Member State	2000	2005	2010	2020	2030	2040	2050	Change 2000 – peak year
Belgium	9.3	8.7	9.0	10.4	12.5	13.0	12.6	3.7
Denmark	10.3	11.3	12.7	14.0	14.7	13.9	13.2	4.5[6]
Germany[7]	10.3	9.8	9.5	10.6	13.2	14.4	14.6	4.3
Greece[8]	NA	NA	NA	NA	NA	NA	NA	NA
Spain	9.4	9.2	9.3	10.2	12.9	16.3	17.7	8.3
France	12.1	12.2	13.1	15.0	16.0	15.8	NA	3.9
Ireland	4.6	4.5	5.0	6.7	7.6	8.3	9.0	4.4
Italy	14.2	14.1	14.3	14.9	15.9	15.7	13.9	1.7
Luxemburg	NA	NA	NA	NA	NA	NA	NA	NA
Netherlands	7.9	8.3	9.1	11.1	13.1	14.1	13.6	6.2
Austria	14.5	14.4	14.8	15.7	17.6	17.0	15.1	3.1
Portugal	9.8	10.8	12.0	14.4	16.0	15.8	14.2	6.2
Finland	11.3	10.9	11.6	14.0	15.7	16.0	16.0	4.7
Sweden	9.0	8.8	9.2	10.2	10.7	10.7	10.0	1.7
UK	5.1	4.9	4.7	4.4	4.7	4.4	3.9	0.0

Table II

Projections of old age dependency in EU member states[9]

(ratio of people over 64 to working age population, per cent)

Member State	2000	2010	2020	2030	2040	2050
Belgium	28.1	29.4	35.6	45.8	51.3	49.7
Denmark	24.1	27.2	33.7	39.2	44.5	41.9
Germany	26.0	32.9	36.3	46.7	54.7	53.3
Greece	28.3	31.6	35.8	41.7	51.4	58.7
Spain	27.1	28.9	33.1	41.7	55.7	65.7
France	27.2	28.1	35.9	44.0	50.0	50.8
Ireland	19.4	19.1	24.5	30.3	36.0	44.2
Italy	28.8	33.8	39.7	49.2	63.9	66.8
Luxemburg	23.4	26.2	31.0	39.8	45.4	41.8
Netherlands	21.9	24.6	32.6	41.5	48.1	44.9
Austria	25.1	28.8	32.4	43.6	54.5	55.0
Portugal	25.1	26.7	30.3	35.0	43.1	48.7
Finland	24.5	27.5	38.9	46.9	47.4	48.1
Sweden	29.6	31.4	37.6	42.7	46.7	46.1
UK	26.4	26.9	32.0	40.2	47.0	46.1
EU-15	26.7	29.8	35.1	43.8	52.4	53.4

Table III

Projections of total age dependency ratios in EU member states[10]

(ratio of people -19 and 65+ to working population, per cent)

Member State	2000	2010	2020	2030	2040	2050
Belgium	67.5	65.6	70.8	83.8	89.9	88.3
Denmark	62.7	68.1	71.4	77.8	86.1	80.9
Germany	60.2	65.3	67.2	79.1	87.8	86.0
Greece	64.1	64.3	68.4	72.9	84.3	93.9
Spain	62.3	60.3	63.7	70.4	86.6	99.3
France	70.7	67.7	75.4	83.4	89.7	90.4
Ireland	72.5	63.7	68.5	70.9	74.7	84.8
Italy	60.6	64.4	68.9	78.0	95.7	99.5
Luxemburg	63.5	66.6	68.0	79.3	86.9	81.1
Netherlands	61.2	63.8	70.4	80.0	89.1	84.5
Austria	62.1	61.9	62.1	74.9	87.1	87.0
Portugal	63.6	64.5	67.9	70.2	80.1	87.1
Finland	65.2	64.7	75.7	85.3	84.7	84.8
Sweden	70.9	68.9	72.9	81.1	85.4	83.8
UK	69.3	66.4	69.2	79.1	86.8	84.6
EU-15	64.4	65.1	69.2	78.4	88.3	89.5

2. If necessary, the Council, acting in accordance with the procedure referred to in Article 252, may specify definitions for the application of the prohibitions referred to in Article 101 and in this Article.

The second section above refers to Articles 101 and 252. This is what Article 101 has to say:

1. Overdraft facilities or any other type of credit facility with the ECB or with the central banks of the Member States … in favour of Community institutions or bodies, central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of Member States shall be prohibited, as shall the purchase directly from them by the ECB or national central banks of debt instruments

2. Paragraph 1 shall not apply to publicly owned credit institutions which, in the context of reserves by central banks, shall be given the same treatment by national central banks and the ECB as private credit institutions.

Article 103 is not watertight. Although it makes very clear at first that *"a member state shall not be liable for or assume the commitments of … another member state"*, it gives the game away in its second section. How does one define *"the application of the prohibitions"*? The escape clause is that the Council of Ministers can decide by QMV on whether something is prohibited or not (we know it is authorised to do so by the reference to Article 252). What then is the point of Articles 103(1) and 101? States with poor pension provision can gang up against those that have put more resources aside – such as the UK.

Furthermore there are a number of internal inconsistencies between Article 103 and other elements of EU Treaties. Take for instance Article 25 of the Charter of Fundamental Rights on "The rights of the elderly".

The Union recognises and respects the right of the elderly to lead a life of dignity and independence, social and occupational integration and participation in the life of the community.

As usual, the words and phraseology used by the drafting committee can be given more than one interpretation. A socialist court like the European Court of Justice will almost certainly decree that low state pension expenditure violates one's 'right to dignity'. If a country is unable to meet its pension commitment, the only way it could increase its expenditure is by increasing taxes or by curtailing other sorts of public

spending. The problem is that tax harmonisation and centrally set taxation systems may hamper the first option, and anyway, with the extremely high tax levels in Europe it becomes counter-productive to increase taxation – a Laffer effect comes into play where higher marginal tax rates reduce a country's tax intake. The second option is no better: the ECJ would use the Charter to ban spending cuts on education, welfare or health. The only answer is to force countries that are able to provide funds to bail out those that cannot. There is no doubt about it: Britain's pensions are at risk.

1 The *Progress Report* was spotted by John Laughland who obtained it via e-mail from the EU's self-styled Directorate-General for Information, Transparency and Public Relations. In accepting to release the document, the General Secretariat referred to "Decision 93/731/EC on public access to Council documents (*Official Journal L 340/43* of 31 December)".

2 *Lisbon European Council Conclusions*, paragraph 30.

3 "Retraites: le vrai problème, c'est le chômage", Jean-Paul Fitoussi, *Le Monde*, 6 March 2001, p.1,17

4 Taken from Table 4.1.4, p. 32

5 Taken from Table 6.1.1, p.36

6 For Denmark, net of the supplementary semi-funded scheme (ATP), the increase from 2000 to the peak is only 3.1 % of GDP.

7 Figures refer to the statutory pension scheme.

8 Greece stated that, in preparation of a pension reform due in 2001, detailed projections of its pension system have been out-sourced. Projections were to become available in January 2001, after the EU paper was published.

9 Taken from Table 4.1.2, p. 31

10 Taken from Table 4.1.3, p. 31

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

How Many Poodles were on the *Promenade des Anglais*?

by Sara Moore

It wasn't summer when the nations of the European Union assembled at Nice but the French and the Germans were hoping for sunshine.[1] They were seeking to use the South of France's holiday atmosphere to ease countries into signing away some of their individual rights in the cause of a greater Europe.

France's desire for a 'United States of Europe' dates back many decades. On 7 November 1925, immediately after Germany agreed to respect France's northern border under the terms of the Treaty of Locarno, grateful French Premier Aristide Briand informed the Germans that France sought industrial *ententes* with Germany and a 'United States of Europe'. On 30 September 1926 the International Steel *Entente* was born. Briand hoped for political collaboration too, although he still did not trust the German military. On the tenth anniversary of American intervention in World War I, he asked America for a bilateral security treaty. The result was the Kellogg–Briand Pact signed in the summer of 1929 in which 15 nations, including Germany, pledged not to wage war except in self-defence. The Kellogg-Briand Pact, however, had no concrete safeguards for France. Briand fell back on his concept of a 'United States of Europe' to ensure peaceful coexistence in Europe. His idea fell on stony ground. Germany and Austria, in contravention of the Geneva Protocol of 1922, unilaterally declared a customs union in March 1931. Two years later Hitler achieved power.

The Steel Entente, which some regarded as a 'Steel Locarno', lasted until 1939, but it did not prevent Germany from acquiring a powerful armaments industry, the products of which it used to grab France's iron ore fields in World War II.

The Americans revived the idea of a United States of Europe after World War II so that Europe could present a united front against Russia's Stalinist regime. The first European institution was the European Coal and Steel Community and this was followed quickly by the European Union. Once the Berlin Wall came down the original impetus for a union of European states was gone. But now it gained a new momentum. France had wanted to offer Germany a 'United States of Europe' between the wars so that her ambitions could be realised peacefully. The prospect of a powerful united expansionist Germany in 1990 worried many French people. For instance, Friedrich Wilhelm Christians of Deutsche Bank troubled the French when he proposed that the former East Prussian city of Konigsberg – now called Kaliningrad – be Europeanised as a centre of "exchange of people, ideas, capital and goods". The French became suspicious, especially when it was suggested that the city might be attractive to Volga–German settlers from further east.[2]

It was in this atmosphere that France hastened to promote European integration.

In Britain we have believed the EU to be a mischievous plot hatched up by the French and the Brussels bureaucrats. However, Professor Volker R. Berghahn of America's Brown University recently summed up the view of many Germans when he commented "It has become increasingly clear that Germany, which twice in the first half of the twentieth century vainly attempted to establish by force a formal empire stretching from the Atlantic coast to the Ural mountains and beyond, now at the end of this century finds herself on the verge of acquiring an informal empire of similar dimensions without having fired a shot".[3]

In England we do not like to contemplate the possibility that the EU could be Germany's empire after all and that France may be Germany's poodle, pushing a German agenda, while desperately hoping to tie up German ambitions in red tape. Germany has not seemed like a threat to Britain, or even a strong nation, for some time. She has been viewed as being plagued with bureaucracy, high unemployment and

slow growth. This is partly because German industrialists have put their money abroad, as they did in the late 1920s. The Eurozone has been losing capital, amounting to a colossal $140 billion in 1999,[4] and yet more in 2000.[5]

However, German industrialists have been using their money to good effect by buying up American companies, while the weak euro has helped multiply their exports. Indeed one could even say that their neglect of their currency over the last few years has, inadvertently, created a 'Fortress Europe'. Germany remains by far the largest contributor to the EU and those who pay the piper usually call the tune. It was Germany's Foreign Minister, Joschka Fischer, who contradicted Britain's Prime Minister, Tony Blair, after Blair had attempted to soothe British fears of the creation of a European superstate at Nice. Mr Fischer stated flatly that the agreements at Nice would set the "keystone in the edifice of European integration – that is political integration".

Modern Germany is very different from the angry and bellicose nation she was between the two World Wars. Yet if we believe that she is running the show from behind the scenes and it worries us, we should pipe up before all the European countries have signed away their independence. An ageing Henry Cabot Lodge commented upon the signing of the Kellogg–Briand Pact in 1929, "it only thickens the haze, deepens the pitfalls, and once again postpones the day when really clear thinking must be done." Even in happier times we still need to think clearly. Tony Blair has already offered three army brigades, 18 warships and 72 combat aircraft to the European Rapid Reaction Force. Yet it does not seem to have brought Britain more clout in Europe. Meanwhile Ireland is beginning to discover the downside of joining the euro. She was recently given a formal reprimand by Brussels and told to suspend her policy of tax cuts. They were said to be overheating the Irish economy and jeopardising the future of the euro, which is due to be cemented this year.[6]

The Commission's comments caused outrage in Ireland, whose economy is booming and whose government is running the biggest budget surplus in Europe.

Last year the premiers of all 16 of Germany's federated states declared that they did not wish to surrender their powers over education, social security and transport to the European Commission. They stated that they would do everything in their power to resist their country's federal structure being dissolved by EU centralisation. If we believe that the German leadership has been using the need for the centralisation of EU decision making to enhance its power at home, we should not hesitate to say so. Our efforts to fight European integration and promote a democratic future for our nation will be applauded by many Germans (and French).

1 The Intergovernmental Conference was held at Nice from 7 to 11 December 2000 and the final version of the Treaty signed on 26 February 2001.

2 E. Calabuig, "Quand les Allemands retournent a Kaliningrad-Konigsberg", *Le Monde Diplomatique*, August 1991.

3 Volker R. Berghahn, "Big business and the quest of a European economic empire in the twentieth century", in Berghahn (ed), *Quest for Economic Empire*, Providence, RI and Oxford: Berghahn Books, 1996.

4 Bill Jamieson, "The Euro Takes a Tumble", *European Journal*, May/June 2000, 7(7): 5,6

5 An estimated $50-$60 billion per month. Meghnad Desai (Lord Desai of St. Clement Danes), *Daily Telegraph*, 8 November 2000.

6 *Daily Telegraph*, 25 January 2001.

Sara Moore is an independent historian. She is the author of Peace without Victory for the Allies, 1918–1932 *(published in 1994) and* The Great German Swindle: how the German People were deceived into voting for Hitler, *which is currently being considered for publication.*

… news in brief

The cost of changing money

300 days before euro notes and coins are due to be introduced in the Euroland countries, all parties in the German Bundestag have called on the banking industry to agree to change unlimited quantities of cash for free. "It would be an essential contribution to the success of the euro," said the Chairman of the Bundestag finance committee, Christine Scheel. For the time being, only state banks like the Sparkassen (savings banks), Landesbanken (state regional banks) and the Post Office bank have agreed to do this. Other banks have said that they will agree to exchange for free only sums which are "usual for households". Consumers associations have criticised these varying arrangements, saying that all DM – euro exchanges should be cost free, especially in view of the fact that 500,000 German citizens have no bank account. Mrs Scheel also pointed out that many Germans keep large amounts of cash at home: the total amount, according to the Bundesbank, is over DM 100 billion (£30bn). [*Handelsblatt*, 8th May 2001] What Frau Scheel failed to mention is that there will also be millions or billions of DM in cash held in Central and Eastern European countries, where the DM operates as a parallel currency. In Montenegro and Kosovo, indeed, the DM is the official currency already, so that by the end of the year these two Mafia states will also have the euro. How the holders of DM cash there get to exchange their money for euros is anyone's guess.

Moving on to Hungary

Having condoned the unlawful rebellion of journalists at Czech TV against the appointment of a new director – a rebellion which has succeeded in all its aims, including in the main one of destroying the TV council which was responsible for these appointments – the International Federation of Journalists has decided to move on to Hungary. As in the Czech Republic, the purpose is to sideline democratically elected political parties and instead to get "independent" people into power – independent people who, oddly enough, all support the politically correct globalist and pro-European line. Thus, Aidan White, the Secretary-General of the IFJ has said that the condition of Hungary's public service media is "extremely serious". White warned that Hungary's accession to the EU could be hindered unless the condition of the media changes - although quite what control he has over the accession process is not clear.

The successful coup against the legally appointed TV director in Prague has been followed by the sacking of the news director he appointed and by the rescinding of the dismissal of 20 striking journalists – in other words by the victory of the mob over the rule of law and due process. It is commonly believed that President Havel, a great prophet of the death of the nation-state and an ardent advocate of "non-political" politics, was behind the rebellion in Prague. Now it is Hungary's turn. [For more on the Czech situation, consult the report of the British Helsinki Human Rights Group at www.bhhrg.org]

Will the EU Impose VAT on Doctors' Services?

by Christopher J.K. Arkell

The British Government has caved in to the EU on VAT many times over the last few years. VAT has been imposed on art sales and toll-bridge crossings in defiance of Ministers' wishes. It has been levied on fuel at a higher rate than desired. Measures in the 2000 Budget to relieve inner-city building repairs and church renovations from a 17.5% surcharge on their expenses cannot be introduced immediately for fear of upsetting the European Commission. As former Commissioner Mario Monti used to enjoy pointing out, VAT is a truly EU tax, and the sooner member States' governments stop pretending otherwise, the better.

All these past humiliations have damaged the economic health of the UK, but none have yet damaged the physical health of its inhabitants. This is about to change, for a recent European Court of Justice (ECJ) ruling threatens to impose VAT at the standard rate on many services provided by doctors in the UK.

D v W (case 384/98) was referred by the Austrian courts to the ECJ and concerned the liability to VAT of a genetic test carried out by a doctor at the request of a court dealing with a paternity suit. The doctor wanted to reclaim input VAT on supplies incurred in carrying out the tests, and chose to charge VAT on her services. The local court in St Polten in Austria objected to paying VAT on the genetic test, as it could not actually reclaim the tax. The case came before the local Austrian tax court which referred it – as it was bound to do – to the ECJ for a ruling on the interpretation of the Sixth VAT Directive of 1977 (as frequently amended!).

Austrian VAT legislation concerning doctors' fees, like its UK counterpart (contained in item 1 of group 7 of schedule 9 to VAT Act 1994), is widely drawn in order to exempt as many activities carried out by doctors using their medical expertise as possible from VAT. The reason behind this is clear: the population at large (as the final consumer) should not be charged VAT on their medical expenditures.

However, the Sixth Directive, on which UK and Austrian VAT legislation is based, is far narrower in its interpretation of doctors' exempt services than the UK and Austrian VAT rules. Article 13(A)(1)(c) allows member states to exempt *"the provision of medical care [by] the medical professions"*. The UK VAT Act, in contrast, exempts *"the supply of services by a person registered … in the registry of medical practitioners"*. The Austrians exempt all *"turnover from activities as a doctor"*.

> An incoming UK government will face the certainty of taxing sick people at the behest of the EU. Will such a promise feature in any of the political parties' manifestos?

In the case before the ECJ, the question to be decided was whether the provision of a paternity test was 'care' in the medical sense. If so, the supply was exempt from VAT; if not, the supply must be subject to VAT at the standard rate – 20% in Austria, and 17.5% in the UK.

The UK Government joined the Austrians in making strong representations to the ECJ in order to defend the Austrian position. The ECJ however stated that its own precedents (notably *Stichting Uitvoering Financiele Acties (SUFA) v Staatssecretaris van Financien* (case 347/87) [1989]) obliged it to take a very strict view of exemptions from VAT. The court looked at the various translations of the Sixth Directive on this matter and found that all, except the Italian one, referred to medical care; and, more damagingly, the German, French, Finnish and Swedish versions referred to therapeutic treatment or to care provided by a person.

The Austrians therefore lost the case. More significantly, the court made the following observation: *"Clearly the concept of 'provision of medical care' does not include medical interventions carried out for a purpose other than that of diagnosing, treating and … curing diseases or health disorders. Services not having … a therapeutic aim must be subject to VAT."*

Over the years of VAT in the UK (since 1973), UK Customs and Excise have gathered together a list of services provided by doctors which it has been UK public policy to ensure shall not bear VAT. These include among others medical certificates, reports and signatures on documents. Writing a report to an insurance company on a claim by a person injured in a road accident, compiled following a medical examination, has always been considered, at least in the UK, to be part of a doctor's activities as a medical man. The ECJ has now redefined medical care for tax purposes in the UK, and Customs and Excise and now very concerned that the European Commission will attack the UK, after its success against Austria.

Many doctors' surgeries will now be forced to register for VAT, and the insurance companies – already hit by ever rising medical costs – will be forced to bear an additional financial burden which is estimated to exceed £50m. The NHS budget will also be affected, probably by the same amount. Individuals who pay their own medical expenses will bear a further £50m or so of extra charges.

Glyn Edwards pointed out in the 16 November 2000 issue of *Taxation* in a review of this case, that *"the Government has no desire to impose VAT on the politically sensitive health sector… However, as the UK recently discovered on the question of road tolls* [and in a case brought by the European Commission on its own motion, not arising from a local dispute as to who could claim back VAT and when – author's note] *the Commission will not sit idly by when a member state fails to apply VAT appropriately. In particular, it will be concerned if the UK's contribution [of VAT to EC funds] is depressed by any such failure."* (p. 172)

If the UK ignores the implications of the ECJ's decision, the Commission will almost certainly start infraction proceedings against us. Whether this comes before the forthcoming election or not, an incoming UK government will face the certainty of taxing sick people at the behest of the EU. I very much doubt that such a promise will feature in any of the political parties' manifestos. However, EU-sceptics might like to start recruiting in their local hospitals. You've got nothing to lose except your VAT chains.

Christopher J.K. Arkell is an accountant specialising in tax and is Editor of London Miscellany.

Advertisement

A Kingdom At Bay
Part one : The psychology of apostasy

by Stuart Jackson

1 Too Close for Comfort

Across the Channel, a Continental power bloc fixes an avaricious gaze on the British Isles. It is the stare of a predator. A competition for loyalty is in play. Upon its resolution rest the joint and separate destinies of the United Kingdom and the European Union.

2 Putting in a Requisition

With increasing frequency, cars on Britain's roads carry a sticker with a strident message. The slogan reads "Europe is my country". It is encircled by the twelve golden stars of the European Union. Setting the terms and tone of the debate, it proclaims an intent and encapsulates the territorial ambitions of an emerging superstate.

3 Loyalty a Prize

Loyalty transforms naked power into legitimate power. It is prized as a coin of high value. Loyalty is the glue that binds families and groups and nations together. Its opposite, disloyalty, is an agency of disintegration.

Loyalties can be arranged in a hierarchy. When loyalties collide, the greater takes precedence over the lesser. In disputed cases, the question arises as to which is which.

4 A Literary Perspective

Loyalty implies reciprocity and in particular a closing of ranks. Novelist and playwright Simon Raven uses this dynamic as a device for many of his plots. One of his characters says to another about a third who is in trouble: "He is your man. You must save him".

A recurring idea in classical literature is that loyalty is a virtue, disloyalty a vice. Honour and acclaim, dishonour and death, are perennial themes that run through the Old Testament, the plays of Shakespeare and the texts of ancient Greece and Rome.

5 Breaches of Trust

At a less exalted level, the national and local press routinely report court cases where disloyalty compounds the offence of which the defendant is accused. If found guilty, the medical practitioner who has harmed a patient or the book-keeper who has embezzled the funds for which she was responsible should not be surprised to hear the judge pronounce some such formula as: "You were put in a position of trust and you betrayed that trust". The seriousness of this breach will be reflected in the sentence handed down.

6 Loyalty Shifts

The political sphere is less static than the law. In times of turmoil, such as those in which we live, what a man believed yesterday is an unsafe predictor of what he might believe tomorrow. Loyalty shifts abound.

But enough of generalisations. We must look at flesh and blood instances in which the dramas of competing loyalties are exemplified. Let us turn the pages of our case book.

7 Cases and Faces

In the cases we shall pick out for inspection, the issue of Europe is seldom far away.

Case One: The august figure of Lord Jenkins of Hillhead migrates from Labour to Social Democrat to Alliance to Liberal Democrat, with a detour to Brussels and back in between. Enobled by Mother Nature at birth, he receives official enoblement during the course of these perambulations.

Case Two: Michael Heseltine mounts a sustained attack on Margaret Thatcher. Years later, he moves into New Labour's big tent for the purpose among others of claiming shared credit for the architectural and commercial triumph that is the Dome.

Case Three: It is the afternoon of Tuesday, 13 November 1990. Geoffrey (now Lord) Howe rises in the House of Commons to deliver his resignation speech. For the first and only time in his life, the gift of tongues descends upon him. Unaccustomed eloquence and suppressed passion unite to precipitate the downfall of the United Kingdom's longest-serving twentieth century Prime Minister.

Case Four: Conservative Party Chairman Chris Patten loses his seat at the general election of 1992. Summoned to Hong Kong, he becomes that colony's last Governor. From there he moves to the stratospheric remoteness of the European Commission, from which vantage point he regularly assails the political party over whose affairs he once presided.

Cases Five, Six and Seven: The middle and late 1990s see the defection of three parliamentarians from the Conservative benches: Emma Nicholson to the Liberal Democrats; and Alan Howarth and Shaun Woodward to Labour. Untold agonies, it seems, have preceded these momentous translations. Clichés fill the air: "I have not left the party. The party has left me."

8 Diagnosis

A general theory to account for such complex behaviour patterns is an elusive quest. Often the motives behind them are ambiguous. Nevertheless, a degree of speculation is in order.

Vanity should never be underestimated as a spring of action. Nor should personal ambition be overlooked. Indeed, some of the characters referred to might be suspected of being on the make.

More to the point than motive is consequence. A besieged Kingdom looked for heroes to rise to her defence. Many a self-server came forward in substitution.

9 Next Stop Treason

Disloyalty is a continuum that runs from minor lapses at one end of the scale to gross violations at the other. At the far extreme lies treason, about which there is no ambiguity.

Treason is a crime of the utmost gravity. The penalties for it are severe. Where these penalties are not exacted, it is usually for reasons of expediency or by virtue of traitors coming to the rescue of their own.

Treason, the crime that strikes at the heart of the state, will be the subject of the second article in this trilogy. We shall enquire into the conditions that favour treason and the psychology that brings it about.

A social psychologist by training and a market researcher by profession, Stuart Jackson has specialised in communications and attitude-formation. He has been a regular contributor to the European Journal.

The End of Belgian Neutrality: Trouble ahead for Europe?

by André Monteyne

Belgium will take over the rotating presidency of the European Union on 1 July 2001. Unfortunately, British politicians have paid little attention to the foreign policy of the new Belgian government. A coalition of liberals, socialists and 'greens' led by Guy Verhofstadt, it has broken radically with Belgium's traditional policy of neutrality. Belgium is a small country better known for its scandals than for its geopolitical influence. However, Napoleon once called Antwerp a pistol pointed at the heart of England. The government's u-turn could dramatically affect the balance of power in Europe by tilting the scales towards the Franco–German axis. This would be bad for Flanders, Belgium's most populous region. It would also be bad for those member states that would prefer a looser Europe.

It is useful to look back to the beginnings of modern Belgium to understand the gravity of the situation. In 1814 Britain supported the creation of the United Netherlands including Belgium as a dam against French and Prussian imperialism. In July 1830, following the 'bourgeois' revolution in Paris, a heterogeneous coalition of Liège *irredentists,*[1] Brussels Francophiles[2] and radical liberals started an insurrection in order to be incorporated into the new French kingdom. Britain, Prussia and Russia refused to let this happen. Although they authorised a Belgian state separate from the Netherlands, this was conditional on Belgium not joining a European alliance. To reinforce this neutrality, Belgium had to accept Leopold of Saxony-Coburg-Gotha, widower of the British Princess Charlotte, as King, although he married the daughter of the new King of France as a concession to Francophiles.

Ever since that time, there remained individuals in Liège (which increasingly came intellectually to dominate French-speaking southern Belgium, now called Wallonia) and Brussels who dreamed of reintegration with France. They are the *rattachists* and they have always opposed Belgian neutrality.

The *rattachists*' first opportunity came after World War I, when Germany unilaterally violated Belgium's neutrality. Sustained by powerful Francophile figures such as Cardinal Désiré Mercier, the Primate of Belgium, the government, from which Flemings were conspicuously absent, concluded a secret Franco–Belgian military agreement in 1920. Like their French counterparts who recovered Alsace and Lorraine, Belgian *revanchist* politicians wanted to annex a piece of Germany. They wanted a big slice of the Rhineland, parts of the Netherlands and the whole of Luxemburg. After diplomatic haggling, Luxemburg became a kind of Franco-Belgian condominium. Britain and America opposed the remainder of the *revanchist* plan so in the end Belgium had to make do with the German cantons of Eupen, Malmédy and Sankt-Vith.

> Whether Belgium is dominated by Germany, by France, or by both countries, the end of Belgian neutrality will disturb Europe's balance of power with incalculable consequences for European co-operation and international peace

In 1923, French and Belgian troops occupied the Ruhr region, shooting 132 striking civilians and crippling Germany's industrial heartland. This eventually destroyed the nascent democratic Weimar republic and, together with the treaty of Versailles, sowed the seeds of Nazism. Although the Ruhr occupation was opposed by Britain, the United States had by then turned to isolationism. The occupation also went against the interests of Flanders which has prospered from trade between England and the Rhineland since the Middle-Ages. This explains why the bulk of Belgian opposition came from Flemings: Christian-democrats, Flemish nationalists and pacifists as well as King Albert I.[3] Even during the war, the King had dismissed a Prime Minister judged too Francophile and it is an open secret that he had a hand in the rejection in 1924 by the Chamber (lower house) of the Franco–Belgian Trade Agreement, which would have turned Belgium into a *de facto* French satellite. The Francophiles, who had built the King into a hyper-patriotic icon, did not dare oppose him openly. Neither could they oppose his efforts to rekindle friendly links with England and with non-aligned Holland. In 1934, the King, an expert mountaineer, died somewhat suspiciously during a solitary climb in the Ardennes mountains. Fortunately, his son Leopold III continued his policy and proclaimed Belgium's non-alignment in 1936, to the wrath of Francophiles.

Although Germany recognised Belgian neutrality with the Treaty of Locarno in 1938, Hitler invaded Belgium regardless. The government fled to London while the King stayed as a 'prisoner of war' and was later deported to Switzerland. He remarried during the war but the fact that his second wife was a Flemish commoner was used against him by Francophiles.

At liberation, unlike after World War I, there was no *rattachist* movement of any consequence[4] – the Vichy regime was discredited. The government kept to its traditional policy of friendship with Britain which was extended to include the United States and was consolidated in 1948 by the formation of an economic union with Luxemburg and the Netherlands – the Benelux. This course of action was masterminded by P. H. Spaak, a Francophone and probably Belgium's greatest postwar statesman.[5] As an expiatory sacrifice, Leopold III had to resign, although most Belgians, including an overwhelming majority of flemings, backed him in a referendum. Spaak's 'Atlanticist' policy was continued, with the support of King Boudewijn whose dislike of *rattachists* was reinforced by the way they treated his father.

At first French interest in Wallonia was extremely limited. This is understandable. Wallonia is no longer the furnace of Belgium, its coal mines are old fashioned, its

steel mills closed in the 1960s and its unions and sclerotic bureaucracy have excluded the region from the economic *renaissance* witnessed in Flanders. In fact Wallonia is virtually bankrupt and sustained only by ever-larger financial transfers from Flanders.[6] Without Flanders (which includes Brussels), Belgium would have been of little use to France. Even president Charles de Gaulle, except for some kind words, did not give much hope to *rattachists*.

Nevertheless, in the last few years French interest in Belgium has increased again. Many Belgian companies have fallen under French control, including the largest financial holding company, Société Générale de Belgique, the largest private electricity producer in Europe, Tractebel, Belgium's biggest employer, Petrofina, the second largest insurance company, La Royale Belge, department stores such as GB and many more. At the same time, new *rattachist* clubs have sprung up, some with offices in Paris. Some well-known Walloon politicians openly sympathise with them.

This increased French influence is now being complemented by the pro-French *rapprochement* which is the hallmark of Mr Verhofstadt's administration. The government's most powerful figure is foreign affairs minister Louis Michel, a Walloon liberal. (Mr Michel effectively gave Mr Verhofstadt his job because Belgian political conventions require a Dutch speaker to be head of government). Whereas his predecessors toed Spaak's cautious 'Atlanticist' line, Mr Michel brazenly follows France's lead, regardless of the impact this has on relations with Britain and Scandinavia. He backed France's line France in calling for Chile's former leader Augusto Pinochet to be tried outside Chile and for sanctions to be imposed on Austria's coalition government. Mr Michel also backed the Congolese regime, including president Kabila, an enemy of democracy if ever there were one and foreign affairs minister Abdula Yerodia, who has been indicted for crimes against humanity. Mr Michel could hardly have failed to be aware of this but he supported France regardless.[7] Furthermore, André Flahaut, a Walloon socialist and Belgium's new defence minister, is to give 'military-humanitarian' help to former French colonies in Central Africa, where Anglo-American influence is growing to the alarm of the French. In a dramatic *renversement des alliances*, Mr Michel has swapped Belgium's 170-year-old neutrality policy for closer bonds with France.

As Ghent University professor Boudewijn Bouckaert[8] has argued, the Franco-Belgian collusion against Austria parallels the Franco-Belgian action in the Rhineland after World War I. Michel's injunctions against Austria were popular in Wallonia but were fiercely opposed in Flanders.[9] Now as then, Flemish influence in the new Belgian government is much diminished – the best jobs have gone to Walloons or to French-speaking Brusselers, including the presidency of the National Bank and Belgium's European commissioner. The traditional main Flemish party, the CVP or Christian-Democrats is in opposition whereas the third largest party, the nationalist Vlaams Blok is boycotted by all other parties because of its populist ideas. The governing parties have no majority in Flanders, a situation unprecedented since the beginning of universal suffrage, whereas they have an overwhelming majority in Wallonia and Brussels. The pro-French European policy of the new government could thus be explained as a signal to Walloon irredentists and as advantaging Wallonia whose economy is less oriented towards overseas exports than Flanders'. But there could also be more sinister motives at play. The government may be trying to ensure that if Belgium falls apart any further – for example in case of further 'Europeanisation' – Brussels would stay firmly within French influence. In any case, Mr Michel's policy fits perfectly into France's new European policy.

The fathers of the EU, Rhineland's Konrad Adenauer and Lorraine's Robert Schuman, both hailed from what could be dubbed Europe's 'central region' – the area from the Netherlands to Northern Italy. Ever since the threefold split of Charlemagne's empire, that region has been the battlefield of Europe and Messrs Adenauer and Schuman dreamed of a system of economic cooperation to make war between European nations impossible.[10] Their vision was of course utterly alien to Charles de Gaulle's concept of a Franco-German dominated Europe in which France would play first fiddle, relying on Germany's guilt feelings. De Gaulle vetoed Britain's membership application because he understood that his ideas clashed with those of outward looking countries such as the UK. He foresaw that Britain would challenge a system that allowed France to use the European Community as a vehicle to remain a great power. When Britain finally joined, it entered a European Union in which France called the tune.

France retained this dominant position for more than twenty years, thanks to Britain's European hesitation and to successive German leaders who undertook to transform Germany into an economic giant while letting France play on the world stage. Even German reunification – to which President François Mitterrand reluctantly consented on the condition that Germany surrendered its cherished Deutsch Mark – had little impact. France could always count on Commission President Jacques Delors to push for ever-greater centralisation under the guidance of France. After Delors left, things suddenly went wrong. Of course, even Chancellor Helmut Kohl would not have been able to sustain forever the fiction that Europe's most populous state was a political dwarf. Anyway, his successor Gerhard Schröder belongs to a post-war generation that has no moral problems defending German interests.

An early indication of Germany's new attitude was its insistence on treating German as the equal of English and French in EU proceedings. For the French – to whom language is a foremost diplomatic weapon – Germany's newly acquired assertiveness was met with alarm.[11] In addition, the euro appears more and more to be the DM in disguise. The only difference is that whereas five currencies were oriented towards the DM, now eleven currencies are forever shackled to the euro.

Nevertheless, it is EU enlargement to the East that worries France more than anything, even if it cannot delay expansion forever. Although some Eastern applicants are wary of Germany[12] and have lingering memories of the anti-German *Petite Entente* alliance of the 1920s, they cannot ignore geopolitical reality – Germany is their most powerful neighbour, both economically and politically. This is even the case for countries like Croatia that have not yet applied.

Another major annoyance for the French is that latecomers to the EU, such as the Scandinavian countries and Spain (where socialist Prime Minister Felipe Gonzalez was succeeded by José Maria Aznar, a conservative), seem to team up with Britain. As a result, the EU risks being torn between

a British-led group and a German dominated core, with France as Germany's junior partner.

Flanders is particularly concerned by this evolution and a keen debate has developed in Flemish academic circles and among independent journalists – those who are not working for government subsidised newspapers. Some of the shrewdest 'Euro-watchers'[13] are speculating that to counter its demotion, France is working on a new Franco–German axis located *outside* the EU. The aim would be to isolate Britain and its EU allies. A more probable variation on this hypothesis is that France and Germany would constitute the *avant-garde* (to use a Marxist term) of a strong political EU relegating Britain and its allies to a second division. This hypothesis appears to be confirmed by recent declarations by German's Green Foreign Minister, Joshka Fischer. The weak leadership of the current and past presidents of the European Commission could enable this new Franco-German axis to bypass the Commission altogether. Although Germany would remain in charge in Central Europe, this would be more than compensated by the inclusion of strategically situated Belgium in France's own influence zone. Luxemburg would be included in the deal and France would get a bipolar Europe.

Additionally, to lessen somewhat Germany's influence in Central Europe, France could try to veto the entry of German friendly applicant states such as Bulgaria or Croatia and push other countries out of the axis (such as the Baltic states), to team up with for example the Scandinavian countries. The weakening of a German ally such as Austria also fits in nicely. It would have been a major victory for France if Austria had withdrawn from the EU when sanctions were imposed. The new Walloon-dominated Belgian government's outcry against Austria thus came in very handy for France and so does the fact that Belgium takes over the rotating presidency of the EU in the second half of 2001.

If the *rattachist* dream comes true, the end of Belgian neutrality this would entail would have dire consequences for the balance of power in Europe. It would rig the scales in favour of a continental bloc. It would also be a major disaster for Flanders as Holland would probably refuse to take part in any such French scheme.

Before Maastricht the Franco–German axis mattered little because the EEC was a co-operative association where all states were more or less equal and where a member state could always use its right of veto. If the French-inspired Nice Treaty, which was signed on 26 February 2001, is ratified the EU will become a fully-fledged political union and the Franco-German axis will matter a great deal.

If the French-inspired Nice Treaty … is ratified the EU will become a fully-fledged political union and the Franco–German axis will matter a great deal

Of course, what I have described may not happen. France may quite possibly realise that it is no longer a great power – many other European countries have given up their earlier pretensions. France would remain a marvellous country, with excellent food of a standard only matched by Belgian cuisine, and a great culture. In terms of world politics France would be no less and no more important than, say, New Zealand or Italy. This would be the best outcome: there would no longer be any need for a strongly centralised European state. The EU would be transformed into a free market of independent states designed to make war in Europe impossible.

If what I have argued in this article does happen it will pose a real danger to Europe's equilibrium. Whether Belgium is dominated by Germany, by France, or by both countries, the end of Belgian neutrality will disturb Europe's balance of power with incalculable consequences for European cooperation and international peace. It is therefore in the interest of all European countries that Belgium remains neutral. The end of Belgian neutrality would be particularly catastrophic for Flanders with its maritime and export oriented tradition. Great Britain and Holland also have a special interest in Belgian neutrality and should make sure the issue is brought up at future European conferences. If all else fails and Flanders decides to break loose from the Franco-German grip, it would be in Great Britain's interest not to oppose this.

1 The Principality-Bishopric of Liège was never part of the Netherlands; in 1794 its 'Revolutionary Assembly' threw out its Prince-Bishop and called in the French revolutionaries as 'liberators'. The Southern Netherlands (mainly Flanders and Brabant, and including Brussels) considered themselves to be occupied by France.

2 The Dutch King William I had been forced by the great powers to keep civil servants and army officers on duty in Belgium during the previous 20 years of French occupation.

3 He also intervened with the Pope to have cardinal Mercier 'promoted' to a mission in far away Rome and to be succeeded after his death by a stolid Fleming, Mgr Van Roey.

4 In October 1945, during a 'Walloon national congress', a near majority of around a thousand left-leaning intellectuals voted in favour of "reunion with France", but this motion had no further consequences.

5 Mr Spaak, a former secretary-general of NATO, was strongly opposed by French president Charles de Gaulle.

6 Up to BEF 500 billion (circa £7.5 billion) a year according to financial journalist Neil Buckley (*Financial Times*, 8 November 1999).

7 *Journaal*, 13 July 2000.

8 The mild mannered professor, who is known to be close to the prime minister's own Flemish liberal party, created a sensation with his article "Het Europa van de Haat" (The Europe of Hate), in the pro-government paper *De Standaard*, 19 July 2000.

9 According to the only opinion poll conducted on the subject, 34% of French speakers, but only 9% of Dutch speakers agreed with Mr Michel's attitude against Austria (*La Libre Belgique*, 17 July 2000).

10 A correct interpretation of his Zurich speech of 1946 shows that this was also Winston Churchill's vision.

11 Former French Interior Minister Jean-Pierre Chévènement called Joschka Fischer's proposed European (super-) state a new "German Roman Holy Empire".

12 See "The European Union by Stealth", Maciej Giertych, *European Journal*, March 2000, 7(5): 24–25

13 Amongst the foremost of which are Mark Grammens with the aforesaid bimonthly *Journaal*, and freelance economic journalist Paul Beliën, who has just started the new magazine *Secessie* to promote an independent Flanders (that is, out of the EU) allied to Britain and America.

André Monteyne is a former Brussels MP and is currently a municipal councillor for the borough of Jette in Brussels.

Labour and Europe

by Austin Mitchell, MP

On most political issues Labour can claim a reasonable degree of success as it puts its election case. Our claims on Europe are much less certain. Which is why we'll keep as quiet as we can on the issue – and avoid fighting on Tory ground which is remote from the concerns of the people.

Eighteen years ago we stood on a platform of withdrawal. Since then we've become Euro-enthusiastic. We were pushed along by the trade unions (who we listened to on this issue though not on most others), the bonanza of MEPs elected at the last Euro-election but one, and by the fact that the Tory Government had got itself into such a mess on Europe. It was eminently sensible for the then Labour Opposition to propose the alternative European agenda of co-operation and goodwill that comes so easily to the naïve. Yet even as we offered that we took pains to beat the patriotic drum, to shout 'no surrender' and promised to consult the people on the euro. We knew that the people don't like 'Europe'.

Did co-operation yield dividends? Labour's enthusiasm has been dimmed but has not yet gone through the same evolution as previous governments who came in promising to put Britain at the heart of Europe (wherever that might be) only to end as sulky and hostile as jilted lovers. We haven't done that – yet. We've avoided confrontation. But we've also avoided hard decisions and our euro plans, insofar as we had any, have got nowhere.

Basically, we hoped to give a new lead to the Union to distract members from their obsession with 'ever closer union'. We wished to take them in a different direction and replace the Franco–German engine which has driven the EU so far and fast to a centralised union, grabbing more powers than it could handle. Unfortunately we were alone in our stance, we failed to build a firm alliance behind it and we didn't offer a clear alternative. Charm isn't enough in a Union where others pursue their self-interest in a way we can't.

Our basic approach has been to argue for 'wider' as the alternative to 'deeper', hoping that the need to integrate the Eastern European states would make the structure more diffuse, even unmanageable, thus diminishing the drive towards union. We lost that game at Nice. No attempt was made to reform the Common Agricultural Policy, although this should have been the first priority for enlargement. The CAP will go bust if countries like Poland (which has more farmers than the rest of the EU put together) are admitted. At Berlin, French President Jacques Chirac vetoed even the modest dilution proposed by Agenda 2000. The whole issue was ignored at Nice.

Blair's bluff was called. He was firmly told that centralisation and the abandonment of vetoes had to go further before the (regularly postponed) widening could even be considered. This forced him to abandon our veto on the development of an élite core, free to move ahead to its version of 'even' rather than 'ever' closer union, in a process called 'enhanced cooperation'. Other members will not be able to stop this hard core or to use their veto to exact concessions for themselves (such as the ability to choose a Europe *à la carte* or to withdraw from unacceptable parts) in return. The way is now open to a two-speed – or with the Eastern states, a three-speed – Europe in which Britain, with less in common, will inevitably be second rank, lagging behind the rest, always subject to constant pressure to join the top table.

The other British attempt to provide a new direction for the EU was the European army, an ill thought out proposal which the French seized on eagerly as their preferred alternative to a NATO they had always resented and undermined. We've given birth to a monster which is neither scout troop nor SAS, its paternity as disputed as its role. Tony Blair portrays it as nothing more than International Rescue where Lady Penelope has a German accent. The French, and the Commission, view it as a European army, and the Americans as an incentive to begin the work of disengagement which might come naturally to a Bush administration. We're forced to describe it one way in Europe, another at home, and a third in the US, where it either threatens Britain's special relationship, and its access to American security and information, or it's irrelevant, a paper force, with no role, no unity, at the service of a political structure which has demonstrated in Yugoslavia its total inability to take decisions. This is an Army or a Bob-a-Job troop in search of work. No one knows.

The euro is the third frustration. Blair came in with a vacuous enthusiasm for something he didn't understand. Brown has been shrewder. Originally anxious to join because it would relieve him of the macro decisions he doesn't like and set him free to do the micro fiddling he loves, he quickly realised that Britain is different. It trades more with the world outside, its cycle is out of kilter and to go in at an exchange rate which is grossly overvalued would make us permanently uncompetitive. With the British economy doing pretty well, thank you, it was easier to sit back and take the credit than to embark on a sea of troubles by giving the EU power over our interest rates and exchange rates.

So it's Lord make us virtuous – but not yet. Our current policy puts us in a trap. The economy won't continue to do well because the high pound is destroying manufacturing – just as it did under the Tories. We can't join the euro without getting the pound down. Yet if Chancellor Gordon Brown has obstinately refused to do that to save British manufacturing, he can't do it to join the euro. Nor can he conciliate European Finance Ministers for whom he has a profound contempt, bitterly resenting their messy foreign fingers in our pot. Even in the minimal way he's forced to pretend hasn't actually happened already. Problem postponed. Future imponderable.

Blair finds the European circus infuriating. Its remorseless drive to ever-closer unity inconveniences. Its shambolic processes affront his managerial instincts. Its obsession with self-interest offends his saintly bonhomie. Its pressure cooker summits, where PMs are pressured into making new sacrifices on the altar of 'union', like a fundamentalist suicide cult, make him impatient. The only part he seems to find acceptable is the EU's Janus news management which allows EU Prime Ministers to say one thing at conferences and to tell a different story to their electors.

None of this means that Labour has been driven back into Major's sulky intransigence. Nor has the Party been divided. Most MPs are vacuously enthusiastic for a PC EU, while the small minority of Euro-enthusiasts, such as Peter Mandelson – for whom Europe is more important than any Labour ideology – can give a totally unrepresentative impression

of Labour's cautious indecision. Yet the view from the top is totally at variance with the insular instincts and the Euro-scepticism of Labour's voters, and of most Party and union members. They remain silent, tolerating the equivocal enthusiasms of leaders for the sake of Party unity, but are not enthusiastic about further concessions. They are instinctively opposed to the euro, though for *economic* reasons rather than the *sovereignty* arguments which obsessed the Tories.

Cracks will be papered over. The Party will maintain its stance – talking patriotism while walking backwards into union – for the election campaign in which our main concern will be to avoid raising the issue at all. But after that comes the hard choices. Especially on the euro where Tony has unwisely committed himself to a two year timetable to maintain his credibility with the euro lobby and his standing in Europe. Meanwhile, the EU is constantly urging Brown to join their lemming rush and are always threatening us with exclusion, loss of influence, and neglect, in the friendly, *communautaire* way they treat the recalcitrant.

So everything depends on economics. If our economy falters, as it is now doing, and the consequences of overvaluation hit home in factory closures and job losses, while the EU's economy moves ahead boosted by its competitive devaluation, pressure to join will grow. If things move the other way then, if it ain't broke don't fix it. This uncertain prospect creates a real possibility that the electorate can be conned in at the worst possible time and at the worst possible exchange rate – locking us in forever as an uncompetitive periphery. Such is the fate of countries and governments which don't think as clearly and pursue their national interest as remorselessly as do the French.

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

€ EUROWATCH

The euro has recovered from its low point of under 57 pence in October and for most of this year has been trading at about 63 pence. It is creeping back towards parity against the dollar from a low of 82 cents. This recovery is due to slowing growth in the US economy beginning about 6 months ago. At the same time, growth in the Eurozone has risen and is forecast to be 3¼% this year compared with 2¾% for the US. Business confidence in Germany is stronger now than at any time in 2000.

It may well be that a lot of the talk about the US economy's potential decline was merely hype encouraged perhaps by those who didn't want to see George W. Bush in the White House. Some economists are now predicting a cooling-off period rather than recession and a return to growth of about 5% later this year. At the same time, some forecasts for European growth are being revised downward to under 3%.

How well the euro holds up depends less on trade than on portfolio and capital flows. As a trading bloc, the Eurozone's transactions with the rest of the world account for little more than 10% of GDP – the remainder being trade between member states. In this respect it is similar to the US where external trade represents about 15% of GDP. The dollar's strength throughout the 1990s was due to people's enthusiasm for holding dollar denominated financial assets and for making direct investments in US businesses. A great deal of this capital investment came from Europe. In 1999 and 2000, there was a net outflow from Europe of euro 143 billion and 133 billion respectively and a high proportion of this was invested in the US. With US economic growth now forecast to be less than Europe's, and with cuts in US interest rates likely, there is a good chance that this outflow will slow, though not actually reverse.

A stable and benign scenario for the euro is in prospect if the US economy has a soft landing and neither plunges into serious recession or returns to rapid growth. The financial markets have a lot of confidence in Alan Greenspan's ability to control the effects of economic change. Recent interest rate cuts by the Fed and Greenspan's cautious agreement to President Bush's proposed tax cuts have generally been welcomed and the markets have responded positively.

This confidence is in sharp contrast to the perceived ability of the ECB to manage either its currency or the European economy. Market commentators complain that the ECB's objectives and policies are unclear. Otmar Issing, the ECB's Chief Economist, has admitted that the Bank is not very good at communicating its plans to the market. Its fundamental benchmark is price stability, which is set at an inflation rate of no more than 2%. Inflation is currently 2.9% but with oil price effects removed it is almost half that. The ECB claims to have no exchange rate target but has intervened several times in the foreign exchange markets since September and has increased interest rates to support the euro.

Of course, it is easier for international markets to understand the implications of the decisions of the US Fed, which has a single, powerful and respected leader at its head, than it is for them to comprehend the decisions arrived at by the 18 members of the ECB's governing council. These comprise representatives from the 12 participating national central banks as well as the 6-member Executive Council, who agree policy on interest rates and intervention by consensus rather than by majority vote. Unlike the Fed or the Bank of England, minutes of these meetings are not published but perhaps they would do more to undermine confidence if they were.

Ultimately, though, responsibility for the value of a currency lies with governments and their management of the economy. Again, in contrast to the US, the EU lacks a strong unified policy and strong leadership from the fiscal authorities. There is a common monetary policy but it impacts member countries differently. There is no common fiscal policy, though there are definite moves in this direction. The case of Ireland is an example of how the EU can get heavy-handed if a country wants to pursue a radically different fiscal policy from that of the core members. There is no consensus and thus no policy to introduce supply-side reforms, which are essential if Europe is to compete on the world stage in the new economy.

The new economy is defined by the technological advances that have facilitated instantaneous communications across the world, global finance and the efficient movement of goods and capital. In this environment, governments have a responsibility to ensure their economies can adapt quickly to change and competition. Protectionism will no longer provide protection. Moreover, the nature and role of money may well be altered too. Certainly, in such a global, transaction-led world, central bank intervention is an increasingly ineffective tool for supporting a currency. This can only achieved with clear political leadership and sound economic policies.

Lynette Swift

BOOK REVIEWS

Britain's Entry into the European Community: Report on the Negotiations of 1970–1972

By **Sir Con O'Neill,** Edited and with a Foreword by **Sir David Hannay,**
Frank Cass, ISBN 0-7146-5117-6, 464 + xxxi pp., £55

Reviewed by Lionel Bell

Sir Con O'Neill led the official negotiating team in support of the UK application for accession to the European Community. The application had been started by Harold Wilson's Labour government and pursued with enthusiasm by Edward Heath after the Conservatives were returned to power in 1970. This *Report*, until now preserved in exceptional secrecy, was compiled by Sir Con over a short period after the conclusion of negotiations in 1972. The first thing that has to be said of this book is that it is both in itself a formidable achievement and also a display of the mastery of a very wide-ranging and complex set of negotiations. Whether the author's great talents might have been put to better use is a question whose answer awaits the unfolding of the story, which is by no means concluded.

Some speculation is warranted about the government's reasons for not merely releasing the document for public examination in advance of the 30-year rule but actually publishing it. What could they have hoped to gain? There is no sign that they have achieved anything by it.

The *Report* is edited with a foreword by Sir David Hannay of the Foreign and Commonwealth Office, who served in the negotiating team. For those disinclined to work through over 400 dense pages, the foreword offers an admirable summary.

The negotiations essentially consisted in the meshing of an array of British commercial practices and agreements, including those with third parties, into the comparable, but very different, set developed by the EEC or Common Market. In both cases governments had made arrangements at the behest of some interest or other and the British objective was to mitigate as far as possible the damage that would be done to those interests by having to adopt EEC provisions. The British application was accompanied by applications from the Irish Republic, Denmark and Norway, which together formed the candidate countries.

However it may have appeared to the outside world at the time, this was not a negotiation of the usual kind, a search for permanent compromises between different positions. Understandably, the governments of the Six member countries, having painfully sorted out amongst themselves over a period of some fourteen years how the Community was to be run, were not about to go over this ground again for the benefit of suitors. The British knew and accepted that, if they were to get in, they would have to 'swallow the lot', the lot being the formidable body of Community law that has come to be known as the *acquis communautaire*. It was this negotiation for accession, being the first, which established 'swallowing the lot' as the principle to be followed for all future accessions. The negotiation was thus a complex technical exercise to try to delay the implementation of the most difficult provisions to afford new members time for adjustment. What was clear was that all parties were determined that the application should succeed – after all, anyone could have killed it off at any time. The British government's approach was that, while fighting their corner as hard as they could, they would surrender anything that would not bring about a domestic revolt, and there were issues that might have done just that.

For the Six the prize was access to the valuable British market and there was competition between them for it, which may explain why they spent more time in internal discussions than in facing the British. The power of veto held by each of the Six meant that their common position on any issue was generally that of the hardest member; the French were particularly adamant that British accession should not lead to any change in the Community's existing decisions and rules. Since the British goal was membership, membership and nothing but membership, it was not difficult for them to comply with the requirement of French President Georges Pompidou that they should now give European relations priority over interests in the rest of the world.

This is not the place to explore in detail most of the issues on which so much effort was expended, particularly as the passage of time has overtaken them, but there are some which have continuing relevance.

The threat posed to New Zealand's exports to the UK by the latter's accession to the EEC was a highly significant issue for the British negotiators. Had a satisfactory bargain not been struck for New Zealand, it was thought entry would not be acceptable to Parliament. While Canada and Australia had found other markets for their exports after the abortive negotiations of 1961–62, New Zealand had not, at any rate to the same extent, and was particularly dependent on the British market for its dairy produce. But the Community had a surplus of butter and cheese, which would become even greater with the accession of Denmark and the Irish Republic. Under normal Community arrangements this surplus would have found a home in Britain to the detriment of New Zealand, which had hitherto enjoyed some protection here. The conduct of negotiations on this issue, as on others, required all parties to produce, master and crawl back and forth over masses of historical statistics and forecasts and then to haggle. What was achieved, as much by the presentational skills of New Zealand as anything else, was, in Sir Con's view, more satisfactory than might have been expected. New Zealand secured continued access by way of quota to the British market and got it by way of derogation – not simply through a transitional arrangement of the kind that was the pattern in nearly every other area.

What the negotiators were very aware of was that this achievement had to be bought. The Community's price for treating New Zealand as a special case was a less favourable deal on Community finances; in other words, the British government got the threat to New Zealand off its back by an arrangement for which the bill would be presented later. The foreword by Sir David Hannay recognises that when the transitional arrangements to alleviate Britain's contribution to Community finance ran out the position was, because of the growth of Community spending, much worse than the Community itself had predicted. Painful negotiations ensued and even now the pain has not gone away.

The issue at the time was again one of transitional arrangements. Twelve years after the Treaty of Rome came into effect, i.e. at the end of 1969, the Six reached a general agreement on agricultural financing, an agreement that could not have been less welcome to the UK and one that their intended partners were not about to alter in its fundamentals – especially not France. It is clear that this agreement was for France a necessary precondition of even entertaining a British application; she refused to move ahead with negotiation until after ratification of the financing agreement was completed towards the end of 1970.

With more than 90% of Community spending being devoted to the Common Agricultural Policy, the Community's method of financing it, devised as it was by and for food exporters, was bound to create difficulties for a food importing country like the UK. That there would be these difficulties, in effect a further burden on the balance of payments, was accepted by the British government; their aim was simply to ensure that the initial burden was not too great and that its growth was delayed as far as possible. Meanwhile the country was to live in the hope that its financial problems would be abolished by the 'dynamic' of membership. Haggling was concentrated on the UK's percentage contribution to the Community budget, which was effectively a summation of all the elaborate statistical compilation and economic forecasting that occupied the officials of ten governments. The eventual outcome was a contribution of 8.64% in 1973 rising to 18.92% in 1977, inevitably a compromise between the opening positions on both sides, which were very far apart and have been set out with clarity by Sir Con. The difficulty presented to the British government by the burden it was being asked to accept as 'an act of faith' – to the benefit of the treasuries of the Six – led it to negotiate an 'escape hatch' to the effect that, if an unacceptable situation arose, an equitable solution would have to be sought. The path to Fontainebleau and Thatcherite handbagging was thus opened.

In one respect at least, the government's handling of the issue of fisheries was quite different from that of finance. In the latter case the problem was foreseen and elaborate preparations made. Fisheries were simply not conceived to be a problem. This was partly due to the infamous behaviour of the Six in producing a Common Fisheries Policy on the same day that the negotiations opened, following a refusal even to discuss the matter with candidate countries. The fundamental principle of the CFP – which thus became part of the *acquis communautaire* that Britain was obliged to accept – was common access. Since there was no reason for British fishermen to seek the right to fish in the coastal waters of the Six but their fishermen were clearly eager to get into British waters, Sir Con concludes that the main purpose of the CFP was access to British coastal waters and those of the other candidates. After all, their total fish catch was more than twice that of the Six.

The other reason for British neglect of the matter was that fishing accounted for no more than 0.1% of UK GDP. This, however, as he admits, was to underestimate to an enormous extent the passion that the issue was capable of arousing in the British people. A failure to respond to this mood could well have meant failure in the negotiations. The position was further complicated by conflicts of interest between the candidate countries and between British inshore and distant-water fishermen. The latter could see benefits in a policy that gave them access to waters from which they were currently excluded, particularly those of Norway, whereas the former could see nothing but an assault on their own grounds.

The issue thus became one of exclusive national access within limits of 6 or 12 miles. A significant tactical goal for the British government, and one in which it was successful, was to avoid discussion on fisheries in the Conference until it had secured a 'decision in principle' in favour of accession in Parliament. In the event these negotiations provided the one example of the Community being prepared to adjust its existing rules in the course of an application for accession, for the CFP provided for "access right up to the beaches". This concession could only have occurred because failure on fisheries could have resulted in complete failure; that Norway eventually voted against accession must be due, at least in part, to the importance the Norwegian people placed on retaining their 12 miles permanently.

The final agreement was reached only after bad-tempered all-night meetings. Essentially it amounted to 6-mile limits with an extensive set of 12-mile exceptions, each of which had to be fought over, with a 10-year review clause.

Fisheries, it might be added, also provides the one case in which the Editor departs from his normal enthusiasm for all things EU to offer some sharp criticism. He not only points to inadequate preparation and misjudgment on all sides, but also concludes that the CFP's common access not only created difficulties in the later Spanish and Portuguese accession negotiations but was also responsible for what is now an evident failure to conserve fisheries stocks.

By complete contrast with fisheries, there was one major area in which the Six would permit no abatement, even by way of transition, of its established policy. This was Community Preference in agriculture, a prize that the Six were unwilling to relinquish despite the best efforts of the British team, whose view was that this insistence went against the general principle of transition. The very high value placed on this system by France and the Netherlands as food exporters was reinforced by the similar opportunities it offered Denmark and the Irish Republic.

Finally, Sir Con poses the question of whether the negotiations could be regarded as successful and the rather strange way in which he does this reflects the oddity of the whole situation. On the one hand the negotiations were peripheral, in that the decision in favour of entry had already been taken, both in the UK and among the Six. All that was left was bargaining about details in which every party sought the best deal they could get short of killing off the whole enterprise. As long as it was not killed it could be described as a success. But on the other hand the deal would have been off it the terms eventually agreed, although they were almost wholly transitional, had failed to be

acceptable to any substantial body of domestic opinion. This applied to the Six as well as to the applicant countries. As it turned out, they did not prove to be unacceptable and in that sense also the negotiations were a success. As he points out, if Britain had simply accepted whatever terms were offered, a course supported by extremist Marketeers, entry would have failed the domestic test.

But there is another sense of success, in which entry was not an end in itself but was sought in order to achieve results. Given the background to the negotiations, it is unsurprising that the *Report* throws little light on the purpose of this exercise, the reasons why all this effort, expense and risk were thought to be worthwhile. Sir Con himself was satisfied at the time that, with the exception of fisheries, all had been done that might have been done and that Britain could go forward to make a success of being in the Community. This is different from saying that the restoration of Britain's position at the centre of European affairs defines success, a proposition which evidently became the departmental view of the Foreign Office.

Nowadays, when nearly all the detail it covers so comprehensively has been overtaken, does the *Report* have any contemporary value, beyond noting the way in which current disputes have old roots or parallels? In the first place, those who wish to get an idea of what it is like to operate within the EU system could do worse than to begin their behavioural studies with this volume. Then there is the fact that the complexity and range of the negotiations bear witness to the disposition of governments to enter into arrangements for the projection of special interests, piling them on top of one another with the consequence that unpicking and replacing them is a Herculean task, to be undertaken only in pursuit of some compelling prize. This is something that should be borne in mind when contemplating extrication from EU entanglement. It will surely be necessary to mitigate the damage that could be suffered by individuals, enterprises and industries if arrangements on which they have relied are suddenly withdrawn. Where the UK has benefited, or otherwise, from agreements made between the EU and other countries, such as the free trade agreement with Mexico, replacements will call for careful consideration and negotiation. This is by no means to suggest that the task will be as difficult and demanding as that of 1970–72 and certainly does not imply that the difficulties rule out wholehearted commitment to the goal. But it should not be sought in the light-minded fashion of some Marketeers all those years ago.

Lionel Bell is Vice-Chairman of the Campaign for an Independent Britain and Secretary of the Anti-Maasticht Alliance. He is the author of The throw that failed: Britain's 1961 application to join the Common Market.

CAP: A Catalogue of Failure.

The need for radical reform.

By **Ruth Lea**, Institute of Directors, Research Paper, 2000, 37 pp., £5

Reviewed by Allister Heath

Nothing ever seems to go right for the countryside. Already reeling from an onslaught of 'health and safety' regulations and from the ravages of BSE, to be thrust head first into a nightmarish foot and mouth epidemic was the last thing Britain's dwindling band of farmers needed. At the time of writing, the countryside seemed dangerously close to spiraling out of control. To add insult to injury, the radical reform of the Common Agricultural Policy we were promised would form the heart of the Nice Treaty never materialised. Although the CAP is the major obstacle delaying the accession of Eastern European post-communist states, the French presidency vetoed reform at the Inter-governmental Conference held in Nice in December 2000. As ever, President Jacques Chirac went along with the demands of his powerful agricultural lobby, which has benefited immensely from EU subsidies paid for by the British and German taxpayer.

That the CAP has been an unmitigated disaster ever since its launch in 1962 is hardly news, but it needs repeating over and over again. This is especially true at a time when farmers are turning in desperation to the EU for salvation – despite everything, some see Europe as their last chance. The CAP's deadly combination of economic illiteracy and bureaucratic inefficiency is symptomatic of everything that is wrong with the European Union. Ruth Lea, the Institute of Directors' Head of Policy, cogently argues that the CAP has done very little to help farmers and to sustain rural communities. EU output-contingent subsidies have the unintended consequence of reducing the prices of agricultural commodities – the supply of food increases whereas demand remains constant. In addition, the CAP rewards those farmers who are already the most successful and the most efficient. It is truly a case of 'subsidies subsidise success'.

Ruth Lea demonstrates how the CAP has failed in nine out of ten of its stated objectives. Its promise to ensure a "fair standard of living" for farmers is a case in point. According to figures from Deloitte and Touche cited by the author, net farm income has dropped from a national average of £363 per hectare in 1995–96 to an average of £41 in 1999–2000. For 2000–2001, the management consultancy predicts a loss of £22 per hectare, a damning indictment of the CAP if ever there were one. The EU's agricultural policies have also failed to "maintain the maximum number of farmers on the land and preserve rural communities", to "preserve the countryside and the environment", to "avoid the build-up of food mountains" and, last but by no means least, they have not maintained good international trading relations.

Consumers as well as taxpayers have suffered from the CAP. As Ruth Lea rightly points out, food prices in the UK are substantially higher than those prevalent on the global free market. This is caused by the CAP's 'high food price' policy and by the EU's reliance on a protectionist customs union. A combination of higher taxes and artificially inflated prices mean that the CAP costs every man, woman and child resident in the UK an average of £250 per year. The poor are hit the hardest – as they were during the infamous Corn Laws of the nineteenth century.

In 1998, the CAP's £27 billion budget still accounted for approximately 49% of total EU spending. The failure to do anything about the CAP at Nice means that very little is set to change in the next few years. According to a study released in 2000 by Consumers in Europe Group and referred to in the text, CAP spending by 2006 is actually forecast to rise in absolute terms and to absorb up to 46% of the EU budget. More and more money is being spent on fewer and fewer farmers and with worse and worse results.

CAP: a catalogue of failure includes three very useful annexes: a CAP timeline, a glossary of the many nebulous acronyms used by agricultural bureaucrats and a detailed breakdown of British government spending on farming subsidies. Ruth Lea has produced an admirable primer on the EU's disastrous venture into agriculture. Her pamphlet is chock-a-block with useful statistics and is to be recommended to all those interested in the problems of the countryside and in the broader European question.

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

The Bow Group: A History

By **James Barr**, Politico's, 2001, ISBN 1-84275-001-1, 248 pp., £25.00

Reviewed by Matthew Elliott

"How have this country's avid Tory apprentices spent their time between their days in the Union at university and their arrival in the House of Commons?" Many young Conservatives joined the Young Conservatives; but for those who found the YCs "too pedestrian an organisation", the Bow Group was once an attractive alternative. As one of its Founding Fathers acidly wrote, the Bow Group was "conceived for the Young Conservatives who could both read and write".

And read and write they did. Between 1950 and 2000 the Bow Group published well over a hundred editions of their occasional journal, *Crossbow*, and 470 pamphlets on subjects ranging from *A* (Accounting) to *Z* (Zimbabwe). In the 1950s and 1960s the Group was undoubtedly the intellectual powerhouse of the Conservative Party. Now, with the establishment of groups like the Centre for Policy Studies and Politeia, it is merely one voice among many in the battle of ideas.

The question I had at the back of my mind when reading James Barr's *The Bow Group: A History* was: What about *E* (Europe)? Mentioning the Bow Group in Eurorealist circles usually triggers one of three responses: (a) lengthy sighs and rolling eyes; (b) hefty groans and shaking heads; or (c) the statement, "Aren't they pro-European?" The answer, as an eager graduate writing for the Bow Group might say, is: 'Yes and no'.

Like many similar groups across the political spectrum, the Bow Group has 'no corporate policy'. Its constitution states that whilst "1. The Bow Group shall consist of persons of Conservative views. … 3. The Group as a whole shall have no collective policy." Therefore, in theory, the Group has never held an official position on the European question, but in practice it has oscillated from being a strong supporter to allowing a more balanced debate depending on the views of its officers. As James Barr writes: "Although the opinions of its members are as varied as they are numerous, individual Chairmen and Editors of *Crossbow* have been able on many occasions to promote particular views with impact, particularly because they appear to have the endorsement of the Group as a whole. Moreover, with changes in the Group's personnel, these changes could occur extremely rapidly" (p. 229).

The power of its officers and its oscillation on the European question can be seen in the Bow Group's response to three key stages of Britain's membership of the European Union: (a) the first, unsuccessful application in 1962; (b) the second, successful application in 1972; and (c) the single currency debate in the early 1990s.

Harold Macmillan's bid to join the European Economic Community in 1962 was publicly supported by the then Chairman of the Bow Group, David (now Lord) Howell. Although this arguably contravened its 'no corporate policy' position, the important point is that the Group was prepared to publish both sides of the argument. Supporting entry was a pamphlet by Russell Lewis (who would later serve as Director of the European Foundation) entitled *Britain into Europe,* which argued that membership would "free up capital and labour". Opposing entry was a special supplement to the July 1962 edition of *Crossbow,* which covered the "problems of great constitutional importance" associated with membership. The Group therefore encouraged a balanced debate in the run-up to Britain's first, unsuccessful application to join the EEC.

Edward Heath's successful application in 1972 was also publicly supported by two successive Bow Group Chairmen: Michael Howard (who was in charge in 1970–1) and Norman (now Lord) Lamont (1971–2). Under their leadership, the Group followed the Conservative Party's request "to do everything to help with the promotion of Britain's entry into the Common Market" (Bow Group Council minutes, 11 January 1971). The ties between the European Movement (EM) and the Group began in 1970 with the appointment of the Chairman of the EM as a patron of the Bow Group. These links flourished in 1971 when the EM sponsored the Group's Spring Conference and agreed to fund up to three pamphlets a year in return for the Group circulating the new quarterly *Federalist* among members.

This breach of the 'no corporate view' was also reflected in the Bow Group's publications from this time. Whereas in 1962 the Group encouraged a balanced debate on the European question, in 1971 there was no such debate. The 1971 pamphlet advocating entry, *Our Future in Europe*, was not balanced by any similar publication opposing entry. Furthermore, it was published anonymously, suggesting that the Group as a whole supported membership of the EC. This breach of the 'no corporate view' was compounded by *Crossbow*'s strong support for entry. Its Editor at the time, Christopher Bland, is now Chairman of the BBC Governors. In the early 1970s, the Bow Group was undoubtedly a strong supporter of the European project rather than the initiator of a balanced debate.

In the late 1980s, with the growing debate surrounding the Single Market and '1992', the Bow Group renewed its focus on the European question. In 1989, the Group's

European Standing Committee was resurrected, with pro-European MPs David Fishburn and Ian Taylor as chairman and vice-chairman respectively. As James Barr acknowledges, the politicians invited by the committee – Tristan (now Lord) Garel-Jones, Edward Heath, Lord Cockfield and others – give some idea of its collective political outlook.

However, the Bow Group did have a more balanced approach in its publications at this time. In the Autumn 1989 edition of *Crossbow*, Dr Lutz Stavenhagen and Professor David Regan debated the arguments for and against a federal Europe. In June 1990, the Group published a pamphlet by Bill Cash outlining *A democratic way to European Unity: arguments against federalism.* Later that year, at the Conservative Party conference, Geoffrey (now Lord) Howe spoke in favour of Economic and Monetary Union at the Bow Group fringe meeting. Barr points out that "because the BG had no corporate view, it became … the battleground of competing ideologies. And the Group again found itself in demand as a platform for political opponents within the same Party' (pp 211-212). Once again, the Group became a forum for debating the European question, rather than simply for promoting the European idea.

The only criticisms I would make of *The Bow Group: A History* relate to the Appendices. First, the period of October 1994 to January 2001 is omitted from the list of "Editors of *Crossbow* 1957-2001". Second, the complete list of "Pamphlets 1952–2000" mentioned as Appendix II in the Bibliography is missing from the book. These are minor mistakes. James Barr has produced a meticulously researched and elegantly written history of the Bow Group. This is a book for all serious scholars of the post war Conservative Party.

Matthew Elliott is researching the history of Euroscepticism in the Conservative Party.

Lessons for EMU from the History of Monetary Unions

By **Michael Bordo** and **Lars Jonung**

Institute of Economic Affairs, Readings 50, 2000, ISBN 0-255 36428-8, 72pp., £8

Reviewed by Dr Brian Hindley

The euro attracts so much attention that it is easy to forget that there have been other experiences with monetary unions. The authors of this interesting and useful pamphlet discuss these earlier experiences and try to draw lessons from them. Six distinguished economists, holding between them views that span the spectrum, provide commentaries. No other publication on EMU of this length can match the information and argument provided by this IEA contribution.

One of the lessons offered by Bordo and Jonung (hereafter B&J) is that:

"*The EMU project appears to be unique among monetary unions. We have found no clear and unambiguous historical precedents for EMU – where a group of monetarily and politically independent countries have surrendered their national currencies to form a common monetary union based on a new unit of account under the leadership of a common monetary authority, while still retaining political independence.*" (p.35)

The specifics of European history provide a partial explanation of why EMU came first in the march to federation. The first element is the French desire to maintain the franc at a fixed value in terms of the Deutsch Mark, but also to have some control over their monetary destiny, which the fixed exchange rate left in the hands of the Bundesbank. The Bundesbank, though, was never going to pay more than token heed to French interests. So the French developed the idea of replacing the Bundesbank with a European central bank – a project that required German co-operation. German re-unification gave the French their chance to obtain that. The French gave up their opposition to re-unification and the Germans agreed to a European central bank, in which the French could play a major role.

The appearance of monetary unification before political unification, however, also shares characteristics with other EU initiatives. One of these is that whenever possible, initiatives are presented as 'merely technical'. The advantage of this, for advocates of 'Europe', is that it minimises political discussion. Technical discussion is difficult for outsiders to penetrate: a debate that seems to turn largely on technical economic issues excludes many intelligent and interested observers.

Were European electorates asked whether they want political unification, several of them would almost certainly say 'No' – and might cut up rough if unification went ahead without their consent. So, rather than put that question, integrationist continental leaders chose the 'technical' issues involved in the euro. They would, they thought, find a way to political unification afterwards, helped by the 'needs' of the euro. The 'theories' that purport to explain the depreciation of the euro must be seen in this light. On the continent, for example, the depreciation is widely asserted to be a consequence of political disunity in Euroland (that is, national governments that still manifest some independence). The assertion has no basis in historical experience or economic analysis – but, if accepted, implies that the euro ('our currency') can be strong only if Euroland is politically integrated.

It is not only continental politicians that use such tactics, of course. The present British government, and its 'five economic tests', offers a home-grown example.

Economic tests might be acceptable if the issue were 'when' and not 'whether'. Even on the issue of 'when' however, Mr Brown's tests are dangerously incomplete. The Maastricht treaty requires the exchange rate between the pound and the euro to be stable for two years before Britain adopts the euro. The purpose of that condition is to avoid adoption at a wrong exchange rate, which may have disastrous consequences, as happened to Britain after 1990, when we entered the ERM (exchange rate mechanism) at an exchange rate that was too high.

Mr Brown insists that it is not necessary for Britain to pass this test. But the pertinent fact about 1990, in this context, is that precious few voices warned that we were entering at the wrong exchange rate. Everyone knew this in 1992: almost nobody noticed in 1990. Supporters of entry, including many of those who now urge

abandonment of the pound, clearly thought that the entry rate raised no problem.

The lesson is that it is very difficult to know whether an exchange rate chosen after a long period of free floating is the right one. Supporters of the euro, who before its launch engaged in grand discussions about whether it would appreciate by a lot or a little, and about the date at which it would overtake the dollar as an international reserve currency, may see the point.

To join the euro at a wrong rate would lead to an even greater disaster than 1992. The second lesson B&J draw from history is that:

"*Joining EMU should be regarded as a permanent step for any Europe country. It would most likely be a cumbersome process to re-establish monetary independence once it has been relinquished ….*" (p.36)

A better test than all of Mr Brown's five put together, therefore, is whether the British economy can live with the chosen exchange rate. And there is no better way of performing that test than by actually using the chosen rate for a couple of years in the ERM, thereby preserving the possibility of changing it.

It will, of course, be difficult to persuade the British electorate to re-enter the ERM; and Mr Brown's pride might take a blow were we forced to do so. But Mr Brown's pride is surely something we should be willing to sacrifice, when the alternative is to live forever with the adverse consequences of a badly chosen rate.

The story that the single currency is simply a step in the construction of the single market is another attempt to present the single currency as a merely technical matter. It is a ludicrous proposition. The single market is vitally incomplete – in financial services, for example. A genuine concern with the single market would lead to an effort to patch the gaping holes in it, not to a single currency. In the whole of the vast economic literature dealing with preferential trading arrangements, there is no suggestion that a single currency is necessary to reap the benefits. No other regional trading arrangement is making any serious movement towards adoption of a single currency. Until very recently, no one had claimed to have evidence showing that a single currency has substantial effects on the trade of participants with one another. Europhiles have recently been excited by claims that currency unions increase the trade between participants by 300 per cent.[1]

This is not the place to discuss the technical issues involved. Frankel and Rose themselves note, however, that "*… there have been quite a few empirical studies of the effect of exchange rate volatility on both trade and investment; most find small or negligible effects.*" But if the cross section effect is as large as they suggest, failure to detect it in time series is odd and calls for explanation.

Frankel and Rose's results are largely based on the trade of countries that are small and poor, but that are involved in relationships with metropolitan countries that entail much more than a currency union (for example, the Falkland Islands and St Helena with the UK and French Guiana with France). Before ascribing the observed effect to the currency union, it would be useful to know something more about the rest of the relationship.

Finally, there is a possibility of causation that is the reverse of that claimed by Frankel and Rose. Some countries may adopt the currency of another *because* their mutual trade is large. Thus, Panama (whose trade, much of it based upon the Panama canal, in any event seems *sui generis*), adopts the US dollar.

None of this is to denigrate the Frankel and Rose research finding, which is interesting. But that is all it is – an interesting research finding. It is not yet 'strong evidence' that currency unions have large effects on trade.

An issue that is important in the British debate, but on which history has little to say is whether a monetary union leads to harmonisation of other aspects of economic policy, such as, for example, rates of tax. B & J discuss three cases – the US, Germany and Italy – in which monetary union preceded the creation of a new nation. In such a case, of course, monetary union is likely to be accompanied by some degree of tax harmonisation (though in the US, for example, taxes vary between states). British advocates of the single currency insist, though, that adoption of the euro has no implications for other matters, political or economic. Combined with the unique timing of the euro, this raises the question of how the euro will affect the different national tax structures in Euroland, even in the absence of political union.

The issue is whether adoption of a single currency creates a situation in which the actions of one member government have an impact on other members that those actions would not have in the absence of the single currency. An increase in the budget deficit of a large member country, for example, might affect Euroland rates of interest and the external value of the euro, and might impact on other members through those routes. A case for central control over the budget deficits of members of a single currency can therefore be made. But to extend that case to rates or levels of taxation and public expenditure is difficult. As a matter of economic logic, the euro-based case for further harmonisation is limited.

That is not to say, of course, that pressures for further harmonisation in the name of the euro will not appear. One of my favourite quotations in this context is from pamphlet of Helmut Kohl's party, the Christian Democratic Union:

"*… stated for the first time that monetary union was aimed at 'a radical restructuring and modernisation of Europe's economies.*'"[2]

"*The paper cast EMU in the role of disciplinary agent on national governments rather than a vague guarantor of peace and freedom. The Maastricht treaty, it said, was designed to break the vicious circle of rising unemployment and the growing strain of the public finances. Monetary union, it went on, offered a way forward to combat deficiencies such as excessively regulated labour markets, high and complex taxation, outdated education and training systems, imbalances in the old age pension system and the continuing rise in health case costs.*"

There is no economic logic in this. Solutions to the problems mentioned are not in any way linked to the euro: one might as well argue that the euro will reduce juvenile crime. The statement owes more to hysteria than to economics or common sense. But it probably represents the pressures that the euro will create more accurately than assessments based on either of these qualities.

1 See, for example, Jeffrey A. Frankel and Andrew Rose, "An estimate of the effect of Currency Unions and Boards on trade and output" (available at www.haas.berkeley.edu).
2 See the reported statement in the *Financial Times*, 22 September 1997

Dr Brian Hindley lectures on international economics at the London School of Economics, where he is Emeritus Reader in Trade Policy Economics, and at the Amsterdam Law School where he is a visiting professor. He is co-Chairman of the Bruges Group.

Spain and Italy Pioneer a "Common Area of Security and Justice"

by StateWatch

Spain and Italy have taken the lead in EU plans to create a 'European area of justice' stemming from the Tampere Summit in October 1999, after signing agreements regarding extradition procedures and judicial co-operation.[1] A bilateral "Protocol on Extradition" signed by Spain's Justice Minister Angel Acebes and his Italian counterpart Piero Fassino on 20 July 2000 led to the establishment of a joint working group for the development of a "common area of freedom, security and justice".[2] It first met on 26 and 27 October 2000 to draft an agreement to abolish extradition procedures between the two countries, replacing them with administrative transfers. On 28 November 2000 the resulting Treaty, signed in Rome, covers "the pursuit of serious crime by superseding extradition within a common area of justice" for offences including terrorism, drug trafficking, people trafficking, arms dealing and sexual abuse of minors.[3] It will apply to offences carrying a maximum prison sentence of no less than four years, affecting persons who have been sentenced or who are subject to measures limiting their personal freedom.

Apart from replacing extradition procedures with administrative transfers, the Treaty signed by the Ministers also covers the mutual recognition of criminal judgements, formal procedures for requesting custody, demanding arrests and the transfer of persons facing judicial sentences or proceedings, and for dealing with extradition requests from third countries. The only valid reasons for refusal by authorities in the requested country to hand over suspected or convicted criminals are a) inadequate documentation relating to the extradition request and b) cases in which the object of the request is granted immunity by legislation in the 'requested state'. If the person requested for custody is serving a custodial sentence or is undergoing criminal proceedings in the requested country, the transfer is postponed to their completion.

Spain and Italy will exchange liaison magistrates to oversee the implementation of the provisions in the Treaty after ratification by both countries. The documentation which must be attached to extradition requests includes "a brief account describing the [relevant] criminal events", the judicial classification of these, an outline of the applicable criminal legislation, of expected sentences, length of time required to ascertain events, and available information which is useful for the identification (and arrest) of suspects. A certified copy of the relevant judicial order must also be included. The Italian Justice ministry claimed the Treaty will "place Italy and Spain in a position as pioneers of a kind of 'strengthened co-operation' between members of the European Union". This co-operation is explicitly aimed at eliminating obstacles which "may give rise to areas of impunity" in different national territories, resulting from differences in legislation. This would remove the 'dual criminality' rule,[4] whereby requests for assistance are subject to events constituting an offence in the requested state's legislation, in the instances affected by the Treaty.

By converting extradition procedures into administrative transfers, and introducing the principle of mutual recognition, judicial scrutiny of decisions will inevitably be reduced

By converting extradition procedures into administrative transfers, and introducing the principle of mutual recognition, judicial scrutiny of decisions will inevitably be reduced. The grounds for refusal of an extradition request are strictly limited and the power of judicial authorities in requested countries to review decisions will decrease. The impetus for enhanced judicial co-operation was provided by a lengthy controversy over members of Italian organised crime syndicates living in Spain. Italian international arrest warrants and extradition requests were left unattended in cases where sentences were passed after judgements made *in absentia*. These were not recognised by the Spanish Constitutional Court, prompting accusations that Spain was becoming a haven for Mafiosi. The Constitutional Court had ruled in the case of Mafia boss Giovanni Greco that judgements passed *in absentia* infringe defence rights[5] as failure to attend a trial should not be interpreted as a defendant voluntarily waiving his right to a proper defence, "because the appearance of the accused normally results in his/her arrest".

Third pillar agreements at an EU level and the Spanish government's ongoing pursuit of international co-operation to secure the extradition of people linked to Basque separatist armed group ETA were likely motives behind Spain accepting Italy's argument in favour of *in absentia* trials. Based on the 1979 "Additional Protocol of the European Convention on Extradition", Italy claimed that defence rights are respected if the accused are defended by lawyers of their choice, thereby justifying extradition. Spain's acceptance of orders issued following judgements passed *in absentia* was the main development featured in the July Protocol on Extradition, alongside plans for fast-track extradition procedures, and a statement by the two countries of mutual confidence and trust in each other's legal systems.

Fair Trials Abroad (FTA), a legal rights group concerned with the treatment of persons in foreign jurisdictions, has stressed that discussions on a European legal space represent a "serious threat" unless a "twin-track" approach is developed to ensure equal weight is given to the fight against crime and the protection of individuals' civil liberties.[6] Concerns include the disproportionate numbers of foreign prisoners in remand across the EU: FTA argued in 1995 that up to half of these would not be imprisoned in their own countries. FTA criticised the Tampere Conference's decision to press ahead with plans for fast-track extradition "without attention drawn to the iniquitous discrimination inherent in current provisions for provisional liberty for foreigners".

FTA also reported a short-list produced in 1998 by the Council of Europe, highlighting problems in national jurisdictions which require improvement.[7] These included political interference in the administration of justice, corruption, a shortage of resources, delays, prosecution being too close to the judiciary, racism and xenophobia. FTA singled out Spain (alongside Portugal, Greece and Belgium) as one of the EU countries whose judicial standards caused most concern. Major problems were noted in the field of access to justice, including a lack of funds for persons on trial to obtain legal advice and assistance, and poor standards of interpreting and translation. FTA also labelled the *in absentia* trials which take place in Italy as "an anachronism". Furthermore, legal reforms are being introduced in Spain to combat terrorism[8] have important implications on civil liberties and will fall within the scope of the Treaty between Spain and Italy. They are aimed at treating minors as adults in cases related to terrorism, and expanding the definition of "terrorism" to include "justifying terrorism" (*apologia*) and street violence (*kale borroka*).

1 *Statewatch* Bulletin 9 (3&4, 5).

2 *Mutual Recognition of final decisions in criminal matters: response to the communication from the Commission to the Council and the European Parliament, ref: COM(2000) 495 final* dated 26 July 2000. See also *Statewatch* Bulletin, 10 (5).

3 *Trattato tra la Repubblica Italiana ed il Regno di Spagna per il perseguimento di gravi reati attraverso il superamento dell'estradizione in uno spazio di giustizia* (Treaty between the Italian Republic and the Kingdom of Spain for the pursuit of serious crime through the superseding of extradition in a common area of justice), 28 November 2000. See also the Italian Justice Ministry press statement, 28 October 2000 and the Spanish Justice Ministry press statement, 28 November 2000.

4 *The mutual recognition of criminal judgements in the EU: will the free movement of prosecutions create barriers to genuine criminal justice?, Statewatch* news online, June 2000 (available at www.statewatch.org/news/jun00/05mutual.htm)

5 *Statewatch* Bulletin 10 (5)

6 See various publications by Fair Trials Abroad including *A Genuine European Area of Justice, The Tampere Scoreboard and Civil Liberties; and Tampere Conference Leaves Citizens at Risk,* 10 January 2001.

7 See the June 2000 *StateWatch* news online at www.StateWatch.org/news/jun00/05mutual.htm

8 *Statewatch* Bulletin 10 (5)

StateWatch monitors civil liberties in the European Union. Its website is www.StateWatch.org

Should Euro-Sceptics Support Enlargement?

by Daniel Hannan, MEP

What does the phrase 'Eastward enlargement' conjure up in your mind? The struggles of long-oppressed peoples battling to rejoin the capitalist world? An end to Trabis and bread queues? The dismantling of command economies, the selling-off of state industries, the lowering of trade barriers?

That, more or less, is what it used to mean to me. Then, in 1999, I joined the European Parliament committee responsible for monitoring Estonia's membership application. As I started studying the reports, I discovered to my astonishment that, far from being bent under the baggage of its socialist past, Estonia had in fact long since overtaken the existing members of the EU.

Under a young, Thatcherite leadership, the Baltic state had swept away all its tariffs, abolished state subsidies and introduced a free market even into agriculture. A major package of fiscal reforms last year saw the effective abolition of corporation tax and the introduction of a 27 per cent flat-rate income tax.

All of which, perhaps not surprisingly, fills the Eurocrats with ill-concealed loathing. As they see it, Estonia is returning to the Dickensian social model that the EU has spent the past forty years trying to eliminate. How can they possibly admit a country whose workers are allowed to sign whatever contracts they please, without the mandatory 'protection' of the Social Chapter? How can the Common Agricultural Policy survive the admission of subsidy-free farmers?

Over the past two years, I have watched in amazement as a post-Soviet state is ordered by Brussels to re-erect its tariffs, reintroduce its subsidies and re-collectivise its agriculture so as to be corporatist enough to qualify for EU membership.

Estonia is an extreme case. But all the applicant states have similar stories to tell. I remember a furious Hungarian trade negotiator once telling me that he couldn't bear being lectured about economic liberalisation at a time when the EU was imposing stricter quotas on Hungarian exports than during the Cold War. In the Czech Republic, Vaclav Klaus has famously complained that every time he wants to repeal some Soviet-era law, he is told that that law, or one very like it, forms part of the EU's *acquis communautaire*.

The truth is that the Central and Eastern European countries depend, above all, on the ability to price themselves into the market. With the advantages of a competitive exchange rate and relatively cheap labour, they could reasonably hope, in time, to catch up economically with the West. But joining the EU also means joining the euro, the 48-hour week, the Employment Chapter and the rest of it. Why, then, are these countries even contemplating such a step?

"It's true that joining the EU will make us poorer", an Estonian MP told me. "But what else can we do? The last time the Red Army marched into Tallinn, you people just sat on your hands."

Her words have been churning around in my mind ever since. I have always been in favour of enlargement largely on grounds of historical obligation. At Yalta, we allowed a number of ancient European kingdoms to fall to Communist tyranny. It is a wrong for which we can never truly make restitution. But, I reasoned, if these states now wanted to join the EU, the very least we could do was to ease their path.

That is an argument that still weighs heavily with me. But I increasingly find myself wondering whether we are really offering them a fair deal. By insisting that they apply every dot and comma of the acquis communautaire, we are condemning them to a condition of semi-permanent penury. True, they will be given some structural funds in compensation; but these can never make up for the loss of their

competitive advantage. Indeed, if the recent history of the EU teaches us anything, it is that structural funds become precisely that: structural. They may have been intended as a short-term grant to level up the poorer regions but, as a glance at the economies of Greece or southern Italy shows, they soon trap regions into a state of permanent dependency.

We are presenting the applicant nations with a grim choice: either to be left shivering on the doorstep of a protectionist customs union, or to become a kind of East European Mezzogiorno.

Surely there must be a better way. Couldn't these countries be allowed to join the single market, while retaining control over domestic policies? Couldn't they sign up to the EU's Four Freedoms (free movement, that is, of goods, services, people and capital), while hanging on to, say, their own fishing grounds, or criminal justice systems, or employment laws?

There was a time when even the European Commission seemed to be considering this option. At the beginning of the 1990s, there was much talk of offering some kind of associate membership to the applicant states, whereby they would accept the corpus of single market legislation without the flanking political measures. But such talk has now been dropped, for one reason: the Commission realised that, if such a dispensation were offered to the new members, it would be impossible to withhold it from the existing ones. Partial enlargement on such a model would lead to Britain, Denmark and perhaps some of the other countries pressing for the repatriation of powers. This, it was felt, would betray Jean Monnet's guiding principle that Europe must move as a bloc, and that powers once ceded to Brussels should never be returned.

I have watched in amazement as a post-Soviet state is ordered by Brussels to re-erect its tariffs, reintroduce its subsidies and re-collectivise its agriculture so as to be corporatist enough to qualify for EU membership

Robin Cook likes to point out that none of the applicant states has asked for such a deal. Well of course they haven't: they know it's not on offer. Having decided that full membership is a lesser evil than complete isolation, they are reluctant to imperil their applications by demanding opt-outs before they have even joined. Privately, however, they tell a different story.

"If we were offered the common market, plus NATO, we would jump at it", a Romanian government negotiator told me. "But if the only choice is Europe or Asia, we have to choose Europe."

Eleven years ago, the West watched in awe as the applicant states threw off Soviet tyranny. The revolutions of 1989 were based on three principles: democracy, freedom and national independence. Democracy, meaning not just the right periodically to mark a ballot paper, but the right to have your laws made by elected representatives, not unaccountable bureaucracies. Freedom: the ability to live your life without being trammelled by pettifogging government regulations. And national independence: the vocation of every people to live within their own state.w

Eleven years on, the EU threatens, to a greater or lesser extent, to erode all three of these principles. Surely Eastern Europe deserves better.

Daniel Hannan is a Conservative MEP for South East England and Sunday Telegraph *columnist.*

Advertisement for
Politeia – a forum for social and economic thinking
22 Charing Cross Road, London WC2H 0HR,
info@politeia.co.uk, www.politeia.co.uk

The Cost of Europe

by Nicholas Boys Smith

About eight years ago the British left finally realised the impossibility of re-nationalisation, large direct tax increases or a complete reversal of the 1980s supply side reforms. This left only regulation and indirect taxation in their armoury. This article argues that the European Union has been responsible for a significant proportion of new regulatory costs.

Three regulatory innovations have been introduced by the EU under Chapters and Agreements signed up to before May 1997. Their total estimated cost is £3.2 billion per year by 2001. By far the most significant is the Working Time Directive, followed by the Data Protection Directive. (Table I)

In addition, since 1997 the government has chosen to impose the following six EU directives on the British by signing up to the Social Chapter. Their costs are lighter. (Table II)

The current UK government has also been responsible for 'gold-plating' significant proportions of EU legislation. 'Gold-plating' means defining EU requirements more strictly than is required by their letter. Commentators have found it hard to disentangle examples of 'gold-plating' as the UK legislation does not advertise where the UK government has gone further than strictly necessary. Two examples, however, are the loss of the opt-out for small companies under the Parental Leave Directive and the increased degree of bureaucracy required to implement the Part Time Workers Directive in the UK; companies have to provide written statements of 'justification for less favourable treatment' when an employee claims to have been discriminated against. This was not required in the original Part Time Workers Directive[4].

The annual split between the UK government and the EU as the source of additional business costs since 1997 is shown in Table 3.

Despite the very significant impact of the Working Time Directive, the UK government has still imposed over five times as many costs upon British business as the EU.

Table I

Cost to Business of Regulation agreed to before May 1997:[1] Annual Cost in 2001

	£m
Working Time Directive	£2,300
Fire Precautions	£21
Data Protection	£909
Total	£3,230

Table II

Cost to Business of Regulation agreed to after May 1997:[2] Annual Cost in 2001

	£m
Parental Leave	£62
Time off for Domestic Disputes	£10
Part Time Workers	£27
Fixed Term Work	N/A
European Workers Councils	£3
Total	£102

Table III

Source of Regulatory or Fiscal Cost to Business:[3] Total Cost by May 2001 and Percentage of Total

	£bn	%
UK government tax	£26.9	68%
UK government – regulatory & other	£6.0	15%
EU directives agreed to since 1997	£0.1	1%
EU directives prior to 1997	£6.5	16%
Total	£39.5	100%

1 Author's calculations.
2 *Ibid.*
3 *Ibid.*
4 *Cutting through Red Tape*, London: Confederation of British Industry, 2000, p. xvii.

Nicholas Boys Smith was a scholar of Peterhouse, Cambridge where he took a double first in history, was president of the Union and went on to be the Matthew Wren Research Student. He now works for McKinsey & Company. This article is based on his book No Third Way: Interfering Government *and its cost to business (2001) available for £7 from Politeia, 22 Charing Cross Road, London WC2H 0HR. Tel: 020 7240 5070; Fax: 020 7240 5095; info@politeia.co.uk; www.politeia.co.uk*

Advertisement for
Bruges Group Meeting
On Wednesday, April 4th, 2001
at the Abbey Centre, 34 Great Smith Street, Westminster, London, SW1

Advertisement for
Bruges Group Meeting
Tuesday, 15th May, 2001
at the Westbury Hotel, Conduit Street, Mayfair, London, W1

CHUNNEL VISION

The Fundamental A to Z of Federalist Flim-Flam

by Dr Lee Rotherham

Taken a wrong turn at Waterloo and found yourself on the Eurostar by mistake? Fear not. Make the most of the experience as you speed through Kent at twelve miles an hour. Blend in with the habitual gravy trainers, and permit yourself a wander around the capital of Europe, safe in the knowledge that our handy guide will protect you from being identified as an outsider, tourist or one of the riff raff and hoy polloy who come to demonstrate and/or riot at EU policies.

Sip coffee in one of the EC institutions with the eurocrats, betraying no hint of confusion as they talk Eurojargon. Simply cross check their banter with our A to Z and laugh those riot policemen away with your *sang-froid* and *savoir-faire*.

A is for Azerty. Qwerty keyboard for French nationalists, designed to ruin the lives of the inattentive speedy typist.

B BBC. Reportedly biased media organisation. Head of European Affairs, Chris Bryant, recently stood down to fight his second seat as a Labour Prospective Parliamentary Candidate.

C Common Fisheries Policy. Attempt to repeat the miracles by the Sea of Galilee in reverse. Austria, with no North Sea port to its name since the Hapsburgs, has had to content itself with a *soirée* for 'Styrian Fishes for the European Parliament', with artist Christian 'Motor' Polansek and buffet in attendance.

D *Dentistes sans frontières.* Motto: "Love Health Peace". Medical guerrilla force from the Internationale of Moral Oral Hygienists.

E EP. (i) European Parliament (ii) Noise made by stagiaires on seeing restaurant bills in Strasbourg.

F Freemasons. New addition to the lobby world, with their multilingual 'White Book of the Lay'. MEPs are clearly not important enough to actually get recruited into their ranks.

G God. Frequently sends e-mails to MEPs asking for support, via friends of the Pope, or the Latin Patriarch in Jerusalem.

H High explosive. Political error in advertising a "Day for a free mine [sic] world" without stocking up first.

I 'Irish problem'. The practice in the Republic of opting out from the recovery of the costs of water services according to the polluter pays principle. A misnomer which puts the importance of the European Union in context.

J Justice and Home Affairs. Committee dedicated to removing one and internationalising the other.

K Kronenbourg. If Brussels is the motor of Europe, Irish bars are its driving seat, and beer its Castrol GTX.

L Lost matelots. "Abandoned Seafarers in Europe" was the subject of a photo display in the Parliament. Snaps of gormless tars wondering where they had left their supertanker.

M Metric Monger. Hannanism for the mate of the Metric Martyr.

N Net. If you know only one EC website, visit www.dg4.ep.ec – an electronic library of Alexandria for Eurosceptic and Europhile alike.

O Olive oil. Favourite lobby matter for the Greeks. Includes exhibition held by the grandiosely self-styled "Senior *Rapporteur* of the European Parliament for Olive Oil Policy in the European Union" entitled *The Olive Tree: the Eternal, the Virgin, the Orphan*. Well-attended by beardies with pipes.

P Peaceniks. Always welcome in Brussels, eg *Women in Black*. Regrettably failed to feature Will Smith or xenomorphic life forms (though the latter was debatable).

Q Questionable advertisements. Oft circulated on official nets. For instance, "A Different Services. Ladies and Gentlemen! Englishspeaking young man has the honour to propose to You his services. I will serve You in any hard, domestic or official work, also if You move, and if Your pets need attention. I am self-demanding person, able to work with attention, honest and dynamic."

R *Réseau européen des hommes pro-féministes*. EU association for browbeaten househusbands.

S Spam. Junk e-mail which may soon be banned if the German-led call is heard to "Please vote 'No' to Spam". A campaign tragically sixty years too late for English cuisine.

T Tyromancy. 'Divining by the divination of cheese.' Marginally more reliable than putting Parliamentary Questions to the Commission.

U UKREP. Yes Minister with berets.

V Van Damme. EP security chief at Strasbourg. Presumably encounters few local difficulties.

W Wood. Natural product at the centre of a peculiar week-long mass lobby by Swedish forest-fellers. Buy some lumber today.

X Xylophones. There are no xylophones in the European Court of Justice.

Y Yagor. Villains of EUTV programme "The Adventures of Zepi and Zinia". Cartoon set in Venice clearly invented by frustrated scrabble victims.

Z Zummo. Joe 90 device in the EP for crushing oranges.

Dr Lee Rotherham is Secretary of Conservatives Against a Federal Europe. He has recently been selected as Conservative Prospective Parliamentary Candidate for St. Helens South.

The European Foundation

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

Objectives

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

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

Activities

The Foundation pursues its objectives by:

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

The Foundation

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

It concerns itself with the following main topics:

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

Subscription Rates & Donations

UK: Minimum £25; UK Senior Citizens & Students: £15.00; Europe excl. UK: £29; Rest of World: £33
Rates shown will be correct at least until Summer 2001. After this date please check by 'phone/fax/e-mail before subscribing.

Donations should be made payable to "The European Foundation"; subscriptions to "The European Journal".

I enclose my annual subscription of £ _____ (minimum £25, Senior Citizens & Students £15.00)
plus postage: UK nil, Europe £4, Outside Europe £8 made payable to The European Journal.

Name (in capitals): _____ Title: _____

Address (in capitals): _____

_____

_____

_____ Postcode: _____

Tel: _____ Fax: _____ e-mail: _____

Please enclose your cheque made out to "The European Journal" and return this form to:
Subscriptions, The European Foundation, 61 Pall Mall, London SW1Y 5HZ
Telephone: +44 (0) 20 7930 7319 Facsimile: +44 (0) 20 7930 9706 E-mail: euro.foundation@e-f.org.uk