NEW PERSPECTIVES ON EMU

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on
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A subscription form is printed on the inside back cover.
A European Offensive
for a Democratic Europe of Nation States

As we go to print this month no one will be in any
doubt that on May 3, under the British Presidency,
eteen member states of the European Union will commit
themselves to monetary and political union. We also know
that this is not the general wish of their electorates. German
opposition to the single currency now stands at 59% whilst
in France a marginalised electorate has resorted increasingly
to extremist parties on either side of the political spectrum.
It is a strange and dreadful tragedy. It is a denial of liberty on
a monumental scale and those responsible will, in time, be
repaid in kind as they lock their nation states in fetters. And
all in the name of freedom! As that front runner of modern
socialism, Jean Jacques Rousseau, himself recognised, “Why
is it that men put themselves into chains in order to be free?”.
Of course, if they do, they cease to be free and this is why he
was so wrong about the General Will and why socialism has
always contained within it the seeds of its own destruction.
An unholy alliance of left wing governments, Christian
Democrats and fellow travellers has combined to sell out the
nation states of Europe in an act reminiscent of the Rape of
Europa in Greek mythology. Symbolism has its special
relevance to political affairs – hence the European
Foundation has adopted the Bull as its logo.

But what is to be done in practice? In the first place,
we must continue to warn and to inform and this the
European Foundation will continue to do in the Journal, the
European Intelligence Digests and a new series of Briefing
Papers – nationally and internationally – throughout Europe
and the world.

Our latest briefing paper on the British art market is
enclosed. It complements Lord Astor’s call to arms against
further tax harmonisation within the art market. In an issue
in the not too distant future we will publish an index of all
the articles printed since the first Journal. Reprints of
previous articles and the briefing papers will be available to
subscribers on request.

We will continue to develop our contacts, based on
responsible, accurate and well founded argument, with the
media. We urge those on radio and television and in the press
to take ever increasing note of what is going on around them
on the European scene and to ignore those who would like
them to believe that it has less interest now that it does not
dominate the votes in the lobbies at Westminster. European
issues are not important merely when they are news – they
are pervasive and permanently seep into the body politic.

To meet this perpetual and intrusive challenge, the
European Foundation has taken a number of new initiatives,
following our internal reorganisation and refurbishment of
the office. We now have a new Director, Andrew Rosindell
(32) and a new Editor, Tony Lodge (22). We have a new Head
of Research, James Barr (22), who gained a first class degree
at Oxford and who has contributed to several books and
pamphlets on European matters. John Laughland is our
European Director who is currently writing a new book to
follow his acclaimed Death of Politics – France under François
Mitterrand and The Tainted Source and his regular contributions
to the national and international press. We are running a
successful internship programme which has established
links with major British and United States universities.

To meet the mounting challenge of European integration,
we have now established an eminent European and Intern-
tional Advisory Board. Those who have joined this are set
out on the inside front page of the Journal and complement
the expanded UK Advisory Board, both of which represent
Eurorealist views in fighting for democratic nation states in
Europe across the political spectrum. Our new Heads of
Office span Europe – north, south, east and west – and we
now have operations in 17 countries across the Continent.
More are being established in the next few weeks.

With this network and with the conviction and
determination which lie behind it to save democracy in
Europe and to preserve its nation states, we have a bulwark
for political freedom and a massive resource to underpin the
Referendum to come in the United Kingdom. I said in the
House of Commons and in our New Year edition that we
need to take direct action. These are some of the first steps.

We are now at a critical phase. We need to unite as a
Eurorealist grouping in the UK and throughout Europe
to raise the standard and fight the political elite. Our network of
Heads of Office throughout Europe represents a formidable
response to the Euro-propaganda which emanates from the
European Commission and other European institutions.
This is based on unsubstantiated assertions which we shall
expose in every member state and in the countries aspiring
to accession. We have to fight the battle now, not only in the
United Kingdom but in every country in Europe and
globally. We must never forget that one veto in Europe is
enough. This is our strength and their weakness.

Bill Cash – April 1998
The Edinbrussels Europincer

by Vivian Linacre

(a) The introduction of a large element of proportional representation (for the first time in British politics) will make winning an absolute majority much more difficult.

(b) For so many years, Scots were accustomed to voting Labour in protest against the Tories. The situation is now transformed; for the only means of registering protest is by voting for the Scottish National Party. This switch is more marked because one underlying reason for protest in the past was that the Tories were seen as an “English” party; yet suddenly Labour under Blair is perceived as English oriented. Blair himself is clearly not enthusiastic about devolution – “John Smith’s unfinished business” – and Scottish Labour was always “Old!” style rather than “New”. There is a growing Scottish suspicion that this halfway house of a parliament was promised in order to “dish the Nats”: consequently it has backfired.

(c) UK-wide disenchanted with the Labour government is acute in Scotland: Dewar’s rejection of the original Calton Hill site in favour of Holyrood for the new Parliament buildings, his blocking of Sean Connery’s nomination for a knighthood, his earlier approval of the return of the loyalist murderer Jason Campbell to Northern Ireland as part of the “peace process”, the local Council scandals in Govan, Glasgow, Paisley, etc. – in addition to the “attacks on benefits” – have all swung support heavily from Labour to SNP.

Throughout, Scotland’s relations within the UK will suffer the increasingly disruptive influence of the EU, over which neither London nor Edinburgh has any control. For Scotland has always been designated by Brussels as a distinct “region” within the EU. This recognition as an entity always appeared gratifying; the SNP along with leaders of Labour and LibDem north of the border gullibly swallowing the fact that EU accords Scotland the status merely of a region rather than a nation or even a country. In EU eyes Scotland is on a par with East Midlands and the other county collectives into which England is to be carved up (on or off the bone!); so the outcome of devolution will ironically be to relegate Scotland from a partner in the UK to a colony – not even a province – of the ‘URE’ (Unholy Roman Empire).

No resistance to this ‘EUsurpation’ is offered by the SNP or its allies. On the contrary, they glory in it. SNP’s campaigning slogan is an oxymoron – “Independence in Europe” – conveying a subliminal promise of perpetual holidays in Benidorm or Sorrento! The Scottish party leaders are cynically aware that the mass of voters have little or no idea of the implication of direct rule from Brussels. They proclaim that a “free” Scotland will be entitled to a seat at the top table alongside France and Germany, yet imply in the same breath that we will somehow become a net beneficiary of EU largesse like Greece and Portugal. Which is more contemptible, the bombast or the servility? Answer: both together. The leaders themselves, of course, relish the prospect of endless trips and expenses over there. The old joke used to be that Scotland would never fight hard for devolution, let alone independence, because MPs were too devoted to London nightlife; but now they grovel to Brussels where the power and perks put our grotty metropolis in the shade.

It is appalling that, just as Scotland turned to Labour during the Thatcher era for largely negative reasons and is turning to the SNP in the Blair era for equally negative reasons, the country may in consequence lurch from devolution to separatism without any positive desire for it. The rigged referendum last September voted for a Scottish parliament on the strength of the Labour-SNP-LibDem cosy consensus and feeble opposition from the discredited Conservatives; but, with Labour’s tribal conflicts breaking out again, the SNP is making the most of it. If SNP gain a majority by a lurch from devolution to separatism without any positive desire for it. The rigged referendum last September voted for a Scottish parliament on the strength of the Labour-SNP-LibDem cosy consensus and feeble opposition from the discredited Conservatives; but, with Labour’s tribal conflicts breaking out again, the SNP is making the most of it. If SNP gain a majority by a lurch from devolution to separatism without any positive desire for it. The rigged referendum last September voted for a Scottish parliament on the strength of the Labour-SNP-LibDem cosy consensus and feeble opposition from the discredited Conservatives; but, with Labour’s tribal conflicts breaking out again, the SNP is making the most of it. If SNP gain a majority by a lurch from devolution to separatism without any positive desire for it. The rigged referendum last September voted for a Scottish parliament on the strength of the Labour-SNP-LibDem cosy consensus and feeble opposition from the discredited Conservatives; but, with Labour’s tribal conflicts breaking out again, the SNP is making the most of it. If SNP gain a majority by a lurch from devolution to separatism without any positive desire for it. The rigged referendum last September voted for a Scottish parliament on the strength of the Labour-SNP-LibDem cosy consensus and feeble opposition from the discredited Conservatives; but, with Labour’s tribal conflicts breaking out again, the SNP is making the most of it. If SNP gain a majority by a

Where are the Conservatives in all this? Nowhere! Just as their policy on Europe seems to be “without actually opposing EU integration, let’s hand over our government as slowly as possible”, so on Scottish devolution it is “we were against it but now let’s help to make it work”, neither of which policies can have the remotest influence on the outcome. Former Scottish Tory leaders (Michael Forsyth, Allan Stewart, Bill
Walker) used to argue that independence – especially real independence outside the EU like Norway – made more sense than ‘home rule’ and they were right.

Why can’t the Conservatives distinguish themselves by telling the people the truth about both devolution and the EU? They must meanwhile prepare for every scenario following the elections. What if the SNP win most seats but fail to secure a working majority, and neither Labour nor LibDem is willing to form a coalition? Could the Tories think the unthinkable by propping them up on condition they amended their referendum to provide for total independence? They would have nothing to lose!

Vivian Linacre is a surveyor based in Edinburgh. He is also the Director of the British Weights and Measures Association. This article was written in a personal capacity.

The Great Brussels Art Scam

by Lord Astor of Hever

What is at risk is our ability to hold on to the position this country has achieved within the past generation or so as the foremost art market in Europe. In so many realms of our national life we have found ourselves in a diminished role; for various reasons including, of course, our relatively reduced economic strength. But in a number of ways we have achieved a more prominent position, of which the world of art is certainly one.

A multiplier effect comes into operation here. The creation and exchange of works of art generates other markets. There is a buzz of activity. People are attracted as bees to honey. Not only does the art market provide employment for tens of thousands and bring overseas visitors here spending billions, but the Exchequer benefits directly through tax on a huge scale. All this is threatened by what I can describe only as a dog-in-the-manger attitude of other European countries who resent the success the UK has achieved in this market. They want to deprive us of the financial advantages we now enjoy and which lie at the heart of our success. If they succeed, the result will be not that other countries are able to secure the market that we have hitherto enjoyed, but that the goods are sold outside the European Union, either in the US or Switzerland. Indeed, this is already happening, such is the impact of the threats.

One of the threats is, of course, possible VAT harmonisation. Before the introduction of the single European market, no VAT was levied on works of art imported into the UK. Already, since the introduction in 1995 of the 2.5 per cent VAT, imports of art from outside the EU have fallen by 40 per cent. So it is not difficult to imagine how serious would be the impact of a doubling of this rate.

However, the European Commission is going to carry out a review of the impact of VAT on the art market. It is essential that Her Majesty’s Government take up the cudgels on behalf of the British art trade.

We have heard that the other area which presents a risk to the British art market is droit de suite. The objective of that levy was to help impoverished artists or their heirs. But as things have worked out, it is mainly the very successful who have benefited – for instance, Picasso and his heirs. In France, where the levy was first introduced in 1920, three-quarters of all the money distributed in this way was paid to the families of only six artists. But penniless painters and their children are unrewarded.

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At the present time 11 of the 15 member states of the European Union have legislation providing for this levy, which varies between countries. It is worth noting that in Italy droit de suite was introduced in 1941 but none has ever been collected.

The European Commission proposal seems to be another example where the attempt at uniformity, apparently for the sake of creating a level playing field for the art market, will have the effect of driving goods out of the EU for sale elsewhere. It has recently been estimated that on 1995 figures the droit de suite alone would have made New York a more profitable place to sell 90 per cent of the Impressionist market by value and 85 per cent of the contemporary art market.

In resisting the introduction of droit de suite, British based auction houses consider, justifiably, that this is an instance where the must trumpeted principle of subsidiarity should be applied. I strongly urge Her Majesty’s Government to resist any attempt to introduce droit de suite into this country.

Lord Astor is a Conservative peer.
An Honest Policy on Europe

Extracts from a Lecture given by Rt Hon. Michael Portillo to the Windsor Leadership Trust on 16th April 1998

A Common European foreign and security policy

The objective of establishing such a policy is explicitly expressed and carried forward by the Treaties of Maastricht and Amsterdam.

What is evident is that no such common policy exists today. There were deep divisions between members states on the Gulf War, on policy towards the former Yugoslavia, nuclear testing in the South Pacific, the recent crisis with Iraq, and even the Falklands war. A common policy is not a naturally occurring phenomenon. It would need to be artificially made.

One can well understand that for those who wish Europe to become a global power, in some way matching or balancing the United States, the lack of an agreed foreign policy is frustrating. But the only way that a common policy can be manufactured where it does not exist is through qualified majority voting. It is envisaged that a common policy could be achieved by outvoting, and therefore silencing, those who disagreed with the view of the largest number. This represents one of the fundamental tests of where power will lie: will nation states give up the right to make their own policy towards other nations?

For some countries, the issue is of greater importance than for others. France and Britain with their long traditions of global diplomacy would find it hard indeed to be so constrained. In qualified majority voting weight is given only for country’s size, not for its length of diplomatic experience or the extent of its diplomatic reach.

The problem for us is not merely theoretical. It seems plain that the foreign policy that might be followed by the European Union as a whole would be quite different from Britain’s. Iraq provides a good example. I do not believe that we would have achieved a majority vote in favour of supporting the USA in threatening, and being willing to employ, the use of force. So Britain would have been obliged to accede in a policy different from the one it would have chosen for itself.

But the approach of a European common foreign policy is not just of concern to Britain. It should also worry the United States. Until now, the US has tended to welcome the movement towards European Union. America has been frustrated by Europe’s failure to get a grip, for example over Bosnia. They must find it tiresome to have to deal with so many different national policies and sensitivities. There must be many in the State Department and the Pentagon who long to have a single phone number in Europe with which they can do business.

But maybe now it is becoming clearer that a common European foreign policy would institutionalise European irresolution. Where there were sharp divisions of view, the midpoint which might command a majority would often be to do nothing. A majority of countries would probably generally favour inaction. A number of nations would in any case favour inaction, since action carries risks.

Inaction is not what America is looking for. It wants more leadership from Europe, not less. It looks for Europeans to get better at taking care of their own problems. And it wants support in its role of global leadership, countering threats to international order. In the crisis over Iraq’s weapons of mass destruction, Britain’s diplomatic support for the USA was of critical importance. Having a sympathetic voice in Europe made a difference. It must be apparent in Washington that a common European foreign policy would not have been supportive.

Indeed, there must be a fear that part of the motivation for a common European policy is to enable Europe to cut a dash in world affairs, to create something distinctive from American policy, something un-American if not actually anti-American. In the talk about a European defence and security identity there is at least a hint of anti-Americanism, a feeling that a European organisation ought to replace NATO, with its reliance on the United States.

(Incidentally, although I would disapprove of such a policy in any case, it would at least make more sense if European nations were not simultaneously cutting their defence budgets. They can scarcely hope to increase their identity while they reduce their capability). I believe we saw the dangers of all this in the visit that our foreign secretary made to Israel in March. He went as representative of the European Union, since Britain holds the presidency. The European Union is anxious, for reasons of prestige, to claim a role in the Middle East process. In my view it does not have one, and forcing its presence is likely only to complicate and slow down the progress towards peace. But in any case it is interesting to note that its attitude is quite distinct from America’s. Europe apparently takes the view that the US, given its large Jewish population, is too sympathetic to Israel. Our foreign secretary’s rudeness and posturing during his visit may have been an effective way to demonstrate to the Arab world that Europe can be relied upon to have different policies from America’s, but it did not promote any British national interest of which I am aware. In any case it is difficult to see how you could argue that making Europe appear offensive and one-sided genuinely enhances its role as a peacemaker.

The emergence of a common European foreign and security policy, settled by qualified majority voting, therefore carries risks not just for Britain. If Europe as a whole opts for irresolution in the face of threats to our security, and develops policy positions designed to set itself apart from America and to claim a role in the big issues of the day, that will fundamentally change the global balance.

The European Union shows no sign that it thinks in geo-political terms. The way in which it has set out to offend Turkey beggars belief. Turkey has for years sought a closer relationship with the European Union, and ultimately membership. The EU has made it painfully clear that it wishes to remain a club for Christian countries. Yet NATO has relied heavily on Turkey for active and valuable support during the Gulf War and during our subsequent difficulties with Saddam. Turkey is the critical square on the strategic chess board. Nothing could be more harmful to European interests than to have a disgruntled and anti-western Turkey. If Turkey, in her enforced isolation from Europe, were to adopt extremist policies, it would be a disaster for the west. It is indeed a pity that the European Union is so obsessed with smoothing the process of its own enlargement, that its foreign policy
apparently totally ignores the strategic dimension.

The United States and Britain have discovered over two hundred years of history that we share a common outlook on the world. Our values are similar. We have worked together and fought together on many occasions. The periods when we disagree are so infrequent as to cause great disquiet when they occur. It would seem to me extraordinarily brave, by which I mean extraordinarily foolish, to give up a partnership of such proven durability, in order to merge our foreign policy with countries who, though they are our neighbours, have shown that they have much less in common with us both historically and in the present day.

The idea of a European common foreign policy is not fanciful. It is a key feature of the political union sought by our partners, and it has been expressly provided for in Treaties which Britain has signed. Yet I have no doubt that the majority of our population would be appalled to know it. It is my hope that the government will explicitly dissociate itself from the objective and be willing to halt further movement towards it. I hope that they will offer a lead.

An honest policy on Europe

The idea of a European common foreign policy is not fanciful. It is a key feature of the political union sought by our partners, and it has been expressly provided for in Treaties which Britain has signed. Yet I have no doubt that the majority of our population would be appalled to know it. It is my hope that the government will explicitly dissociate itself from the objective and be willing to halt further movement towards it. I hope that they will offer a lead.

It puzzles me that Britain, which has done so well, can really be so lacking in self-confidence

It is the time to admit that we in Britain have in mind a completely different destination from that cherished by our partners. For all the years that we have been members of the community, we have pretended that our European partners were not serious about wanting political union, which put more plainly, is the replacement of the nation states of Europe by a new European state.

During all that time, there has been no shortage of people willing to argue, sincerely or not, that all that talk of political union was mere rhetorical flourish. How could one seriously imagine that France would want to give up being French? The question was designed to be misleading. What is at stake in political union is not the survival of national customs – you would need to be fool to think that – but the right to take decisions on vital issues within a democracy which is truly representative of its population. The French, in common with others, are seriously prepared to allow important powers to pass from the French authorities to European institutions. The British people, I believe, are not. If you believe British politicians, almost none of them supports the idea of a federal Europe or a European nation state, and even allowing for those that you cannot believe, it is still a tiny minority. To home audiences, British politicians make clear that they could not contemplate joining a so-called Federal Europe.

But in discussions with our partners, we rarely use the language of principle, but rather we nit-pick, delay and procrastinate at every new step along the federal road. And then in the end we always agree, or so our partners perceive. Eventually we joined the EEC, in due course we became members of the ERM and late in the day we joined the social chapter. Of course they expect our absence from the single currency to be short-lived.

Naturally this deprives us of influence in Europe and makes us look ridiculous – not because we do not join things at first, but rather because after a while we fall in line. That is what robs us of influence. It is because we never evince an issue of principle, and by joining the things about which we have been unenthusiastic, seem to demonstrate that we have no principles, that we ensure that no one takes our arguments seriously in the first place. How much better it would be to say, “We do not share your view of what is right for us and for Europe. Therefore at some point we shall have to design a European community that allows for those who want political union to co-exist with those who do not. The sooner we start on that, and the harder we work at it together, the better it will be for all of us.”

It is, I am sorry to say, a myth that we can influence the development of Europe by being an enthusiastic participant in its future development. We cannot influence the strength and speed of the current sweeping our partners towards political union, because they think it is in their national interest, whilst we do not think it is in ours. Now that Germany is once more powerful, it seeks to subsume its nationalism within a European sovereignty. That is what Chancellor Kohl meant, I believe, when he said that political union was a matter of war and peace. Following France’s experiences of war with Germany, the French believe it is in their interests to secure peace by a merger with their old foe. Spain judges political union to be in its national interest after so many decades of isolation. And so on. But I do not think that the British people regard political union as being in their national interest.

We could not influence the decisions on the single European currency even if we were to be amongst the first members. Economic and monetary union is for our partners a necessary stage on the road to political union. They are hurrying towards their destiny. They don’t want to be bored by our detailed analysis of whether it will or won’t work, and they are in no mood to be troubled with quibbles about who fudged the convergence criteria.

As so often, things are the opposite of what they appear. Britain could have real influence on Europe if it were willing to lead, and it would do that not by limply falling in line with things that it thought harmful or anachronistic, but by staying out of some of the arrangements now being proposed. For example, for as long as we were outside the social chapter, we provided a clear example to the rest of Europe of how flexible labour markets could sharply reduce unemployment.

This began to rattle some of our partners, who felt obliged to pour scorn on our Anglo-Saxon practices which, according to some ministers in partner countries, involved maintaining Victorian conditions at home. This nonsense, brought on by a combination of envy and reading too much Dickens, might well have given way in due course to a proper appreciation of how similarly flexible policies in other member states might bring down the European level of unemployment, now 20 million people.

Now that we have joined the social chapter the pressure is off. Our European partners can impose upon us, by qualified majority voting, the inflexibilities which have caused unemployment to rise so high in their countries. There will thereafter be no European example of how things might
be done differently. Unemployment will be thought to be a European fact of life, incapable of cure by policy change.

**Pursuing the wrong economic policies**

My worry is that the economic policy pursued by the European Union takes too little account of our continent's need to be globally competitive. Naturally, we all look to improve our standard of living and conditions of employment. Our relative wealth enables us to achieve high standards. The most successful businesses are also those best placed to offer extremely good terms of service to their employees. But there is a real danger where government seeks to be overly prescriptive about those terms. Government regulation is generally insensitive to different circumstances. It is that tendency to be too prescriptive, and to impose excessive costs on employers, that has contributed to high unemployment in Europe.

The tax burden generally is too high in Europe. In most of our partner countries, government spending accounts for at least half of GDP. In Britain the figure is nearer 40 per cent. In Japan, the USA and other competitor nations it is lower.

It seems that some European policy makers believe that Europe can somehow isolate itself from global competition. Certainly the European Union maintains strong tariff barriers. But it is difficult to believe that a fortress Europe policy can be successful. The electronic age makes the whole idea anachronistic. In today's world people cannot be constrained from buying whatever they want across the internet and across borders. Efforts to control the way and the times that people choose to work are similarly doomed to failure where information technology sets them free.

Britain's outlook is necessarily and rightly global, underpinned by our reliance on world markets. We export more per head of population, and a greater percentage of our GDP than does Japan. We are the largest single foreign investor in the United States. For Britain, the need to remain globally competitive is always in our mind. We have no illusions that we can be isolated from global economic forces.

We should have the courage to lead: to offer Europe the example of a different way. There is nothing very original, by the standards of these days, in what we propose. If Europe were a developing country seeking help from the IMF, the Fund would tell it firmly that to qualify for help it would need to alter its policies: reduce government interference in the economy, cut tariffs, taxes and bureaucracy, privatise more companies, liberalise agriculture, and free up its labour markets. If Europe were a developing country, the IMF would throw the book at us. Britain should not rush to participate in policies which are badly out of date, and which have been abandoned across most of the rest of the world.

The choice for Britain is one that tests our self-confidence and our nerve. It requires courage to move against the throng. The conventional wisdom, the politically correct thing to do, is to bind ourselves together with our neighbours in a European political union. It might require us to follow foreign policies of which we completely disapprove, it might force us to adopt economic policies of which we had to rid ourselves because they did us so much harm in the past, but at least we would be in good company. We would not be alone.

I find that argument extraordinarily weak-kneed. It puzzles me that Britain, which has done so well, can really be so lacking in self-confidence. Even today, you hear people say that it might be better to give up the ability to make our own decisions about our economy and let others do it for us, since we have run it so badly by ourselves. I never believed that sort of argument, but the reasoning is now ten years out of date, since we have achieved low unemployment and non-inflationary growth, while some of our partners, who formerly led the way, have lost the knack. I cannot understand how those who dress up Britain as the leader of style, as cool Britannia, are really so frightened of taking a distinctive position, of standing out from the European crowd. In any case, it seems paradoxical to be so afraid of isolation, when we pursue, and would continue to pursue, the liberal economic policies followed by most of the world.

The fear of being alone is perhaps the single most important factor impelling us towards economic and political union. But it is based on a myth, that nation states have had their day, and that we can only be prosperous, influential and successful as part of a big new country. That mentality does not infect any other part of the world. Nations are co-operating within trading organisations and economic blocs, of course. But we do not hear of Canada wishing to achieve economic or political union with the United States, nor Malaysia with China, nor Chile with Brazil. Indeed the tide of history is clearly running in the other direction, as we have witnessed the break-up of the artificial states in Yugoslavia and the Soviet Union. Only the most morbid national defeatism could lead us to think that Britain must merge or perish.

*The Rt Hon. Michael Portillo was Defence Secretary 1995–97.*

### ... news in brief

**Latest German polls**

The outlook continues to be bleak for the German Christian Democrats at the forthcoming elections in September. The SPD has 46%, the CDU/CSU 34%, the FDP 5% (a total of 39% for the present ruling coalition), the Greens 6% and the Communists 4%. The inevitable jitters have been exacerbated by a row about energy tax which is dividing the CDU from its Bavarian sister party, the CSU.

**Germans get bolshier**

Michael Glos, the author of the article with the sinister title, “The option of restraint no longer exists” concerning the affirmation of Germany’s interests in the world has attacked the German foreign minister, Klaus Kinkel, for not pursuing German interests with sufficient vigour because he did not attend the official opening of the enlargement negotiations with the six candidate states in Brussels.

**Angry Schachtschneider**

One of the disappointed claimants against EMU, Professor Karl Albrecht Schachtschneider, reacted furiously to the rejection by the German Constitutional Court in Karlsruhe of their appeal. “Germany is no longer a law-based state”, he said, calling the decision opportunistic and politically motivated. He also said the court had abdicated its role of protecting the Germans’ political rights against intrusions by the government. But his statement that Germany is no longer a law-based state is probably exaggerated. The original Karlsruhe ruling in 1993 insisted that the German parliament must approve German membership of EMU and, although it gave the impression that the criteria would have to be strictly respected (because the parliament had said it would do so), the court did not rule out the possibility that the German parliament might acquiesce in EMU membership even if the criteria had not been strictly fulfilled, as now.
Deutschland – Quo Vadis?

by Frederick Forsyth

The day before war broke out between Britain and Germany in 1939 there was a packed debate in the House of Commons. One can imagine why. The previous morning Herr Hitler had invaded Poland at dawn, forcing the British Prime Minister Neville Chamberlain, after years of appeasement, to issue an ultimatum: either the troops were withdrawn by 11 am on September 3rd, or we would be at war. So on September 2nd in London it was a pretty full House.

Chamberlain spoke and offered his usual menu of platitudes and cliches. As he sat down, Arthur Greenwood for the Opposition arose. At this point there came a thunderous grown from behind Chamberlain, from the ranks of his own party. It was advice for Greenwood. Leo Amery destroyed Chamberlain with three words. He just said to Greenwood, "Speak for England".

I only mention this anecdote because for a Germany watcher from west of the Channel, it has become increasingly difficult these past few years to discern who in fact really speaks for Germany.

Now that may seem naïve, for there is not a commentator in Europe who would not reply that for fifteen years, but overwhelmingly for the past ten years, and increasingly so in recent times, things have not gone so well as before.

An increasingly unaffordable public sector tax burden, a blooming landscape east of the Elbe that a thousand milliard DM cannot make bloom, currency flowing out like a river, businesses emigrating like swallows in October, five million out like a river, businesses emigrating east of the Elbe that a thousand milliard sector tax burden, a blooming landscape not gone so well as before.

Some might say these maladies spring from the reunification in 1990 with the DDR; it is just as logical to suggest they also stem from the vast regulation burden loaded onto Germany by the Treaty of Maastricht. In other words, since Germany elected to dance to the music of Brussels, things have not gone well. Of course, it may all be coincidence.

But this brings us to the question of Germany and Europe. No one on the continent has the slightest doubt that the driving motor behind the rush to create a single European superstate via EMU – often denied but as clear as crystal to anyone who wishes to see – is Germany. An the driving force behind Germany is Bonn and the uncontested master of Bonn for fifteen years has been Helmut Kohl.

What perturbs me is not that a single man, even the German Chancellor, should be possessed by a passion, a quasi religion, an all-consuming obsession to create a single Euro-state to absorb us all, but the frightening silence in Germany in terms of anyone daring to suggest, "I don't agree".

Throughout politics, the public service, academia and the media there has for too long been a timid acceptance that no one, at least on a major issue of principle, dare say 'no' to Helmut Kohl. But democracy is based on a lively and vigorous opposition. Without this you might as well not bother with elections at all.

There are 671 German MPs in Bonn and not one of them has the nerve to say, "But Mutti, the Emperor has no clothes." Completely naked may be an exaggeration, but on the matter of EMU and the grotesquely falsified convergence criteria Bonn, Paris, Madrid and Rome are certainly down to the Y-fronts.

Ah, but what about the SPD? Well, for years Herr Lafontaine has been in and out of the Chancellery office like a fiddler's elbow. Not much opposition there. Herrn Stoiber, Biedenkopf and even Tietmeyer occasionally mutter the word 'Verschiebung' from somewhere under the duvet and then say they didn't.

Euro-federalism effectively means the end of the German nation as a self-governing sovereign nation state, as it does for all of us, and those who say there is an alternative end-station to this Euro train ride are lying. So let us look at the justifications offered for this destiny and ask quite openly: is it what the German people want?

Herr Kohl himself repeatedly argues a complete paradox. Speaking inside Germany for domestic consumption he seems to promise that the Haus Europa, when finally built, will effectively belong to the Germans. One does not have to be paranoid (and non-German) to suspect that, with all our currencies destroyed and our economies (and thus our sovereignties) merged into one, and that 'one' ruled by Frankfurt, the implied promise of German economic hegemony may not be so crazy after all. The final realisation of the long lusted for Zollverein under German control? Probably not, but it certainly fuels the odd frisson among the future servants.

But when talking for foreign consumption Herr Kohl produces a completely different scenario. If we do not go down the road of complete economic and thus political integration – code word for the single Euro-megastate – there could be a future war and it would stem out of Germany. So says he.

Now, as a foreigner, I am supposed to gasp in admiration and think: what a saintly fellow, so imbued with self-denial. But I do not, because I do not believe it. What Herr Kohl is saying in essence is that Germany is a bad old country with a pretty wild people and, if they are not chained hand and foot inside a common economy and policy, they could take us all to war again. To which my reply is 'Rubbish' (Quatsch). I say this for two reasons.

One is the German young generation. I come to Germany and I look at the young people on the streets, in the cafes, attending their universities. I cannot see any future Waffen SS. I see perfectly normal, studious, eager to learn, eager to travel young men and women who just want to do what everyone else wants to do: get a career, have a job, get married, have kids, a car or two, some holidays in the sun. I do not see a generation who, if things to wrong economically, are going to rush off in jackboots to invade the next door neighbour. Those days are gone, sixty years gone.

The second reason is more historical. Never in the story of our planet has a parliamentary democracy provoked an aggressive war. Never. Only dictators do that. From which we may deduce that if we develop and nurture our democracies we will probably avoid conflict. But democracy must involve vigorous and open opposition. Germany under Herr Kohl has become, at least on the Euro-Sache, dedicated to conventional thinking, political orthodoxy and unquestioning obedience. Which is not a good sign. Was it not unquestioning obedience that brought about the brown shirts in the first place?

Herr Kohl tells us all that the day of the sovereign nation state is over. He produces not a shred of evidence to support this, yet
all Germany’s ruling class nods like a row of stuffed dogs in the back window of a Mercedes. No one disputes this extraordinary suggestion. But I do. I think the nation state is with us for a long time to come. In an increasingly fragile world, people – ordinary people in the streets and the factories – want to cleave to that which they know, and what they know best is the sense of origin, identity and common culture embodied in their country, flag and currency.

No discussion of Germany in our century can long avoid the old and inevitable topic, the black period, the Hitlerzeit. If Herr Kohl has one obsession with the Euro-state of his dreams, his other one seems to be with that time, the age of his boyhood. He was fifteen in 1945, old enough to see and understand, too young to participate. Yet the memory never seems to leave him and I suspect is behind his conviction that the German nation state must be dismembered into Euro-regions and absorbed into a single continental entity.

He is not alone in this. The whole German establishment, being of a similar age, does not dispute. But like most of the British, I do. I cannot see why Germany is supposed to go on castigating herself for those twelve years, year after year, decade after decade, generation after generation.

Ah, says Herr Orthodoxy, it is the guilt thing, you see; after all, we are all guilty. How here is something that may surprise you. Twenty five years ago when I was researching The Odessa File, it was the old Nazi hunter, Simon Wiesenthal, who persuaded me that the myth of Gesamtschuld was just that – a myth. Guilt is specific, individual and personal. It applies to those who gave the orders and those who willingly carried them out. The philosopher Edmund Burke put it in similar vein: “I do not know the procedure for drawing up the indictment of an entire nation.” He was right.

The guilty men of those days are mostly dead and gone. The few survivors are geriatrics. Two generations and a new age have come since then but still the obsession rumbles on that to preserve the future peace, Germany must cease to exist as a sovereign nation state, starting with her Deutsmark.

So the Currency Abolition Train becomes unstoppable, with Herr Kohl frantically shovelling on the coal. Only the British, constantly reviled at Brussels, are being open and honest about this. We dare to ask: will it work? (extremely doubtful); is it necessary? (absolutely not); is it even desirable? (probably not). In any case the Euro-currency is a very rum business because everyone involved has a different agenda.

Bonn wants to expiate the old war guilt. Paris really believes that the enormous workhorse of the German economy will be content to have a French jockey on too; the Scandinavians are split down the middle; Ireland, Portugal, Spain, Italy and Greece just want to keep the river of German gold flowing in their direction.

But do not think that Euro-federalism represents the future. On the contrary, it is locked into the past.

Now let us suggest a really crazy notion. Suppose a German of national note stood up and said:

“Look, I am a German. I love my homeland and I’m proud of it. I am proud of the huge contribution made by our forefathers to the civilised world in literature, poetry, drama, painting, music, diplomacy, exploration, science, mathematics, philosophy and the humanities. I do not want to see the land of my fathers broken into Euro regions and stirred into some unidentifiable Euro-pudding. I want to keep our country sovereign and free, and that includes the best currency we ever had. That is the way I feel.”

What would happen? Well, there would be a scream of shock/horror from the whole establishment of Germany. You can imagine the maiden aunts of Bonn and the media, their mouths frozen open in an ‘O’ of disapproval, running to their typewriters to denounce the speaker as … well, what? A nationalist, of course. And we all know what a German nationalist is, do we not? It is a code word for a Nazi.

In fact the speaker would no more be a Nazi than I am a British fascist. There is nothing wrong with patriotism. It is not arrogant, it is not aggressive, it is not fascist. It should be quiet and dignified. It goes back to the Romans and is the oldest political loyalty known to man. The Americans, the Canadians, the Japanese, they are all allowed to love their countries. Why are we Europeans always being told we must dissolve our nations into Brussels-rulled potpourri?

The truth is, the overwhelming majority of the British do not dislike the Germans. More important, we are not afraid of you. We do not wish to be either your economic servants nor your economic jailers. All we ever wanted was to be friends and partners. If prosperity is the aim, we can have all the prosperity we can handle through mutual trade, co-operation, collaboration and goodwill. We do not need to be driven into the same politico-economic bed.

If the Germans wish to keep their country, their sovereignty, their pride, their identity and the currency that embodies that identity, that is fine by the British. So do we.

In the late summer there will be an election in Germany for the Chancellorship that will bring Germany into the new millennium. It will be an enormously important election, because it will pit the Old against the New, yesterday against tomorrow, the nightmare guilt of old men against the possibility of a new dawn.

But do not think that Euro-federalism represents the future. On the contrary, it is locked into the past. All over the world the vibrant economies from the USA and Canada to the Pacific Rim are sweeping away the controls, the taxes, the regulations, the artificial burdens on commerce and industry so beloved of bureaucrats. They recognise that trade, finance, banking are not regional any more – they are global now. Prosperity for the people comes through free and open competition. Settlements are accomplished into microsecond by computers. The commitment to over-regulation, high taxes, high unemployment, dirigiste or ‘command’ economics and government by unelected bodies is now confined to Cuba, North Korea and Brussels.

I will certainly not be advising Herr Schroder on his campaign, but if I were I would say something like this:

“Ignore, my dear Gerhard, the conventional timidity of Bonn and the Establishment. Listen rather to the great beating heart of your own people. Then go into the streets and speak for Germany.”

Frederick Forsyth is a member of the European Foundation Advisory Board.
The main outlines of the economic arguments about EMU are by now pretty well known.

On the plus side the single currency should bring greater pricing transparency; and a regional currency would enable businesses oriented to the European market to nail down one of the variables in their planning.

On the negative side there is the loss of control over monetary and fiscal policy. This means that in the event of an ‘external shock’ employment, prices and subsidies would have to take the strain that in an independent economy is largely borne by interest and exchange rates and by running a government surplus or deficit. And of course an external shock does not necessarily mean a bolt from the blue – it also means the result over time of technology changes or divergent productivity gains.

For a currency zone to work really well, you need two things. Labour mobility, so that families are happy to move where the new jobs are; and social cohesion, so that people don’t mind if taxes generated in prosperous parts of the country are spent in poorer parts. It’s hard enough to create these conditions in a single country. Across Europe as a whole it is well nigh impossible.

Some factors in the EMU equation are ambivalent. If it leads to tougher competition and greater concentrations of prosperity and distress – which is the logical consequence of a more transparent market – the question is whether Britain would be a beneficiary or a victim. There will certainly be winners and losers, even if the overall outcome is better than a zero-sum game.

Another feature that cuts both ways is the performance of the euro. It used to be argued that unless we joined the single currency the pound would sink like the Albanian lek. Now the fear is that it may be too strong. All you can be sure of is that nobody knows how strong the euro will be; that it will fluctuate against the dollar; and that the pros and cons of an externally weak currency more or less cancel each other out.

If the European economies were in sync with each other, the financial argument for independent management of the British economy would be less strong, we could expect the new Central Bank to follow policies suited to our needs. Unfortunately academic studies suggest that this is not the case. In practical terms you only need to look back to the ERM crisis or the last 12 months to see that Britain and the Continent regularly need opposite monetary policies.

Structural differences also play a part. The UK is unique in Europe in having massive inward and outward investments, and is matched only by the Netherlands in the funding of pensions. The dollar plays a particularly important role in British business life – about 75% of our FX traffic is in dollars.

No less important is the cultural element. In Anglo-Saxon economics shareholder values predominate, hiring and firing is relatively easy, innovation and value creation are highly regarded, wage bargaining is decentralised, financial and communications services are to the fore, deregulation, labour mobility and low taxes are the priorities. It is the world of Adam Smith.

By contrast, the Rhine Model, a social market economy, prides itself on compassion and stability. It is based on centralised bargaining, worker-management consensus, company based social security, and a business sector tied to the banks. Innovation is discouraged by over regulation. It is a corporate system.

It is currently fashionable to point to the relative success of the Anglo-Saxon model in creating jobs and equipping the USA and Britain to compete. But ten years ago it was equally fashionable to say that the era of American dominance was finished and that unless Britain abandoned “short-termism” and embraced the Continental social conscience, we could not match their economic performance.

My point today is not to judge between the two models but to emphasise how little they resemble each other. Each one bears the imprint of its environment. After the War, Germany has prized consensus above all other virtues. No German Chancellor in 50 years has been voted out of office. In industry, too, change is worked out by negotiation. That would not suit the British style of takeovers and challenge under the eye of Lex and Jeremy Paxman.

Once you accept that neither model would take to being transplanted outside its natural habitat, this becomes another obstacle to British membership of EMU, for Economic Union is stated in both the Maastricht and Amsterdam Treaties to be part and parcel of a social dimension. By social dimension what the authors mean is things like enhanced union rights of consultation and board membership, the ability to delay plant closures and layoffs, reduced working hours and the right to positive gender discrimination in the workplace.

Another feature of the social dimension is “harmonisation” – the idea that countries with low tax regimes or less costly welfare should be obliged to increase their taxes and social security costs to a uniform level, in the interest of “a level playing field”. This is not just a question of attacking the obviously lax shelter targets – Dublin Docks or Luxembourg or Andorra. The UK itself is regarded in some quarters as too benign a regime. Any of you familiar with the way that VAT harmonisation is driving the art market from London to New York will realise how dangerous it is to determine the principle of comparative advantage.

Some of these wider consequences are already with us – it will take all Mr Blair’s powers of persuasion to limit the results of signing up to the Social Chapter. But it was fascinating to see yesterday that within hours of getting the green light for 11 countries to join the euro there was a chorus of appeals to put aside fiscal discipline, embark on make-work projects and push for “a social Europe”. We should be very cautious about any retreat from our free market philosophy, which after a dreadful period of mismanagement in the ’60s and ’70s has at last put us back on track.

We may be businessmen here, but we cannot just be put in a box called “industry and commerce”. We are also voters, taxpayers, consumers and parents. And we have to make our contribution, as we consider EMU, to the historic question whether we want Britain to remain a nation state or to become a region like California or Bavaria. The distinguishing characteristics of a nation state are that it prints its own money, makes its own laws, administers its own justice, raises its own
army, runs its own economy, and decides the limits of its own citizenship.

Already some of these ingredients have been transferred to Europe. Something like two-thirds of our law now emanates from the EU. In case of conflict, Community Law ranks superior to the House of Lords and Acts of Parliament. Under the Maastricht Treaty as amended by Amsterdam, it is envisaged that parts of our justice system will be taken over by the Community and that the WEU will become the European army.

EMU would represent a vast additional transfer of powers to the institutions of the EU. Now these institutions have many merits. The fact that they do not have to stand for election and that the restraining power of the national veto has been substantially abolished means they can be effective in a way that a coalition of national governments finds extremely difficult. This was a point that the Community’s founding father, Jean Monnet, often used to make.

But it also means that the EU lacks the checks and balances of the American Constitution. Every EU institution pursues the identical policy – that of integration. The Court of Justice is bound by the Treaty of Rome to interpret its decisions in the light of the aim of “ever closer union”. The right of legislative initiative belongs exclusively to the Commission, which combines the powers of the executive branch of government with the unaccountability of a bureaucracy. The Council of Ministers votes privately and publishes minutes only selectively. So what you have is an ideological orthodoxy which is pursued behind closed doors and immune from the verdict of electors.

Given the added barrier of Eurospeak, it is no wonder that the ordinary voter feels unable to identify with these remote bureaucrats and suspects them of having elites and self-interest, but not much to do with the daily life of the man and woman in the street. In times of crisis this “democratic deficit” leaves Europe without a safety valve for popular feelings.

Of course there is the European Parliament: but I will donate a bottle of champagne to Tim Melville-Ross if he can find 10 people in this room who could name its President, identify more than two of its groupings, describe their political platforms and give a lucid thumbnail explanation of the Parliament’s principal power, that of co-decision.

We are always being told not to worry about democracy. In 1961 Ted Heath said the British veto would not be impaired. In 1971 and again in the 1975 Referendum we were assured that the supremacy of our law was not threatened. New Labour says the constitution is not a big issue. Only the other day, Peter Mandelson was reported as saying that the integration of Europe was no longer on the agenda. Ministers on both sides of the house have portrayed subsidiarity as a sort of protection for national independence, when in fact – to the extent it means anything – it means something closer to the opposite.

Meanwhile, European statesmen from Adenauer to Kohl, from Hallstein and Spinelli to Delors, have made it clear again and again that the purpose is to create a United States of Europe. EMU is a means towards that end. For 40 years the Bundesbank has repeated that monetary union cannot work without economic union, and economic union cannot work without political union.

Many people in this country devoutly wish that EMU had not been dreamt up in the first place but are inclined to say that we must join it for two reasons. First, that the fate of Europe is predetermined and if we swim against the tide we will suffer a loss of political influence. And second, that if we do not join we shall be victimised.

Neither of these arguments stands up. The idea of trade retaliation is not convincing. Much of our business with Europe is in tariff-free services or in local investment rather than in physical cross-border trade. Britain is the largest market for the Euro zone, which runs a positive balance of payments with us. Still more to the point, any discrimination would be a breach of Community law, the WTO and the European Treaties. The idea of Europeans boycotting British goods implies that our European partners are self-destructive, vindictive and capable of ordering their own people what to buy. I do not for one moment believe any of this.

As for loss of influence, the head of government of even a city state like Singapore or Hong Kong has a clout which no principal Governor can match. Britain ranks today as the fourth or fifth largest economy of the world. To trade our independence for one vote out of 12 in the Central Bank – the same as Luxembourg, Finland and soon Estonia – cannot credibly be described in the broader sense as enhancing our political influence. And in the next Balkan crisis I cannot picture British military capabilities being ignored because we have not adopted the euro.

I count myself a lifelong internationalist and enthusiast for Europe, but we do need to get away from a blinkered vision of a Europe of ideological winners and losers. We need a Community in which both those nations which believe in full federation and those which believe in limits to that federation are able to achieve aspirations without conflict.

As it happens, there is at last a glimmer of hope. Britain and Denmark have legal opt-outs from monetary union. Britain and Ireland also have opt-outs from the agreement on frontier controls. Denmark has an opt-out on defence. Five European nations are neutral and therefore can hardly support a common army; and the accession of five newly independent Eastern European countries will require further opt-outs.

What this means is that the principle of “ever closer union” is starting to be balanced by a new principle called flexibility or, more technically, “closer co-operation”, which has a Title devoted to it in the Treaty of Amsterdam. This principle permits groups of member states to combine in individual policy areas, using the Community’s institutions, but leaving others outside. Admittedly the expectation is the usual one that in the end all will follow. But the novelty in terms of Community law is that dissenting minority countries, which previously had either to knuckle under or exercise their veto powers, now have the third alternative of standing aside.

Flexibility opens the way at last to differing degrees of integration other than on a temporary basis. If developed, it could mean the end of talk about fast lanes and slow lanes: the end of the deterministic idea that people’s ordinary aspirations don’t matter compared with what some mandarin considers the unstoppable march of history.
Flexibility could open the way to a Community in which the political pressure on Britain to sign up to EMU would melt away. Such a Community could accommodate neutrality and attract to it Europe’s two richest dissenters, Norway and Switzerland, as well as allowing democracy to be reinforced in Poland, Hungary and the Czech Republic without submerging them into another unwanted federation. It is a principle worth fighting for.

To me, these fundamental issues are the heart of the EMU question. But at a technical level I am concerned how little has been finalised at this late stage. There is a heavy backlog of IT. The legal ramifications of the variation of contract between debtors and creditors remain unclear. There is no lender of last resort for the Euro system and creditors remain unclear. There is no principle worth fighting for.

The originating EMU used to insist that political unification must precede currency unification, as it did in Italy, Germany and the US. Without being overly pessimistic, it is therefore disconcerting that EMU has become a substitute for political unity rather than an outcrop of it. This has led to a weak institutional framework for the new currency.

The Central Bank works on the basis of one country one vote, while the Council of Finance Ministers works generally by qualified majority voting. Small countries are seriously over represented in both institutions. Moreover, there is at present an unresolved Franco-German dispute over the Governorship and how much to respect the Maastricht stipulation of independence for the Bank. If the French were to get their way and the Bank were to become answerable to the so-called Euro-X Club, monetary policy in the Euro zone will become a battlefield between the northern monetary puritans – Germany and the Netherlands – and the southern sunbelt, Italy, Spain and Portugal, with the swing vote held by France and the rest.

For British business, therefore, a move to join EMU would be a series of gambles. A gamble on the timing of future economic cycles: a gamble on the basic direction of the euro: a gamble on its relation to the dollar and a gamble on the mood of a disenfranchised electorate if things were to go wrong.

Participation in EMU would also be a blow in favour of a resumption of the march towards a United States of Europe. That is not something on which businessmen have any special right to speak. But I believe personally that to compromise our integrity as a nation in return for a status like that of Quebec would leave the country restless and chafing at its loss of identity. That is not the sort of Britain that would make a good partner for its friends in Europe.

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Local Government and the EU

by John Walker

The assertion in the UK that there is a very limited relationship between the European Union and local government at one time would have been correct. However, as the objectives of the EU continue to surface, the role of local government in the future will take on a more significant status as the position of Westminster diminishes.

With the United Kingdom already divided up into 12 administrative areas of the EU or Euro Regions, councils will become the main local conduit for the EU in this country. The Government has decided to establish Regional Development Agencies (RDA) in the nine English Regions to complement those already set up in Scotland, Wales and Northern Ireland to work alongside the Government Regional Offices which were opened in 1994. The 1999 European Assembly Elections will be by Euro Regions. The boundaries for the RDAs, Government Regional Offices and Euro Elections are the same, and are based on Euro Regions.

So where do local authorities fit into this picture? There are to be changes to planning policy whereby Regional Planning Policy in all probability will be agreed with the European Union and funding out of UK contributions to the EU budget, in the main, will be assessed on a regional basis. The Government’s consultation paper of January 1998 entitled The Future of Regional Planning Guidance has a number of sections which deal with the EU influence over spatial planning, namely the European Spatial Development Perspective. The link between planning policy and the redistribution of UK taxpayers’ money under the heading of EU programmes is therefore being sown on a Regional basis. Added to this, will be integrated transport and housing requirements, plus, no doubt, other policy areas in future such as education.

The proposals to build a large number of new houses in some areas on Green Belt has created a lot of opposition and the hand of Brussels was no doubt connected with this under EU Regional Planning policy with, it seems, little influence from local people. Probable reductions in both funds and qualifying areas for EU Structural Funds and other programmes have illustrated the madness in passing UK taxpayers’ money to the EU for them to redistribute, when if we did not pass these funds over in the first place then policy could be decided here.

The Local Councils will be the forum for initial input and subsequent implementation of Regional Policy, hatched by and large in Brussels and not Westminster. In EU jargon terms, individual or small groups of local authorities are now termed as ‘Sub Regions’. For example, Surrey and West Sussex are Sub Regions, as are a cluster of 3 to 5 London Boroughs. The significance of having Unitary Authorities in some areas, following the Local Government Review of 1993/4, becomes clearer too, as having one layer below Regional level as opposed to two simplifies the intended structure which we are now witnessing.

On a more noticeable front, some local authorities are promoting European Union Information programmes in their schools to the students without allowing alternative views to be put. The constraints placed upon UK political parties taking propaganda into schools seem not to apply to a body whose executive (Europe Commission) has one single aim, namely the advancement of a Unitary European State. Most County and Unitary Authorities, as I
have mentioned in these columns before, have European Offices to complement this new system of government in the UK.

Council Tax rises this year in many areas are well above the rate of inflation. The Chancellor, hamstrung by the single currency convergence criteria, has transferred some of the burden of tax increases to local authorities by reducing their rate support grant. Through little fault of their own, many local authorities will carry the resulting criticism for these tax increases, yet the link between EMU and Council Tax rises will go largely unnoticed.

In the Government's onward march to a European Unitary State, they have determined that one of the key grass root bodies for this is in need of 'modernisation'. In February, the Department of Transport, Environment and the Regions published a consultation document, 'Modernising Local Government'. This publication concentrates part of its content on looking at ways of encouraging the electorate to take local authorities and civic identity more seriously, and expresses concern at the low turnouts at local elections when compared with other EU states.

Compulsory voting is flagged up as an option, yet fails to recognise that abstention is but one democratic action in an election. Even with compulsory voting at local elections, Belgium still only achieves an 80% turnout! The idea that local authorities can have more democratic legitimacy by compulsory rather than voluntary voting is highly questionable.

Also in this document are references to holding local elections every year in all areas, with Councillors retiring in thirds, which it suggests would 'significantly improve accountability'. Local referenda are floated too, yet coming from a Government led by a Prime Minister who laughed in the face of the Leader of the Opposition when an Amsterdam Treaty referendum was suggested, is in itself laughable. Mr Blair might like to have his own MPs subject to annual election as well!

The section of most potential concern is that which states, 'The Government also believes that it is not always healthy for a single party to dominate a council, particularly where this position is not the result of an overwhelming advantage in votes cast'. Read it again. This is from a Government ruling by precisely that scenario; and what place is it for a Government to take such a position, as it is after all democracy that produces these results?

As the constitutional implications of the UK's membership of the EU continue to unfold, the relevance of the Local Council to Region to EU Institutions route will increase significantly as that of Westminster/Whitehall reduces. Many people who feel that devolution to the Regions will result in decentralisation from Whitehall control are likely to end up levelling the same criticism at Brussels as centralised control is concentrated there instead. Acquis Communautaire will make decentralisation from Brussels almost impossible as the EU gains increasing areas of competence over our lives. The overuse of the words 'modern' or 'modernisation' from this new Government should be a warning that every time they are linked to new policy proposals, there is far more between the lines than on them and especially when it comes to EU matters.

John Walker is active with a British small business pressure group and has been involved with their responses to Government on the two consultation papers referred to in this article.

**Noddy and the Case of the Disappearing Currencies**

*by Monima Siddique*

Many eminent words have been written in the European Journal about the negligible impact that currency volatility has exerted over British trade in recent history and to take this topic laterally into the realms of banking is a logical step. The following article hopes neatly to lay to rest that much propagated Euro-myth that stable currencies and interests is necessarily the business world's utopia.

It is a much overlooked fact that most financial institutions can incur consistent profits over time precisely from taking advantage of currency and therefore short term interest rate volatility, and under EMU this window of opportunity will effectively be bricked up. There are many hundreds of proprietary ('prop') trading desks/ treasury divisions dotted around the world, forming a crucial part of a bank's overall business strategy, not only to supplement traditional advisory/lending capital markets income, but by also providing a flow of activity which in turn can be used to attract new business from the investing fraternity, be it unit trusts, hedge funds or the like. This strategy is particularly effective for 'new banks on the block' who are aiming to build a client franchise.

The function of these proprietary desks is to devise and implement strategies using all manner of instruments from plain vanilla futures contracts to complex options structures at both ends of the risk/reward curve, precisely to capitalise on arbitrage opportunities randomly thrown up by market volatility or, in plain language, short term measured risk taking.

With the current trend of 'globalisation' and with the volume of banking marriages vastly outweighing the divorces, overheads are increasing at a frightening rate and as we have witnessed recently in the City, bigger is not necessarily better. Furthermore, in an environment where internece competition prevails, lending margins are increasingly under pressure at a time when these behemoth banks desperately need the flexibility to be able to create additional income even if it comes out of thin air. In this context EMU will only exacerbate an already difficult situation. The markets need volatility like a building needs its foundations.

The following example of prudent Treasury dealings during the Asian crisis in 1997 could never have happened under EMU in the event of a pan-European economic crisis.

Witness the year end results produced by three major global banks, notably Chase Manhattan, HSBC and J.P. Morgan for 1997 – the year when gravity finally exerted its long awaited pull on the Asia economies. A cursory glance at the year end accounts shows that HSBC produced a net income figure 8% higher than the previous year (quarterly figures are not available); J.P. Morgan increased net income by 7% in...
seldom loses £4 million. The market risk related revenues for 1997 and showing the absolute performance of Evening Standard Bank also published a bar graph in the debt securities and equity trading. "The more than offset the weak performance in particular good and growth in this area markets. Foreign exchange earnings were profits rose as we benefited from increased Treasury and Capital Markets, dealing wrote in the Annual Report that "… in difficult market conditions in the fourth quarter, revenue growth continued to accelerate”. HSBC, despite the turmoil in Asia where the Bank has 35% of its assets, produced a massive jump in dealing profits of 17.5% with 'other operating income' (excluding fees, dividends and interest income) rising a whopping 18.6% and, furthermore, this comes on top of a 60% increase in bad and doubtful debts. A stellar performance in anybody's language. The outgoing Chairman, Sir William Purves, wrote in the Annual Report that "… in Treasury and Capital Markets, dealing profits rose as we benefited from increased business and wider margins in unstable markets. Foreign exchange earnings were particularly good and growth in this area more than offset the weak performance in debt securities and equity trading.” The Bank also published a bar graph in the Evening Standard on February 24th showing the absolute performance of market risk related revenues for 1997 and one can see that on roughly two days a week, the Bank’s Treasury Division rakes in roughly £5.5 million profit and very, very seldom loses £4 million. The European Journal did request permission from HSBC to publish the chart, but this request was disappointingly turned down.

In short term trading some get it right and some get it wrong; but there's always a next time, and to irreversibly and radically remove volatility and, arguably, a certain level of market turnover from the financial marketplaces of Britain and Europe can only result in negative repercussions, as will be discussed later.

However, harping on too much about the banks does not give the complete picture. While EMU will render banks' Treasury Divisions largely redundant, we must not forget that most, if not all, large corporates/multinationals have equally active Treasury Divisions, set up to enhance overall profitability, minimise the impact of adverse foreign exchange expectations, or opportunistically take advantage of short term market anomalies. In particular, Siemens of Germany achieved considerable success with its high risk financial gymnastics during the late 1980s. At that time, the eminently conservative Bundesbank held the dim view that such extracurricular activities were tantamount to gambling and therefore fell outside the general remit of what German corporates could and couldn't do. It was then heard from insiders known to the author that the Bundesbank strongly ticked off the company and warned, "if it wished to behave like a bank, it would be regulated as such", and in response, wrists duly smacked, the errant company upped its Treasury Division to the British Isles.

As mentioned previously, increasing volumes of derivatives/structured financings are undertaken by non-bank institutions in Britain and Europe, but resounding catastrophes are comparatively few inasmuch as one only tends to read about the hard luck cases such as Hammersmith & Fulham, Proctor & Gamble and Metalgesellschaft in the early 90s and more recently Renault of France. Newspapers tend always to sniff out the bad news first (sadly) it sells better than the good and certainly no company chairman who values his position will want to put up in neon lights the fact his company's overall performance might be due in part to his Treasury Division surfacing the waves in the financial markets. Granted, astute equity analysts in the City will ferret it out, but by then the share price will already have moved and the subsequent question mark over earnings quality will be yesterday's news.

Most politicians have little or no understanding of economics and financial markets and believe that a world without currency fluctuations is manifestly desirable. Cynics would also argue that a pan-European currency would obviate the need for banking alchemy. Yet over the decades, bankers and industrialists have learnt to manage and profitably exploit the risks of currency fluctuations. Without the associated trials and tribulations, there would not be today the expertly honed skills that have prodded the City of London to its dominant position in global finance.

Data produced by the Office of National Statistics in Newport support this argument and shows that much of our manufacturing includes imported constituent raw materials, i.e. intermediate goods. In the March issue of their Monthly Digest, there was an interesting table entitled '1996 Import Penetration and Export Sales Ratios for Products of [British] Manufacturing Industry'.

The table shows total domestic (British) demand as a percentage of total imports for a long list of products, a few of which are listed below:

<table>
<thead>
<tr>
<th>Product</th>
<th>Home Demand/ Total Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food &amp; Beverage</td>
<td>23%</td>
</tr>
<tr>
<td>Tobacco Products</td>
<td>14%</td>
</tr>
<tr>
<td>Textiles</td>
<td>48%</td>
</tr>
<tr>
<td>Chemicals</td>
<td>55%</td>
</tr>
<tr>
<td>Rubber &amp; Plastic</td>
<td>27%</td>
</tr>
<tr>
<td>Other Non Mineral</td>
<td>20%</td>
</tr>
<tr>
<td>Fabricated Metal Products</td>
<td>19%</td>
</tr>
</tbody>
</table>

It is therefore reasonable to assume that if, for example, 48% of total imports of textiles is required to satisfy domestic consumption, the reciprocal figure (not including wastage) of 52% is re-exported out and, since sterling has appreciated by approximately 30% since 1996, therein lies the cushion.

Furthermore, minutes taken at the Bank of England's February meeting of the Monetary Policy Committee reported that in a survey of the impact of sterling appreciation on retailers as far as prices and profit margins were concerned, the majority said that there had been some fall in imported goods prices and many felt that the wholesalers (importers) were hanging on to some of the appreciation benefits. Who can blame them? They must think Christmas has come early!

Brussels' rhetoric, normally cacophonous whenever the opportunity may arise to trumpet why (in their view) EMU should forever replace the pound, is amusingly forthcoming on the currency's climb. Given that our overall trade deficit with Germany and France combined totalled approximately £9 billion at 1996 prices, a since stronger sterling must be a very desirable commodity for those exporters on the other side of the Channel.

Having said all that, remember that Britain is essentially a service based economy, with only about 20% of total output coming from the manufacturing sector and, despite the concerns expressed in the media on the pound's strength, Armageddon is not just around the corner and certainly those companies with foreign denominated debt
are finding that their annual interest payments are far less painful than in 1996.

There are financial instruments that can be employed to minimise foreign exchange risk – yes of course they cost, but it is a small price to pay for Britain to be able to manage her own fiscal and monetary policy.

So, to return to my original theme, if the flexibility to exploit currency and interest fluctuations is removed from the European marketplace, where might the treasure hunters find more volatile markets? (Wags would suggest that the first place to look would be the emerging market countries most recently given a clean bill of financial health by the international rating agencies). Would funds flow back to the emerging markets of Asia – despite the abject failure thus far of progress in the crucial IMF structural reforms and do we really want to allow Dr Mabathir and President Subharto the impression that we were wrong/they were right all along with their peculiar brand of cronyism based economics? As was so memorably quipped by Albert Edwards, Chief Strategist at Kleinwort Benson a few years ago, this bizarre strain of economic theory was otherwise referred to as 'Noddy-nomics'.

A likely scenario is that there would be a resurgence in bond issuance from international borrowers. As the short/long Euro interest rate will be between 3%–5%, it could make eminent sense for some non-EMU based companies to refinance, particularly in the UK. Since the wacky race for the Maastricht Convergence Criteria started with the dastardly tactics used to get to the finishing line, the investor base has been gradually starved of the diverse servings of yields that was for so long on the menu across the European spectrum, and I feel we will certainly see an explosion in 'junk' bond issuance (non investment grade/companies in distress) as these companies will find the capital markets more amenable to them than ever before.

But for Heaven's sake, we've seen it all before, haven't we? Historically low short term interest rates in America at the beginning of the '90s was the catalyst for the emerging markets in the first place. Ten years ago, one would have looked aghast at anyone claiming that they profitably traded Ecuadorian debt, yet Latin American fixed interest trading took off like a rocket and became a multi-billion dollar business in short order because US investors' appetite for greater returns needed satisfying.

Since the introduction of EMU will place a question mark over the validity of having disparate stock markets dotted across Europe, and as the Euro mantra of 'why have eleven when you can have one?' could easily be applied, the outlook is too uncertain for pluralistic European equity markets at this point. A single stockmarket based in unimaginitive Frankfurt, with all the straitjacketing livery of an overly regulated bureaucracy, so beloved of German politicians, will be a total anathema to every investor who's ever opened the FT.

With a weak Euro forced into the hands of 300 million largely unwilling citizens, it is not in America's export interests to allow its haven currency to be stretched to breaking point, and Britain (not forgetting tiny Switzerland) will not choose to share those honours either. How will these countries cope with the expected inflow of flight capital? Could it be time to blow the dust off the gold bullion buy recommendations of yesteryear, as maybe this precious metal will suddenly receive a jump start from cold and reassert its erstwhile role as an alternative currency for widows and orphans.

In conclusion, to remove fluctuating currencies and short term interest rates in the face of rapid globalisation, both industrial and financial, deprives the marketplace of a vast degree of latitude and flexibility. In order to mitigate high operating costs, there would be a very real danger that yield-hungry financial institutions would be forced to take on some fairly chunky risk positions.

The City has weathered wars, conflicts, asymmetrical shocks and the ERM debacle, amongst others, to become the world's most innovative and international financial centre with the largest proportion (35%) of all global foreign exchange trading transacted here. In terms of jobs and revenues sustained from forex alone, we have much to lose from the sterilisation of Europe's economies. In their blind pursuit of a global political profile, the EU has not allowed for any pressure valve to take the build up of steam when EMU becomes totally unviable.

The City's innate ability to reinvent itself will be sorely put to the test and it only remains to be seen what can be created from the bare remains of the eleven once independently breathing economies.

Monima Siddique was 15 years in international banking, latterly Vice President at J.P. Morgan. She stood as Referendum Party candidate for Hampstead & Highgate and is now a City Headhunter.

Two countries fit for EMU, says German economics institute

Two countries, the Netherlands and Austria, qualify for EMU, says the Kiel Institute for World Economics in a report commissioned for the German Finance Ministry. Britain, Ireland and Portugal partially qualify for it. The institute sees dangers for the jobs market in EMU countries, which may endanger the whole EMU project in the long term. These problems can only be solved if the start of EMU is openly presented as the beginning of new competition in the labour market, and if the necessary reforms are immediately introduced.

How did the Italians get in?
The German government has indicated that it will vote in favour of Italian membership of EMU. But what made her abandon her long running opposition to Italian participation in the first wave? Answer: in return for it, Italy has agreed to abandon her opposition to Germany having a permanent seat on the UN security council. This is, no doubt, an example of Germany "binding herself in", and it shows how very unpolitical monetary union is.

... news in brief

Brussels want to suppress black economy

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European Monetary Union in Historical Perspective

by Professor William Frend

“A Patriotic Alliance for a People's Europe”; thus went one of the Prime Minister’s more optimistic forays into European politics, uttered on 20th January 1998. Is it possible, or is it desirable? That Britain should be one of the leading players in the European Union is to state the obvious, but to lead is a different matter. Time has long passed since senior German officers, whom I interviewed in Italy on behalf of Psychological Warfare Branch immediately after the end of hostilities, affirmed that Europe needed British leadership. In the state of our economy and in the midst of great reforms at home and in the Empire, such ideas were fanciful. We were able to give, however, honest and efficient administration in those areas of Germany and Austria which fell under our control. Our stewardship, particularly in Austria, has not been forgotten.

Nonetheless, in the intervening fifty years two sets of developments have taken place in Europe, one in which we share, the other, however, which emphasises our otherness from our continental neighbours. There is the Europe with which we do roughly half our trade, to which we are united by ever increasing sporting links, tourism and cultural activities of every description, the Europe of the European team of the Ryder Cup in which we share and support wholeheartedly. These are links that will continue to grow and prosper, the germ of a real People’s Europe in which we participate fully.

This is, however, entirely different from EMU and economic and political relations which would accompany our membership. Our history and experience have not been the same as those of our continental neighbours. From the 16th century onwards, first one Power and then another has sought to dominate the Continent; Spain under Charles V and Philip II, France under Louis XIV and Napoleon, Germany under Kaiser Wilhelm and Hitler, and now there is Chancellor Kohl. For it is generally agreed on the Continent that EMU is an all important first step toward a federal Europe. This would be dominated by Germany, with essential decisions initiated by that country and France.

To understand why eleven out of the fifteen present members of the European Union are willing to acquiesce in this prospect, one must look back over the history of continental Europe during this century. On any reckoning the record of the first half has been shocking. From 1905 to 1956 and beyond, crisis, war and crisis have followed in an interminable sequence. The First World War was a classic example of brinkmanship that went wrong, based on the failure of diplomats to realise that the end of the Ottoman Empire in the Balkans was bound to expose older, more bitter and longer standing rivalries, based on language, race and, above all, religion. The horrific conflicts between Serb and Croat in Bosnia in 1941–42 and 1991–95 were the grim aftershocks of a war that started with the murder of the Archduke Franz Ferdinand and his wife at Sarajevo (28th June 1914) by Serbian nationalists. After 4½ years of worldwide conflict, peace was made not on the basis of European interests, but on that of President Wilson’s Fourteen Points. Europe had lost for the foreseeable future the predominance in world affairs it had held since the sixteenth century.

Between 1918 and 1939 the process of decline was masked by simultaneous isolationism in the United States and the Soviet Union. The European powers were allowed a twenty year Indian summer for their states and their empires. The fragility of Europe’s and especially Germany’s situation was still lost on Hitler. On 5th November 1937 he proclaimed to a secret conclave of high ranking officers and Nazi Party officials that, in order to achieve Germany’s “living space” in the east, war was inevitable against the Soviets before 1944, by which time the Russian bloc population and birth rate would exceed that of Germany. When in 1938 war over Czechoslovakia seemed inevitable, the State Secretary in the Foreign Ministry, Ernst von Weizsäcker, warned his master, von Ribbentrop, on 20th June 1938, “If you go to war, Germany will be exhausted, but all Europe will be the loser. Power will pass to the non-European continents and the antisocial Powers”, i.e. USA and the Soviet Union.

Hitler did not heed the advice and invaded Poland on 1st September 1939. Down to the middle of 1943 not everyone in the remainder of Europe deplored German victories. As I realised when a student in Berlin in 1937–38, Goebbels’ propaganda, though spread in the interests exclusively of Germany, had its spin-off in winning support for Germany’s aims in every country on the Continent. During early wartime service in France in the War Office, I wrote in a memorandum to my colleagues on 24th July 1940, “During the last three months [i.e. April to July] the Nazis have shown how a small but strongly organised minority in a country can be used in such a way as to paralyse the action of the majority and the Government in the case of invasion.” I urged the formation of a counter-propaganda organisation to deal with this contingency in neutral and overseas areas which might be in danger of subversion. In the event no country on the Continent escaped. Even the Dutch raised a Battalion Westland to fight on the side of the Germans on the Russian front. It was perhaps a mercy that the Russian offensive across the Don in November 1942 trapped many of the satellite European formations that were serving under German command. Not surprisingly, the present generation of Europeans wish to put these events behind them and unite as a single continent of Europe. Even so, countries such as Belgium remain riven with underlying conflict. Two years ago I was a member of a cultural society’s visit to Bruges. We were advised not to try to speak French in this Flemish city.

Between 1940 and 1942 France occupied a special position. The Vichy government was nominally independent and in control of those colonial territories that had not joined the Free French. It is not realised perhaps how firm was the collaboration between Vichy and the Nazis. Not only were the French administrations in West Africa, Syria and Madagascar in practice co-belligerents with the Nazis, but...
there was also active collaboration between the Vichy administration and police in France with the occupation authorities. In the first part of 1942 Paris was again a gay and prosperous city. German ambitions had meantime spread beyond the Ukraine to the whole European land mass. A map found in one of the State Secretary’s files in the German Foreign Ministry, dating it in 1942, shows a German possession of the Belgian Congo, ringed by the colonies of France and Italy in alliance. Britain would be excluded from Africa. “The cotton fields of Tamanrasset” figured frequently in intelligence reports during the first half of 1942, symbolising the design of a Euroafrikan self-sufficiency organised by Germany and France.

This vast land mass was also to be held together by a single currency (the Mark). As early as 30th May 1940, at the moment therefore when Germany felt sure of winning the war, Carl Clodius, then deputy director of the Economic Policy Department in the Foreign Ministry, wrote, after stating that England would have to accept all Germany’s conditions: these envisaged it as if the Italians, with an exchange rate of roughly 2900 lira to the pound, or the Portuguese, at 295 escudos, would not feel hard done by if they exchanged their fragile currencies for the stability of a continent-wide euro.

Relative economic weakness of the continental countries led to another result. Between 1941 and 1974 the old colonial empires built up in the previous four centuries evaporated, sometimes, as in Vietnam (French Indochina) and Algeria, amidst revolutions and war. Alone amidst the debris of the past, Britain was able to dismantle its colonial empire and transform it into a Commonwealth of Nations. It weathered (remarkably!) the Sanctions Crisis of 1973, to re-emerge as a magnet for new members among the African nations and reunion of three nations – Pakistan, South Africa and Fiji – that had previously left. (The presence of representatives of the Cameroons and Mozambique at the Cenotaph service in November 1997 indicated that the Commonwealth was bigger than its detractors.)

In many ways the prospect would not be unwelcome to some European countries, then as now. With the exception of Switzerland, the continental countries have suffered massive devaluations after both the First and Second World Wars. From circa 1880 to 1914, there was an informal common currency in western Europe. The penny, ten centimes piece, ten centesimi, etc., all were the same size and had roughly the same purchasing power. The same is true of the shilling, one franc piece and one lira piece. Only the penny survived the two world wars, for between 1959 and 1971 the English penny remained the same size amidst the wreckage of the continental currencies. Today it can be well understood.

This most radical measure … would be a customs and currency union

“a Greater German economic sphere to include Norway, the Benelux countries and whatever else Germany might take over”. This “most radical measure in this connection would be a customs and currency union” (Documents on German Foreign Policy, Sec. D. IX, HMSO, 1956, Doc. 354, p.476; this document also assumes German annexation of the Belgian Congo).

In an ideal world we should take our place with the other major nations forming the present European Union, namely Germany, Italy and France. We should thus be “at the heart of Europe”, sharing leadership in partnership with equal colleagues (the same idea that underpinned the abortive negotiations for a European Four Power Pact in 1935–36). We should also be a major link between Europe and other global economies, not least the United States. We should resist any further encroachment on our sovereignty, both from the European Commission at Brussels and the European courts (lesbian litigants at the Court of Human Rights, for instance, should not be allowed that Aegean cruise at the expense of the British taxpayer!). As in 1940–41, it is basically a question of will. Do we want to remain an independent nation, or do we opt for a status akin to that of Texas or California in the United States? My generation, at the cost of great sacrifices, did its duty and gave its successors a second chance. The jury is still out, but “cool Britannia” that turns its back on its history is not an adequate answer.

William Frend is Professor Emeritus of Ecclesiastical History at the University of Glasgow and a Bye-Fellow of Gonville and Caius College, Cambridge. During the war he served as an Intelligence Officer in the Foreign Office Political Intelligence Department.
Europe’s Crisis: ‘Coming Home’

by Bill Jamieson

A microphone inadvertently left switched on has played a cruel trick in Brussels. Grandiose rhetoric on EU enlargement has been exposed by the reality within.

In late March, at a meeting normally held behind closed doors, one EU farm minister after another tore into proposals for agricultural reform to launch the enlargement process. The proceedings – unfortunately for those taking part – were broadcast live into the offices of a bemused Brussels press corps.

The fracas was particularly embarrassing for Mr Cook as he had chosen the day of the farm ministers’ meeting to demonstrate the EU’s commitment to “transparency and evolution”. The incident exposed the ceremonial rhetoric as a sham, and put paid to government attempts to present progress on enlargement as yet another “achievement” of the UK’s EU presidency.

Such an incident will come as little surprise to those who have been following the enlargement process. It is one which carries huge implications for the EU. No issue will more polarise the two fundamental questions at the heart of the EU: what Europe “is” – where it begins and where it ends – and the nature and purpose of the EU.

The sound and fury generated by the single currency has drowned the ticking of the bomb that is enlargement. Cyprus and ten countries in central and eastern Europe have applied for membership. These applications present the greatest challenge to the EU, in both economic and political fronts. The ten central and eastern European economies (CEECs) have combined a population of 105 million and gross national product of $283 billion. For the purposes of the entry process the ten have been divided into two groups of five – the Czech Republic, Estonia, Hungary, Poland and Slovenia in the first group, earmarked for early accession; and a second group – Bulgaria, Latvia, Lithuania, Romania and Slovakia on the back burner.

EU enlargement will involve both political and budgetary upheaval. More immediately it involves a substantial reduction in the allocation of funds to existing members. The European Commission, in its proposals set out in Agenda 2000, envisages spending in the new member states to rise by more than threefold – from 5.8 billion ecus (£3.9 billion) in 2000 to 15.7 billion ecus (£10.5 billion) in 2006.

It also proposes a further 3 billion ecus should be spent each year in pre-accession aid. This inevitably means a reduction in the aid going to existing members, both in the form of agricultural and cohesion funds.

Existing members are putting up ferocious resistance. In the case of Spain, cohesion funds are seen as part of the package under which Spain gave its support for the Maastricht Treaty and is seen as non-negotiable. Big net contributors such as Germany are determined not to pay any more into the EU kitty. Smaller members such as Finland and Sweden deeply fear loss of voice and representation when ten more countries join. And there is an almost truculent refusal to countenance any reform of the Common Agricultural Policy which is vital if the accession economies are not to be hugely disadvantaged.

Even in the early stages of negotiation it is interesting to see a harsh new light cast on EU structural funds: what were agreed as one-off or temporary disbursements to help the less developed economies “catch up” with the others are now regarded as indispensable and permanent streams of income, without which the recipient economies would be crippled: far from promoting development, they have promoted dependence.

The threat to the EU’s budget ceiling of 1.27 per cent of community GDP is very real without reform, while at the same time the countries of central and eastern Europe are obliged to comply with the needs of a deeply flawed economic model. The EU as a regional economic bloc is losing global market share of world trade, a falling share of global cross-border capital flows and is scarred by 18 million unemployed – scarcely encouraging pointers for the capital and job hungry economies of the CEECs.

The full crisis of enlargement and the political, economic and budgetary issues it raises is set out in a paperback I have co-written with Dr Helen Szamuely, A ‘Coming Home’ or Poisoned Chalice? Published by the Centre for Research into Post-Communist Economies, with a foreword by the Rt Hon. Michael Portillo, it sets out how the crisis of enlargement cannot be overcome without fundamental reform and a restatement of what the EU “is” and where it is headed.

For the countries of central and eastern Europe greater political and trading ties with western Europe are strongly desired after some 50 years as part of the Soviet empire. This they see as a ‘Coming Home’. But in the formal process of accession they are coming up against the requirement to comply with the EU’s acquis communautaire and flawed social and economic model: that is the poisoned chalice.

British European policy has long been in favour of enlargement, on the premise that widening would slow down the agenda of deepening.

Existing members are putting up ferocious resistance. In the case of Spain, cohesion funds are seen as part of the package under which Spain gave its support for the Maastricht Treaty and is seen as non-negotiable. Big net contributors such as Germany are determined not to pay any more into the EU kitty. Smaller members such as Finland and Sweden deeply fear loss of voice and representation when ten more countries join. And there is an almost truculent refusal to countenance any reform of the Common Agricultural Policy which is vital if the accession economies are not to be hugely disadvantaged.

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British European policy has long been in favour of enlargement, on the premise that widening would slow down the agenda of deepening. But this proving a myth: widening is not the opposite of deepening. The EU is determined to press on, both with its agenda of monetary, economic and political convergence, and with the extension of its political and regulatory remit. That extension is both a threat to the growth rates of the central and eastern European economies and their success so far in attracting global inward investment, and to the social and political stability of Europe.

Robin Cook may fill the air with vacuous rhetoric about “progress to enlargement”. The fact is, a new and far more critical approach is needed. A constitutional conference would seem a natural and early first step, and should be top of Britain’s agenda – as and when the politics of empty slogans and spin machine cliché is exposed for the vacuous sham that it is.

A ‘Coming Home’ or Poisoned Chalice?, Centre for Research into Post-Communist Economics (CRCE), Dr Helen Szamuely and Bill Jamieson, paperback £8.50.

Bill Jamieson is Economics Editor of the Sunday Telegraph.
A Very Unbecoming Code of Conduct

by Christopher Arkell

As many of his obituarists pointed out, including the February editorial in the European Journal, the death of Enoch Powell also marks the passing of that old pattern of public behaviour known as an ‘officer and a gentleman’. Once a universal standard for those in public life, and in particular public office, it has been mocked and ironised almost to extinction by those who now dress themselves in the glitz of Cool Britannia.

The change has not been for the better. Gone are the resignations on a point of principle, such as Powell’s in 1958, or for ‘conduct unbecoming’ a minister, such as Profumo’s in 1963. Now we are governed by an administration which – for all its hue and cry after ‘sleaze’ in the Hamilton and Smith affairs – still contains in its ministerial ranks Messrs Cook and Robinson. The well understood common sense of ‘conduct unbecoming’ has succumbed to a web of Codes of Conduct, drafted in impenetrable legalese and requiring a sharp lawyer, rather than a conscience, to negotiate. Even good old hypocrisy, that peculiarly British tribute which vice in our islands was always prepared to pay to virtue, is now merely the spin doctor’s readiest weapon for fooling the public. The real tribute, meanwhile, flows ever more abundantly to our overall masters in Brussels.

 Nothing illustrates all this better than Tony Blair’s recent speech to the French National Assembly on 24 March 1998. Heralded by the media as a vigorous defence of Britain’s independence in matters of culture, the welfare state and taxation, it is of course nothing of the sort. Blair’s hypocrisy on tax was especially deceiving. He has been widely reported, no doubt with the spin doctors in mind, as defending ‘taxation’ against future encroachment from Brussels. But he actually spoke of ‘personal taxation’. The difference is no mere matter of presentation or press simplification. It underlines a crucial, but unannounced, change of policy by the Blair administration concerning the EU’s right to control the tax policies of the Member States.

All previous governments have protected the sovereignty of the UK in its domestic tax affairs. Blair, however, has given it away under three heads. He has granted the European Commission the right to regulate business tax laws and their administration in the UK; to place such regulation under the legal auspices of articles of The Treaty on European Union dealing with state aid and therefore not subject to unanimity in the Council of Ministers; and to introduce Directives on personal taxation. Short of handing the budget box to Commissioner Monti and asking him to write Gordon Brown’s annual homily to the undergraduates, no more comprehensive abandonment of British fiscal independence could have been devised.

The story is the familiar one of the European Commission working hard over a number of years to put in place further irreversible structures for a single European superstate. The Commission has been concerned for some time that its control over the fiscal resources and administration of the EU is inadequate to its plans for a single political and economic territory. It has also resented the fact that its budget is so small in GDP terms compared with those of the Member States. It has therefore attacked on two fronts. It has tabled plans for a revised VAT system, which treats VAT as a Community tax, centrally administered and supervised with a reallocation of revenues raised back to regions of the Member States through “other machinery” [XXI/1156/96 A Common System of VAT, p.34]. With VAT revenues flowing directly into its hands, the Commission will have solved its budget problems at a stroke, and the indignities of the 1992 Edinburgh ‘compromise’ will have been revenged.

The other attack has been on the sovereignty of the Member States in direct tax matters. The Commission set up a Committee of Independent Experts on Company Taxation in the European Union under the chairmanship of Onno Ruding, which reported in 1992. This contained specific recommendations for the harmonisation of rules governing the taxation of employee retirement contributions, such as ACT) but also of tax credits, such as tax avoidance; minimum levels of withholding tax of interest payments to individuals to avoid tax evasion and avoidance; much greater co-ordination and harmonisation, not only of tax rates but also of tax administrations and legal rulings. At the heart of these practical measures lay a Code of Conduct [para. 6.5, p.12, op.cit] which would “define common standards across a range of areas”. It is clear, despite the coded language that only refers to “some personal representatives” and not to countries by name, that the UK objected to the general thrust of the Commission’s plans. For example, instead of increasing taxes on capital to compensate for their reduction on labour, “some personal representatives stated that reductions in public expenditure should be pursued as a matter of policy [para.4.7, p.9]. This point is ignored in the concluding section on employment, where the Commission states grandly that “there are great benefits to be gained in coordinating tax measures and presenting tax harmonisation, with its consequent
increases on capital to balance any decreases on labour, will be pursued in the deceptive guise of policies apparently designed to alleviate unemployment.

About the time of the publication of the final version of this document in October 1996, the German government began a public onslaught on tax havens in the EU, with particular emphasis on the UK’s offshore tax centres in the Channel Islands, the Isle of Man and Gibraltar. The European newspaper ran several reports that autumn of German tax investigators seizing bank records to follow German capital in flight from tax rates as high as 60% for corporate and individual investors and savers.

The UK was publicly accused by Theo Waigel of ‘tax poaching’ . “The UK non-domicile tax rules effectively allowed highly paid Germans to work in the City of London and to treat the place as a tax haven” [Taxation Practitioner, Off-shore Supplement, March 1998, ‘Tax Poaching – a Capital Offence?’ by Anthony Fisher, p.5]. This challenge to the UK surprised the City, because it was common knowledge that the main capital flows from Germany were going into Luxembourg based tax-advantaged funds, which only invested in the UK and its offshore centres at second or third hand.

But Waigel’s anger, echoed by squeals of ‘unfair tax competition’ from Paris, were just what the Commission wanted to hear. It rose to his challenge, drafted the Code of Conduct, slipped so innocuously into its 1996 document, and presented it to EU Finance Ministers at their informal ECOFIN of 13 September 1997 in Luxembourg.

This was a very important moment for Blair’s New Labour approach to the EU. What would the practical effects be of the ‘constructive’ co-operation with our European ‘partners’ in Britain’s national interest promised in Labour’s election manifesto? Would our veto over harmonisation of the EU tax regime remain intact? Would we exercise it to protect our tax sovereignty, as Blair implies in his speech to the French deputies?

There are no prizes for guessing the outcome. With the speed of an English test cricket collapse, the UK supported all the main proposals that the Commission set out in 1996. After the usual horse-trading and redrafting, these have now been formally codified. The Commission has taken control of ‘predatory pricing’ of corporation tax rates. It has gained an important foothold in the area of personal tax by achieving the outlawing by means of future Directives of special tax regimes for employees “which are designed to have a significant effect on the location of business activity” [Taxation Practitioner, op.cit. p.5]. And it has committed the Member States to the ‘stand-still’ and eventual ‘roll-back’ of tax regimes which currently permit special tax reductions, including those regimes in the Member States’ dependent territories (paragraph M of the Code). The Code covers not just nominal tax rates, but also allowances, reliefs, deductions and credits.

“Taken to its logical conclusion”, argues Anthony Fisher, Financial Services Development Director in Gibraltar [Taxation Practitioner, op.cit. p.6], “it could deny every member state the right to use fiscal measures to discriminate in favour of a particular type of business (e.g. agriculture, the film industry, etc.), a particular entity (e.g. holding companies, pension funds, etc.), specific activities (research and development, training, etc.), or particular geographical areas.”

Each Member State is encouraged to report to the Commission any tax measure of another Member State which it considers to fall within the scope of the Code. Member States are also required to inform each other of existing and proposed tax measures which may be covered by the Code. The Commission has taken upon itself the role of ‘co-ordinating’ all taxation activities dealt with by the Code and is establishing, under paragraph H, a special committee to review all special tax measures that potentially involve ‘harmful tax competition’.

Although the Code appears to lack coercive teeth, it refers to the fact that “some of the tax measures covered by this Code may fall within the scope of the provisions on state aid in Articles 92 to 94 of the Treaty” [on European Union, i.e. the Maastricht Treaty as amended – quoted from Taxation, 12 March 1998, leading article by Adrian Ogley, p.568]. This means that enforcement of the Code has been placed under the jurisdiction of the European Court of Justice, and is also subject to the possibility of further EU Directives being drafted by the Commission and introduced under Qualified Majority Voting rules, not the unanimity principle which used to cover all EU tax matters. The Commission also intends to review all existing and proposed tax measures which it considers come within the scope of the Code, in the light of the Code’s guidelines, to ensure consistency of application throughout the EU.

For Tony Blair and Gordon Brown to claim that this Code of Conduct does not affect the UK Government’s competence on tax matters is disingenuous and hypocritical in the extreme. Indeed, the first effects of the Code are already being felt in the UK’s tax system, on the mainland as well as offshore.

Tax experts were surprised that the March Budget abolished the foreign earnings rule, whereby up to 100% relief was available to employees on income earned abroad, provided the individual satisfied certain rules of absence in the tax years concerned. But it can be clearly seen that this step has been introduced in response to Germany’s complaint about its nationals working in the UK and not paying tax either here or in Germany. It is a ‘quid pro quo’ agreed with Germany, to even up the position for the two countries’ respective nationals. The abolition of our ACT regime and the Foreign Income Dividend relief that went with it aligns the UK with the Commission’s intention to abolish tax on cross-border dividend payments between corporations at the same time as introducing an EU-wide withholding tax on dividends received by individuals. Brown’s reduction of mainstream corporation tax to 30% must also be seen in the light of the European Commission’s plans to have a ‘classical’ corporate tax system throughout the EU. The Ruding Committee recommended as long ago as 1992 that a minimum rate of corporation tax should be set for the EU at 30%. Brown’s corporation tax plans merely put this EU programme into effect.

Robin Cook’s recently announced Review of the status of the UK’s remaining colonies was largely determined, in timing and scope, by the Code’s intolerance of offshore low tax areas within the EU, or under the sovereignty of the Member States. Cook’s Review is intended to enforce on each dependent territory a version of the Gibraltar All Crimes Money Laundering legislation which has had to be approved by the EU. It attacks fiscal crime as much as money laundering. In an intriguing parallel development reported in Taxation, 29 January 1998, p.405, Belgium has granted its tax authorities the same vast powers of search and enquiry for ‘fraude fiscale’ as for drugs and weapons money laundering. Fraude fiscale must now include misuse – abus – of fiscal law, being the use of
legal provisions which are deemed by the authorities to be exaggerated or improper in the light of their intended purpose. Also included in the Belgian concept of fraude fiscale are companies located in low tax jurisdictions and tax planning, since planned avoidance offends the spirit of the law and therefore constitutes abus.

It will be seen that Gordon Brown’s obsession with tax avoidance, and his determination to introduce a General Anti-Avoidance Rule, not just for VAT and customs and excise duties too, is ‘nothing personal’. He’s merely carrying out the customs and excise duties too, is ‘nothing personal’. He’s merely carrying out the regulations already promulgated by the Commission. To adopt Lady Thatcher’s famous dictum – when Eurocrats decide, ministers are well advised to obey.

In practice, the Code of Conduct is likely to be merely a harbinger of sweeping changes to be introduced throughout the EU in the wake of the Euro. Leading articles in the Financial Times have suggested recently that a single currency will not require a thorough-going harmonisation of taxes across the single currency zone. This is not the Commission’s view. All its publications and research papers make it absolutely plain that it will not tolerate distortions of competition and the consequent misallocation of resources in the EU arising as a result of different tax regimes in the Member States. It has long used the slogans of ‘harmful’ and ‘unfair’ tax competition to break down the tax sovereignty of the Member States. Until May 1997, the UK Government was standing firm against the Commission’s attack. Since then, under Blair, our ministers have caved in completely – though they’ll twist any number of words to avoid admitting so in public.

So much for New Labour’s honesty and truthfulness in public life. What would Enoch Powell have made of it all? ‘Conduct unbecoming’ a Minister of the Crown, indeed; but unhappily all too often met with in the British Eurocrats who administer us these days. Still, I bet they’ve got their own Code of Conduct – Rules for Dismembering a Nation State without its People Noticing, perhaps?

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Germany’s Racialist and Hegemonial Foreign Policy

by Hans-Rudiger Minow

In 1993, the Czech journalist, Václav Belohradsky, penned the following words about Germany. “The foreign policy of reunified Germany is awakening fears which are, in my opinion, justified. The result of its increased influence in central Europe (at the expense of that of France and Germany) is that the European Community was unable to oppose the break-up along ethnic lines of those states which had come into being after the First World War. Germany insisted on the quickest possible recognition of the successor states. Here we can see what I call ‘German archaism’ invading foreign policy: Article 116 of the German Basic Law defines nationality as membership of the German ethnic group…. It is precisely this German archaism, the ethnic concept of statehood, which causes people to be afraid of the Germans.”

When Belohradsky wrote this, he was thinking of the events in Yugoslavia. He did not then know that German policy was also about to deploy its feared traditions in their very own vicinity.

In 1998 an apparently private organisation in Munich decided to launch an experiment on the borders of Czechoslovakia “as soon as the opportunity presented itself”. This soon came, in 1991, when an enlarged Germany was celebrating its unification. Between Bavaria and Czechoslovakia, a “Region” was set up, which united parts of Czech territory with German territory, and which abrogated the border regime which was then in existence. The instigators of the “Regio Egrensis” – a Latin expression which contains the German name “Eger” – claimed that it was a “European” project and dedicated to peace.

In reality, these supposedly private individuals were in fact senior officials in the Associations of German Expellees. Their peace-loving non-governmental organisation was in fact a front for the Bavarian State Chancellery, Department A III. At least one of the Sudeten-German officials who was working for the “regionalisation” of the Sudetens had the benefit of experience in Czechoslovakia in 1939. He had then been “Head of the Department of the Reichs-Protector in Bohemia and Moravia”, and he was thus responsible for the ethnic concept of statehood which Belohradsky calls archaic.

Not only the Czech publicist, but probably no one in Europe would have believed that the German “archaism” of 1939 could return to Europe and that it would make use of the same old methods: minorities which can break up whole states if they are charged up with the appropriate theories.

It would have been even more incredible in 1991 to predict a German minorities policy which would attract not only German speaking minorities, but which would place various other minorities in Europe under the umbrella of so-called independent organisations.

And yet it is the very purpose of German foreign policy to systematise the potential for conflict in France and Poland, in Great Britain and Greece, in Romania and Russia, in Belgium, Italy and Hungary, in order to test whether this potential can be exploited and used. This policy can be observed in the activities of numerous minorities’ institutions and regionalist unions, among which the “Federal Union of European Ethnic Groups” (Volkgruppen in German) enjoys a special place. The policy is also evident in the work, which was prepared in 1990 and which got fully under way in December 1996, of the “European Centre for Minority Issues”.

The German state appears to be pursuing a policy which goes back to the period following the First World War. Then, the League of Nations created an international system of protection which promised support for the members of national minorities. An individual who suffered discrimination had bodies at his disposal, to which he could appeal if his human rights were infringed.

This system of protection had hardly been set up before Berlin’s foreign policy abused it for conspiratorial purposes. It was eventually destroyed in the Germany of the 1930s.

Individual minority rights were abrogated because it was not individual people, but instead their descent, which
was regarded as worthy of protection. This concept of nationality – which is still in force in Germany, according to which the German nation must preserve its racialist (ethnic) purity, and that only someone of German blood can be German (ius sanguinis) – was accentuated.

Prominent German experts taught that protection of minorities was possible exclusively within ethnic collective organs called Volkgruppen or “ethnic groups”. Supposedly of pure descent and thus internally harmonious, the ethnic group was supposed to form an ethnic community (Volksgemeinschaft) and, outwards, to constitute an ethnic body (Volkskörper).

This biological obfuscation of the concrete fates of individual people led German theoreticians of minorities to maintain that ethnic groups enjoyed legal personality. In this way, the blood-based collective became a subject of rights which had been taken away from the individual. The individual’s personal uniqueness was reduced to the fact that he bore a certain racial origin, which had to be collectively protected against “infiltration” and “mixture”.

At the end of this process, the totalitarianised minorities, represented by “leaders of ethnic groups” (Volksgruppenführer) were confronted with the local majority. Blood stood against blood. The mutual refusal to assimilate biologically required a territorial solution. So, once the international protection of minorities had been turned into a racistist “protection of ethnic groups”, it served the German government as an excuse for territorial demands.

The memory of this racist policy and of the victims of the Second World War caused the United Nations, after 1945, to elaborate a new stricter structure of rules for the protection of the human and citizens’ rights. It strengthened the right to religious and cultural difference, which were not allowed to disadvantage anyone only because he belonged to a minority. Collective rights are not recognised in the UN Declarations.

The European institutions also base their protection of minorities on individual rights and basic freedoms. “Collective rights in the narrow sense have so far never been anchored in an international agreement”, as a study initiated by the German Foreign Ministry justly remarks.

But while numerous European states, e.g. Great Britain and France, reject group rights because of their explosive potential – as the experiences of the Second World War show – and although they have repeatedly rejected any depersonalisation of minorities, demands for the “protection of ethnic groups” become ever louder. Since the territorial extension of the German state, and the optimisation of its economic, military and political potential, these calls are coming above all from the German Federal Republic.

“Supreme importance” has recently been attributed by official German bodies to “attempts at the European level to improve the situation of minorities and ethnic groups (Volkgruppen)”. The German state provided over DM 143 million in 1995, and DM 140 million in both 1996 and 1997, for the “support of German minorities in East-Central, East and South-East Europe”. Every year DM 110 million are paid in “support for the living requirements of German minorities”. These formulations in fact include sovereign activities which the new Germany exercises beyond its frontiers – the money is used for “the creation of administrative units in regions of German population”.

The fact that these “regions of German population” are in neighbouring states, whose inhabitants are subject not to German, but to another, sovereignty, does not bother those handing out the money. According to the blood law which is still in force, these people consider anyone as German who is of German descent. This is why the Federal Interior Ministry pays for the “consolidation of other regions which are settled by Germans or which in future may be settled by regions” throughout the world, however far they may be from German territory or from the people who live on it.

**This right to protection even and above all extends to minorities which are not German speaking and which live beyond the frontiers of Germany.**

Significant sums are paid out of the Federal Budget for the “Development and Furthering of a European Law on Ethnic Groups (Volkgruppen) and Minorities”. This money flows abroad from Germany in order to influence the lawmaking of the states concerned. As has been noticed in the German press, it is the purpose of German Foreign Policy to implant the “ethnic principle” of “protection of ethnic groups” (Volkgrupenschutz) not only in Europe “but also in Asia”.

For this purpose, German ministries have at their disposal numerous organisations whose international activities are worth consideration. In pride of place stands the “Federal Union of European Ethnic Groups” (FEUV in German), which is based in Flensburg in Schleswig-Holstein.

Numerous officials of this organisation are members of the German speaking minority across the border in Denmark. Their operations are largely funded directly or indirectly by the German state. The personal expenses of the organisation’s General-Secretary are paid for by the Land of Schleswig-Holstein, while other sums are paid by the Federal Interior Ministry.

According to its own declarations, the FEUV demands the “creation of an internationally recognised law for ethnic groups”, in other words not individual but collective rules. It even describes itself as the “successor organisation” of well-known minority organisations of the 1930s, of which it has been historically proven that they were controlled by the National-Socialist government.

Today the FEUV is linked to a series of other minority unions which can look back over varying periods of history of racism, anti-Semitism, the subversion of borders, as well as of interstate terrorism. Supposedly private and non-governmental, the FEUV claims that over 100 million people in nearly all European states belong to “ethnic groups”. It counts “84 member organisations”, of which several are separatist organisations. By claiming for itself millions of people, and with repeated reference to the violent character of minority conflicts, the FEUV demands for nearly all Germany’s neighbours “protection of ethnic groups through autonomy”.

The FEUV demands for these groups – which include the Welsh and the Scots in the UK, and the Alsatians, Burgundians and Bretons in France – “the right to bear local emblems, the right to apply for second citizenship, radio and television programmes, control over commercial banks and other financial institutions, control over the police, the right to raise taxes”. If this “protection of ethnic groups” is not implemented, says the former president of the FEUV, “then developments will not be able to be prevented which will lead to secession or to the collapse of states, whether in accordance with valid international law or not”.

The FEUV, among whose key founders were criminal Nazi officials, anti-Semites...
and propagandists of racist theory, is a front organisation for the German Foreign Ministry, and it was also active in creating the “European Centre for Minority Issues”. In official documents, the close collaboration of the ECM with the FEUV was encouraged. Created by a German-Danish working party in 1995, the ECM was to act as a judge over minority conflicts, especially violent ones. Because this programme represented an operative and juridical hegemony exercised by the Federal Interior Ministry and the German Foreign Office over conflicts in other European states, it has been the subject of numerous parliamentary questions.

The German government has always rejected suggestions made by parliamentarians that the FEUV has personal and ideological links to extreme right-wing forces, or that the ECM’s own activities would in fact encourage the kind of disintegration which would itself endanger the process of European integration. The government has tried to pretend that both are independent organisations, but the fact that, as it admits, the Danish government is financially involved, and that it lobbies European institutions, shows that it has a supranational aspect.

Parliamentary criticism has thus grown at the lack of transparency in Germany’s minority policies. Protest has also been raised at the fact that Germany refuses to accord millions of people of foreign citizenship who live in Germany (e.g. Turks) any special protection under the German constitution. Although there are people who live and work in Germany, and who send their children to German schools, the German state sticks to the fiction that their “centre of ethnic, cultural and linguistic identity lies in another country”. This exclusion by Germany of foreign citizens is in formal contradiction with international minority law as defined by the UN.

The government has rejected all attempts to afford “foreign minorities” the protection of the German constitution. It says that minority protection can be accorded “only to minorities with German citizenship” or “regionally limited minorities”, i.e. to “those who with German citizenship have lived in our country for decades or centuries”; in other words, “traditional ethnic groups”. The Bundestag deputy Wolfgang Bornsen (from Flensburg) also spoke in favour of this definition, which expresses a biological collectivisation of people, and which bases their rights on German-ness. Bornsen became a member of the governing council of the European Centre for Minorities in 1996. Because he had rejected calls for the protection of foreign minorities living in Germany, the Federal Ministry evidently considered him well suited to monitoring the protection of minorities abroad, for instance in Britain, France, Italy or Greece, via the ECM.

Another member of the governing council of the ECM is Rainer Hoffmann, who defends the view that there are “ethnically homogenous states” in contrast to other “ethically mixed” states containing different “ethnic groups”. These “ethnic groups” enjoy “rights of self-determination” which protect them from “assimilation”. For “ethnic groups” which are, however, being assimilated, he says that it is “justified under international law” for those groups to use “violent means” for the purpose of “creating their own states or in order violently to change borders”.

Financial support for Hoffmann comes from the Federal Interior Ministry’s Expellees Department. This shows with what state intentions the European Centre for Minority Issues was founded.

No less disturbing is the fact that the Director of the ECM, Stefan Troebst, was accused by the Greek Embassy in Bonn of “creating the conditions for future destabilisation” on the Greek border. This accusation is based on the time when Troebst was appointed a “monitor” (or observer) in former Yugoslavia by the German Foreign Ministry. He discovered “Albanian minorities” on the border with Greece and in Greece, and openly posed the “Albanian question”, postulating a “clash between the territorial claims of Albanian nationalism” with supposed “Greek nationalism”.

The Greek government considers the “clash” of which Troebst speaks to be not only an invention, but also a grave attempt to exploit minorities in order to conjure up a peace threatening situation. Despite the Greek government’s claim that Troebst has been accused of provocation, the Federal Interior Ministry thought it right to appoint him head of the ECM. Indeed, it is to be feared that Troebst’s activities in the former Yugoslavia and on the Greek border were not considered a blemish by his taskmasters, but rather as the perfect qualification for his work on European minorities. For the events in Yugoslavia show that economic, social, political or cultural contradictions between different sections of the populations can be “ethnicised”. This blood based concept of “ethnic groups” and minority rights is a speciality of German foreign policy.

Yugoslavia was an experimental ground for these specialists of ethnicity, where they tried out their methods. Similar increasing conflicts, which are presented as “ethnic”, in Italy (the Po Valley, the South Tyrol), France (Corsica, Alsace), Belgium and the Netherlands (Friesland), as well as in nearly all European states, thus appear to have no connection with one another. People think they are a reaction against globalisation, without seeing who is pulling the strings. This faulty diagnosis enables German foreign policy to intervene unnoticed in numerous areas of tension, or even to create the tensions in the first place.

Thus, the authorities in Belgium have complained that a German minority organisation, which is in contact with the FEUV, participated in separatist activities for many years. Members of this group have even been found guilty of terrorism, murder and other violent acts.

Investigations currently under way in Italy are also concentrating on the FEUV, not only with respect to irredentism in Northern Italy, but also in connection with links to right-wing extremist organisations. Italian observers have noticed that the work on German “ethnic groups” and minorities stands in close connection with the regionalisation movement, which seeks to destroy Europe’s nation states.

The following question is worthy of particular worry: is the modern nation state, whose citizen based concept of the state goes back to the French Revolution, supposed to collapse into tribal “ethnic groups”, which, like atomised satellites, are then supposed to gravitate around a hegemonial central power? Is this the “Europe of the Regions” which is propagated in various European institutions by the German Foreign Ministry, the Federal Interior Ministry and the German political parties?

Hans-Rudiger Minow lives near Cologne and works as a journalist with the Westdeutscher Rundfunk. He has published (with Walter von Goldendach) Von Krieg zu Krieg in 1997 (“From One War to the Next: German Foreign Policy and the Ethnic Dismemberment of Europe”), of which this text is an extract, and in 1994 Deutschum Erwache (“Germanhood Awaken!”), a study of state funded pan-Germanist movements.
When informed of this, a German diplomat in Rome remarked, “This I cannot understand at all. How can the British Government say they will not incorporate an article of the treaty into their law? I mean, they signed the Treaty! The only way they can say something like this is if they made a special declaration before signing. I shall look it up and see if they did make a special declaration, attached to the Treaty, which could serve as a basis for saying that Article K7 will not be incorporated into UK law. If there is no such declaration, well, then I can foresee a very big problem ahead.”

Now it is true that Article K7, para (2), speaks of a special declaration that a Member State can make “at the time of signing of this Treaty or at any time thereafter”, and which constitutes an opting-into certain provisions regarding the jurisdiction of the Court. Clearly Britain has not made this declaration. But this declaration only concerns paragraphs (1), (2) and (3) of Article K7. For para (4) starts with the words, “Any Member State, whether or not it has made a declaration pursuant to paragraph (2)…” So plainly the “declaration”, or failure to make it, does not affect the validity of the remainder of the Article, to wit – paras (4), (5), (6) and (7). (In particular, we note it does not affect the crucial paragraph (6), which grants the EU Court the power of jurisdiction over actions brought by the Commission against Member States on grounds of infringement of the Treaty, and thereby gives it the power one day to rule that a unilateral withdrawal is illegal.)

A few days after this came out in Hansard, it became clear that there was no confusion on the part of the British Government. On 30 March we had this second statement, this time from the Home Office, in the House of Lords:

In response to this question from the Lord Rankeilour:

“To ask Her Majesty’s Government whether, in the Treaty of Amsterdam, section 1, chapter 2, article K7 (‘New Article K7 of the TEU’), paragraphs 1, 6 and 7, they understand the phrase, ‘The Court of Justice shall have jurisdiction...’ to mean a permanent transfer of the said jurisdiction to the said Court, not subject to unilateral repeal by any of the signatories; and if so, how they reconcile this with the constitutional principle that no Parliament can bind the hands of its successors.” (HL 1132),

The Lord Williams of Mostyn, Minister of State for the Home Office, replied:

“Article K7 of the Treaty on European Union (as inserted by the Treaty of Amsterdam) confers limited jurisdiction on the European Court of Justice in respect of the revised Title VI of the Treaty on European Union, which deals with police and criminal judicial co-operation.

“The United Kingdom will not accept the optional preliminary reference jurisdiction established by this article. Nor will the European Communities (Amendment) Bill incorporate Article K7 into United Kingdom law. There is no question of any transfer of jurisdiction away from United Kingdom Courts or of Parliament binding the hands of its successors.”

It is clear that here the UK government is:

i) declaring that it intends not to accept the optional part – paras (1), (2) and (3) of Article K7 as provided for in the text of K7 itself. This by itself should cause no problem. But the UK government is actually going much further than this. It is also

ii) declaring that it will not incorporate any part of Article K7 into UK law, i.e. it is unilaterally expunging paragraphs (4), (5), (6) and (7) from the text of the Treaty in the form in which it will be ratified by the Parliament of Westminster.

We were unable to find any preliminary statement made by the UK government to Britain’s 14 other partners before the Treaty was signed on October 2nd 1997 informing them of this intention, and annexed to the Treaty itself. It is important to ask HMG whether any such protocol exists. If it does not, or if no coherent answer to this question can be elicited from HMG, then certain consequences flow from this.

As matters now stand, the Treaty is to be ratified by the UK Parliament in a form which is not the same as that ratified by the other 14 Member States. The entire Treaty may thereby become totally invalid for all, as it certainly would if, say, the referendums in Denmark or Ireland failed to approve it.

The entire legal basis for the process of building the European Union may therefore crumble away.

We can easily imagine the consequences for the project to issue the new single coinage on January 1st 1999. How many international investors would want to place their savings in a currency issued by such a precarious polity that can unravel with such ease?

At the same time, it must be noted that this stance by the UK government is perfectly in line with other recent public statements:

“There is no question of the [EU] Court’s jurisdiction in Article K7(6) constraining the Sovereignty of the Crown in Parliament”

(Letter from the Foreign & Commonwealth Office Minister of State with sepcial responsibility for EU affairs, Doug Henderson, 12/3/98).

“There is no question of Article K7 binding future Parliaments.” (ibid.)

“Under Article K7(6)... of the Amsterdam Treaty, the jurisdiction of the European Court of Justice is limited to reviewing the actions of the Council, and does not extend to measures taken by member states to give effect in their national law to any resulting obligations.”

(The Parliamentary Under-Secretary of State, Home Office, Lord Williams of
Mostyn, answering a question in the House of Lords – *Hansard*.

“Article K7 does not bind future Parliaments” (Lord Whitty, the government spokesman in the debate on the Treaty in the Lords – *Hansard*, 16/2/98)

These official declarations may well cause quite a few eyebrows to be raised in Brussels. They do seem to be at variance with the UK government’s hitherto ostensible enthusiasm for the EU project. They appear indeed somewhat reminiscent of the foot-dragging by the previous administration. Britain’s continental partners may wonder, are these statements to be linked to the UK’s decision not to join in the first wave of the Euro, a decision which the Blair government maintains was largely “inherited” from John Major’s administration?

The UK government is basically saying, Treaty or no Treaty, British sovereignty stands intact.

This position needs to be viewed against the Treaty requirement that each member State must ratify the Treaties and incorporate them into their domestic laws, each according to their own constitutional principles and procedures.

This causes some difficulties in the UK’s case. Britain’s constitution is not written down on one piece of paper, but nonetheless exists, in the shape of a few, simple, universally recognised and inexorably binding principles. It is defended by the criminal laws on Treason, and under the Treason Act of 1795 to engage in actions “tending to the overthrow of the… happy constitution” of the United Kingdom constitutes the felony of Treason.

There is no entrenched legislation, comparable to the Constitutional laws of other countries which require special qualified majorities to be changed, and it is a constitutional principle that there shall be no entrenched legislation; this is what is meant by the principle “No Parliament can bind its successor”. So any Parliament can make or unmake, by a simple majority, any legislation it chooses.

This means that the Parliament of Westminster cannot grant jurisdiction over the UK to the EU Court except as a temporary measure, pending the decision of a future Parliament which under the Constitution retains the inalienable right to decide to withdraw that grant of jurisdiction by rescinding the Treaty.

Some might object that a jurisdiction so constituted would be only a “play” jurisdiction, and not a jurisdiction “for real”. Be that as it may, the British Constitution in no way allows the transfer of a “real”, i.e. permanent and irrevocable, transfer of jurisdiction to a foreign body.

Authoritative constitutional experts have phrased it thus: “Parliament is omnipotent in all things, except to destroy its own omnipotence.” In fact there is no machinery for altering this principle, since any Act that one Parliament passed to do so, with however many solemn and binding declarations as to the future, could be repealed by a simple majority vote in a successor Parliament.

There is just one more, small, constraint on what Parliament, or rather, Members of Parliament may do, and it is that provided by the Oath of Allegiance that each Member has to swear before he or she is allowed to sit (the two Members elected in the Sinn Fein interest refuse to swear it and so are not allowed to take their seats). All it says is, “I swear … to be faithful and to bear true allegiance to Her Majesty the Queen…” Since the Queen has no political power (or actually never uses such theoretical powers as she may still hold) it is often thought that this does not mean very much. However “to bear true allegiance” to a Queen does mean to maintain her position as a Queen; and there can be no doubt that if the country is merged into a larger polity, which takes over the attributes of sovereignty, then the position of the Queen is diminished to that of a vassal. By definition, she can only be Queen of a Sovereign State.

So if Members of Parliament were to pass an Act that would do away with the Sovereignty of the Queen, and hence of the State, they would be forsworn, and probably guilty of Treason. Chaos and anarchy might well ensue. It is perhaps the only thing they are not allowed to do.

As far as Britain is concerned therefore, the construction of Europe and of the legitimacy of its institutions is subject to these constraints.

There is an irreconcilable incompatibility between these unalterable provisions of the British Constitution and any attempt to build Europe – if Britain is to be a part of it – as anything other than a free association of States each one of which retains its untrammeled national sovereignty.

Unfortunately, there appears to be general agreement amongst its builders that Europe is to be much more than a free-trading arrangement amongst sovereign states. De Gaulle’s idea of a “Europe des Patries” does not seem to enjoy current popularity in and around Brussels.

The mess we are in at present is partly due to the fact that so far the alternative has never been explicitly spelt out. Kohl did say “Europe – One Country”, he did not say “One State”. Yet this is presumably what he meant.

If this is what is generally meant, then it must be said so, out loud. If this happens, Britain will find that after all, it is not able to join, or perhaps, in the words of an Italian expert, “its participation in the Treaties was illegitimate right from the start”.

But would Germany be willing to go ahead in a Union where it would be the sole major net contributor, carrying most of the burden all by itself?

Alternatively, after open and far-reaching debate, it may be decided that de Gaulle was right after all, and the Member States might decide to jettison the idea of building a single State with a single currency, and settle, more simply, for just a single market with free trade and movement of goods and services within an association of States each of which retains its ultimate national sovereignty.

In any case surely either solution would be better than to continue with the present ambiguity which can only give rise to misunderstandings – a sure source of future resentment, bitterness, and ultimately strife.

A novel of political fiction, set in Europe – 2005, has been published. A small shiver runs down all our spines when we just read the title: *Euroslavia*.

To save Britain’s Constitution and to maintain our national sovereignty, all it needs now is for one Member of either House to stand up and demand an amendment removing K7 from the text of the Treaty, quoting the government’s assurances to Desmond Swayne, MP and to Lord Rankeillour that that is exactly what they, the government, have said they intend. Having given these assurances, the government cannot refuse such an amendment.

So once the text of the Treaty as approved by Westminster becomes different from the one approved by all the other 14 member States, the entire Treaty structure collapses, or will have to be renegotiated.

Torquil Dick-Erikson has been living in Italy for the past 27 years. For the last 12 years, as a journalist, he has been concerned with studying the differences between the Italian and British systems of criminal justice.
What do People Really Think about a Single Currency and a United States of Europe

by John Blundell

In April 1997 the Institute of Economic Affairs (IEA) worked with Market And Opinion Research International (MORI) on a project to re-draw the British political spectrum. The full report Beyond Left and Right: the new politics of Britain is available from the IEA at £25 per copy.

As part of this project, MORI interviewed 1,700 people in the days immediately before the May 1st General Election, asking 21 questions on matters of economic and personal freedom. Two of these questions concerned Europe, one asking if Britain should join the single European currency, and the other asking if the EU should develop into a United States of Europe (USE).

Summaries of the responses, both in aggregate form (All) and by sex, age, class, voting intention, region, income, and political ideology are given below. Note: voting intention is not the same as political ideology – for the purpose of this article, Conservative (uppercase 'C') refers to voting intention and conservative (lowercase 'c') to a set of political beliefs. These are not the same thing: for example, only 44% of conservatives intended to vote Conservative on May 1st 1997 – see full report.

Single Currency

A majority, 51% to 25%, disagrees with the statement that we should join the single currency. There is a difference between the sexes: men are more likely (31%) than women (19%) to favour joining. Both are close to the 50% mark in terms of disagreement and women are far more likely (29%) than men (20%) to neither agree nor disagree.

Agreement is constant across the ages (high 20%; low 23%) but hostility increases markedly with age from 46% of the 15–24 group to 57% of the 55+ group. The undecided group declines with age from 29% to 20% – consequently the net (agree minus disagree) moves from -21% for the 15–24 group to -34% with the 55+ people.

Authoritarians are more likely to agree, 37% agree and 28% disagree for a net of -58%. Socialists are also more likely to agree, 45% and 29% respectively.

Another row about the ECB

The Bundesbank is said to be frustrated that its statement on EMU was interpreted as a simple green light. In fact, it has no one else to blame but itself, for that is exactly what the document is. But its frustration is exacerbated because the German government seems poised to snub the bank and appoint a politician to the monetary council of the European Central Bank, instead of a member of the Bundesbank.

In order to get the French to abandon their support for Jean-Claude Trichet, the Germans are apparently preparing to drop their nomination of the Bundesbank's chief economist, Otmar Issing, as the German member of the new monetary directorate. This is something of a relief for Bonn anyway, which would much rather have a straightforward place-man than a semi-independent former Bundesbank member.

Issing was one of the main architects of the humiliating rejection by the Bundesbank of Theo Waigel’s plans to revalue the Bundesbank’s gold reserves in 1997.

Bonn is thus proposing to put forward Jürgen Stark, the State Secretary of the Finance Ministry. (A State Secretary is a hybrid between a civil servant and a politician. Although appointed – not elected – to his post as operational head of a ministry, he has party political affiliation,
**United States of Europe**

“The EU should develop into a United States of Europe”

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**EMU**

“Britain should join the European single currency (EMU) when it is set up.”

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is replaced when new governments come in, and answers questions in parliament.) Stark used to like introducing himself as “Stark wie die Mark” (Stark – ‘strong’ in German – as the Mark”). Alternatively, Stark may replace Bundesbank Vice-President Gaddum, who is retiring in the middle of this year, and then replace Tietmeyer as President on 1st September 1999.

**EP calls for controls over European Central Bank**

In a wonderful example of euro-oxymoronic drivel, the European Parliament has said that “true independence [for the ECB] must be accompanied by legitimacy and transparency in order to be duly accepted”. It therefore calls for “democratic control” over the ECB – the very thing Maastricht is designed to rule out. The parliament has called for the right to appoint the members of the bank’s monetary council, in conjunction with the member states. It also wants to be able to censure the bank, and to have a committee whose powers would be comparable to those of the Banking Committee within the US Senate. It has also called for quarterly reports from the bank, instead of the yearly ones the treaty requires, and for minutes of the council’s meetings to be published. Yves-Thibault de Silguy, the EU monetary commissar, has rejected these claims using a tired old metaphor he trots out frequently whenever any changes are suggested: “We must not open Pandora’s box”, he opined.
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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;
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- environmental issues;
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- the reform of Community institutions;
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