Preston Manning, MP, & Conrad Black
A Canadian Initiative

and Dr Eammon Butler, Roger Helmer & Keith Marsden

Special Feature: Japan and EMU
### Contents

For reference, numbers on pages are as in the printed copy

Articles below are hyperlinked – use the hand icon, point and click

<table>
<thead>
<tr>
<th>Title</th>
<th>Original Page</th>
<th>PDF Page</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Editorial</strong></td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td><em>Bill Cash, MP</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Fighting for the Pound</strong></td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td><em>Roger Helmer</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>English – Our Own Best Weapon</strong></td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td><em>Michael Wynne-Parker</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>A Canadian Initiative</strong></td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td><em>Preston Manning and Charlie Penson</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>In Britain’s National Interest</strong></td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td><em>Conrad Black</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>The Plain Economics of the Euro</strong></td>
<td>9</td>
<td>10</td>
</tr>
<tr>
<td><em>Dr Eamonn Butler</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Special Feature</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Japan and Europe: How can the links be strengthened?</strong></td>
<td>11</td>
<td>12</td>
</tr>
<tr>
<td><em>Haruko Fukuda</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>The Choice Facing the UK and Scotland</strong></td>
<td>14</td>
<td>15</td>
</tr>
<tr>
<td><em>Bill Walker, OBE</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Europe’s Future is to the East (Part II)</strong></td>
<td>15</td>
<td>16</td>
</tr>
<tr>
<td><em>Lord Howell</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Time for a Tilt at the ECJ</strong></td>
<td>18</td>
<td>19</td>
</tr>
<tr>
<td><em>Christopher Arkell</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Unfunded Pension Liabilities in the EU: An Update</strong></td>
<td>22</td>
<td>23</td>
</tr>
<tr>
<td><em>Douglas Ellison</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>The EU Should Heed the Lessons of the Berlin Airlift</strong></td>
<td>24</td>
<td>25</td>
</tr>
<tr>
<td><em>Keith Marsden</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Britain’s Place in the World: Time to Decide</strong></td>
<td>26</td>
<td>27</td>
</tr>
<tr>
<td><em>by Crispin Blunt, MP</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reviewed by <em>Dr Nigel Ashford</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>The Guilty Men – Conservative Decline and Fall 1992–97</strong></td>
<td>27</td>
<td>28</td>
</tr>
<tr>
<td><em>by Hywel Williams</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reviewed by <em>Jonathan Collett</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Britain’s Economic Destiny: A Business Perspective</strong></td>
<td>27</td>
<td>28</td>
</tr>
<tr>
<td><em>by Sir Michael Edwardes</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reviewed by <em>Michael Webster</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Eurodata</strong></td>
<td>28</td>
<td>29</td>
</tr>
</tbody>
</table>

---

**Editor: Tony Lodge**

Publisher: The European Foundation, 61 Pall Mall, London SW1Y 5HZ

Telephone: +44 (0) 20 7930 7319  Facsimile: +44 (0) 20 7930 9706

E-mail: euro.foundation@e-f.org.uk

ISSN 1351–6620

For subscription and advertising enquiries, please contact the editorial office.

A subscription form is printed on the inside back cover.

The European Journal is published by The European Foundation. Views expressed in this publication are those of the authors themselves, not those of The European Journal or The European Foundation. Feature articles and letters should be sent to the Editor at the address above, if possible on 3.5” IBM compatible disks which will be returned to the authors. No part of this publication may be reproduced in any form or by any means or stored in a retrieval system without the written permission of the publisher.
Neill lays down proper standards for National Referendum on Europe

The European Foundation meeting at the Conservative Party Conference focused on how to win the 'No' vote. It also drew attention to the need for democratic fairness in political funding and in impartiality on radio and television, with a proper debate between Europhiles and Eurorealists, both during the actual campaign itself and in the run-up to it, not between or within political parties. The country is clearly already engaged in the latter, with massive funds being made available to the 'Yes' campaigners and jockeying for position by their main contenders. As I have constantly urged, the 'No' campaign must get its act together fast, as Paul Sykes and the Referendum Movement are showing. It will not be a party political campaign but across the political spectrum.

It should therefore have been a matter of great relief to both sides in the debate that the Neill Report, Standards in Public Life Vol. 1; Report Cm. 4057–1, devoted a whole chapter to the conduct of referendums. The 'Yes' campaigners showed their true colours by their negative response. The last thing they want is a real debate (as Kenneth Clarke showed by dropping out of the live Sky debate against me at the Party Conference). They also remember very well the vastly disproportionate amount of money (about 20 times as much) which the 'Yes' campaigners had over the 'No' campaigners in 1975. Now the stakes are even higher. The single currency issue is about who governs us.

The campaign even to have a Referendum has been long and hard. John Major’s Government continuously refused to hold one on Maastricht (despite the mammoth Petition to Parliament collected by the MARC campaign, which was a precursor to the European Foundation) and disgracefully a whipped House of Lords voted by 470 to 176 to reject the idea. Eurorealist MPs on all sides of the House called repeatedly for a Referendum and Richard Shepherd and several of us put down amendments and presented Bills for the purpose.

In June 1996 amidst great turmoil I tabled a Referendum Bill which gained the cross-party support of 95 MPs and which went through on a division. Many aspects of that Bill and our campaign are reflected in the recommendations of the Neill Report. In particular, it is made clear that “to represent referendum campaigns as merely another manifestation of the usual party political battle seems to us both misconceived in principle and false to the history of referendums since 1975”. They recommend proper and adequate core funding of about £600,000. They recommend that broadcasters must alter their policies to ensure fair air time and impartiality to both sides of the argument. Significantly, the Report states that “The government of the day in future referendums should, as a government, remain neutral and should not distribute, at public expense, literature, even purportedly ‘factual’ literature, setting out or otherwise presenting its case”. Clearly this must apply to the European institutions, who are also “government”. If this is the case, in practice, then proposals for a limit on expenditure on both sides (which was rejected by the Neill Report) becomes less necessary, particularly when allied to their proposals for disclosure – provided of course that it is understood by the public at large that money from multinationals is difficult to trace or source and could well be European taxpayers’ money from Commission or EU grants laundered across borders. All this will require further thought. In any case, multinationals should not be regarded as if they were British. They have no allegiance except to their own self-interest.

The Government, at the time of writing, has declined to comment on the Neill proposals, but it is extremely important that we have a full debate as soon as possible on the issues it raises. Are they going to deny the British people a fair Referendum on EMU?

Bill Cash, November 1998
On October 7th, I had the privilege of speaking from the floor of the Conservative Conference in Bournemouth during the European debate. I believe that my speech caught the mood of the Conference, and I received a standing ovation. The main TV channels picked up clips from the speech and ran them on national newscasts through the Wednesday and into Thursday morning. They particularly favoured the phrase: "So I say to our European friends, we will walk with you, talk with you, buy with you, sell with you, but we will be damned if we will be governed by you."

But I concluded my speech with these words: "To those of you who voted 'Yes' in the ballot (for staying out of the Euro for at least two parliaments), I say keep the faith. Fight the good fight. Take no prisoners, give no quarter. This is a battle we must win for Britain."

Fine words, you may say, but what can we actually do against the massive forces ranged against us? We already see government money – our money – being spent on a massive publicity campaign for the euro, designed to present it as positive and inevitable. Huge additional resources will be on tap from Brussels.

Well actually, there's quite a lot we can do. The first thing is to work tirelessly for the return of a Tory government at the next election. I know that the conventional wisdom says it can't be done, but stranger things have happened. Harold Wilson was right when he said that a week is a long time in politics. Three years is even longer.

In a real sense, oppositions don't win elections. Governments lose them. While New Labour has had bad luck in facing a global crisis in their second year, they have made classic economic mistakes. Gordon Brown cannot escape responsibility. He chose the politically easy route of taxing savings when he should have taxed spending, and could thus have allowed the Bank to reduce interest rates. It may have been a good decision to give control of interest rates to the Bank of England, but it remains Gordon Brown's responsibility to achieve some co-ordination between monetary and fiscal policy. Instead, he appears to have abdicated responsibility.

We must turn our resources to attacking the government. It we win the next election – and we can – then we have won the euro debate.

And the euro debate will help us win the election. Already the British people instinctively feel that they want to keep the pound. But few could actually articulate the reasons why they want to keep it. We must tell the economic story in terms accessible to the man in the pub. We must give him a few words to justify his instinctive view. Those words are unemployment, bankruptcy, recession and tax.

Secondly, having made the economic case accessible, we must not shrink from the political case. That's the 'S' word – sovereignty. It's not xenophobic to prefer to be governed by democratic institutions in your own country, rather than by unaccountable and undermining institutions operated by foreigners. It's not being jingoistic to want to focus on growth and jobs and productivity and trade, rather than on regulations, bureaucracy, harmonisation, rules and institutional arrangements.

We Euro-realists are not Little Englanders, but Greater Worlders. The danger is from the Little Europeans in the most inward looking, over taxed, over governed, over regulated and over borrowed economy in the world.

Thirdly, we must reach out to business. Many business managers have no time for macroeconomics. They've been sold the idea that the euro will solve the high pound problem, and eliminate exchange rate volatility. Is it any wonder they like that idea? We must explain that membership of EMU would simply transfer volatility from the £/DM rate to the equally important £/$ rate. They would call it competitive devaluation. They would insist we join at DM2.95, locking in the high pound forever.

We must also explain that membership would increase demand cycle volatility (because the European interest rate would never be just right for any single country), leading to recession, bankruptcy and unemployment. We must challenge them to say whether any perceived benefit from EMU is worth the inevitable increases in corporate and employment taxes which will take billions off the bottom line of UK PLC – and hit every company in the land.

We must make it respectable to argue against the euro. I constantly meet people in banks, in Chambers of Commerce and other organisations who privately oppose the euro but feel under pressure from clients or members to take a neutral stance. I have a nightmare that we will wake up in the euro, and we will all be saying to each other, "Did you want this? No! Nor did I!" The time to speak out is now.

In political and campaigning terms we must demand equal funding for the 'No' campaign. How can democracy be served if public money funds only one side of a critical and contentious issue? And we must insist that so-called 'information' campaigns that have the effect of promoting EMU are also taken into account and balanced by the alternative view.

We also need to challenge the myths put about by our opponents. Michael Heseltine has said that the party members who voted in the Tory Euro-ballot were elderly, and out of touch with the views of young people. The story is that the young, who backpack around Europe, are all Europhiles. Yet the Conference Edition of the European Journal published independent research showing conclusively that the 15 to 24s are at least as sceptical of EMU as their elders.

At a European Commission reception at the Bournemouth Conference, I was proud to be attacked in very aggressive terms by Mr Geoffrey Martin, the Commission's Head of Representation in the UK. At the same function I was warned by a charming Tory lady to "remember that many of our voters were women", as though they were all Europhiles. But the published research clearly shows on each question that women are somewhat more sceptical than men.

The key conclusion is that the British people support William Hague's euro policy by a significant majority. We're working with the grain. If we can give them the rationale, they will support us in the referendum.

Far be it from me to take any satisfaction from the global economic downturn. But let's recognise that it works for us in the euro debate. The fears of the euro countries are almost palpable. In January we read that Europe's economic conditions were ideal for the launch of the euro. Now, even neutral commentators (including the BBC) have pointed out the very serious risks posed to EMU by the global problems.

Economists recognise that asymmetric shocks can damage a currency union. The Russian collapse is an asymmetric shock. It
impacts Germany far harder than the rest of Euroland. The double whammy of massive German bank losses on Russian sovereign debt, plus loss of East German exports to Russia, could cause recession and even higher unemployment in Germany, creating a need for lower interest rates, while Ireland, Spain and Italy still desperately need higher rates. The writing is on the wall for all to see.

Let’s get out to business groups, chambers of commerce, schools, doorsteps, anywhere where the euro debate is taking place, and tell the real story. Let’s support Business for Sterling and other groups working for the same end. Above all, let’s fight for a Tory recovery. If we can stay out of EMU for a few short years, the battle will be won and the problem will go away. Even if EMU survives, no sane person will want to join it.

As I said in Bournemouth, this is a battle we must win for Britain.

Roger Helmer is Prospective European Candidate for the Conservative Party in the East Midlands. He will be speaking at the Bruges Group Annual Conference on November 7th. See page 29.

English – Our Own Best Weapon

by Michael Wynne-Parker

Whether the Germans or French like it or not, the English language is rapidly becoming the global language. I suggest that this provides a major reason for resisting the further loss of sovereignty and imprisonment in a federal Europe.

All the Great Empires of the past – Egyptian, Greek and Roman to name but three – have bequeathed their languages following their demise. These languages, however, rapidly became the language of an elite – perhaps Latin being the best example. It is interesting to compare the development of these ancient classical languages with the legacy of the British Empire – the legacy of English.

At different periods in history, different languages have been paramount: Greek in the empire of Alexander the Great; Latin under the Romans; Portuguese, Spanish and English as the empire builders travelled more and more widely; French for diplomats and intellectuals; Arabic, Russian and Mandarin Chinese for the huge land masses who needed to communicate with one another; Swahili and Pidgin English for tradesmen. And now English has become essential for international commerce and communication.

Four hundred million human beings learn English as infants and 1.36 billion live in countries in which English is the first language of choice. Consequently, almost half of all business deals conducted in this over populated world are concluded in English.

Korean executives in Bangkok doing deals with Italian executives use English. More inhabitants of the Chinese mainland are today learning English than the entire population of the United States. Why? Is it just because Britain and America together create such a vast pool of potential profit? In fact, there are other reasons. Eighty per cent of the world’s information stored in computers is in English, and we can be pretty certain that the other 20% will soon go the way of the music cartridge, the black and white television and the Edsel car. There is no arguing with computers. And when the Oxford English Dictionary contains half a million words and those half million words have all been put on a laser disk suitable for feeding into a computer, it is no wonder that the English language seems here to stay for those businessmen and businesswomen wedded to their computers.

So, whatever our European neighbours think, English is the future vehicle of international communication.

Developments in the past few years have all accelerated the use of English and emphasised its relevance. The Romans built their roads to achieve quick and easy access to the furthest ends of their Empire, this being their only way of communication. The equivalent today is the Internet and e-mail. Communication is now instant – and demands an instant response. Pressure, especially in politics and business, is paramount (unfortunately) and translations and interpretations consume precious time. English, therefore, as the common language becomes an urgent requirement of all engaged in international business, scientific, technological, political and cultural advance.

The dramatic increase in the use and appreciation of the English language should give us enormous encouragement to strengthen our resolve to build up British political, cultural and commercial interests worldwide.

The utopianism of the Europhiles is actually a depressing form of defeatism. Let us overcome their superficial arguments with the vigorous defence of positive Euro-scepticism using our own best weapon to its greatest effect – the eloquent use of the English language.

Michael Wynne-Parker, Founder and Director of Introcom Ltd, is the author of Bridge Over Troubled Water.

… news in brief

France in trouble over environment

France faces 36 legal procedures opened against her by the European Commission for failure to comply with environmental standards. 12 of these have already gone to the European Court of Justice. This puts France at the bottom of the euro-class in environmental matters. The matters under contention range from the European law against hunting certain kinds of birds at certain times of the year to ones requiring environmentally protected zones to be introduced. [Le Monde, 16th October 1998]

German publishers warn of EU attacks on press

The Federal Union of German Newspaper Publishers has warned of the increasing interference in the press by the European Union. Its president, Wilhelm Sandmann, said that the EU’s ban on tobacco advertising was the thin end of the wedge. Behind it lay “a strategy to ban”. He said that Brussels was planning new restrictions on the advertising of cars, alcoholic drinks and medicines. He said that no limits should be placed on the advertising of legally produced products and that the EU’s policy was “an attack on the responsibility of citizens”. [Handelsblatt, 20th October 1998]
Europhiles maintain that the European Union presents golden opportunities for Britons, but what they may be missing is that an even greater opportunity awaits across the pond in the North American Free Trade Area. Not quite five years old, the NAFTA area already occupies a good chunk of the globe. With the imminent accession of Chile and the future inclusion of other parts of South America, it will soon extend all the way from the Arctic Circle to Antarctica. Currently, both the GDP and population of NAFTA already easily exceed those of the EU.

Size is not everything, of course. But we would venture that Europeans are as conscious of its importance as North Americans and recommend that, in terms of expanding international trade and investment horizons, Britons ought to weigh their options carefully. We are sure they would want to back the winning horse.

However far fetched the prospect may appear to most British people at this advanced stage in the development of the “ever-closer union” of Europe, we would draw their attention to two startling facts. If the British were to associate themselves with their North American cousins as members of NAFTA, both the combined GDP of NAFTA and the United Kingdom, and their combined populations, would be one and a half times those of the European Union without Britain – $10.4 billion compared to $6.8 billion, and 442 million compared to 315 million.

We do not know whether the expatriate Canadian publisher Conrad Black took these surprising figures into account when he broached the NAFTA concept in July. Mr Black openly called upon British people to recognize the movement for European Union as an exercise in grandiose continental statism inimical to Britain’s vocation as a nation of free markets and fair play – and instead to hitch their wagon to the North American Free Trade Area. Certainly, his remarks bear repeating. “A majority of the British,” he averred, “seem not to believe that their national interest will be best served by stripping the parliamentary system that has served them admirably for many centuries in order jurisdictionally to clothe the ambitious but very awkward and rather authoritarian institutions of Brussels and Strasbourg.”

Even the Labour Party hierarchy, he said, let alone Britons at large, “do not think that their national interest can be served by any accession by Britain to the taxing, spending, regulatory, or industrial relations policies of the major continental members of the European Union.”

From a Canadian perspective, a NAFTA that embraces Britain has much to commend it. Indeed, it has so much appeal that Canadians would likely welcome any British overtures on this subject and might even court her old friend and traditional ally into more than bittersweet musings about the dark days of the Atlantic Convoys and the Grand Alliance.

The United States, Canada and Britain share a common history, language and culture, and for most of their shared history have remained steadfast friends. Our approaches to monetary and fiscal policy stem from a shared Anglo-Saxon free market model, in contrast to continental Europe’s preference for “managed,” and less successful, economies. Our strategic and defence interests remain enmeshed, and we share a sense of responsibility and willingness to act in time of crisis that distinguishes us from most continental Europeans. Moreover, a keen awareness of these factors transcends partisan lines in Britain as The Economist concluded on October 10 when it sighed: “for New Labour, as for the Tories, the Atlantic still often seems narrower than the Channel.”

NAFTA-sceptics employ superficially persuasive arguments. Some would note that current UK trade with its EU partners is four times the size of UK trade with North America. To upset those trade relations, they maintain, would be sheer lunacy. But on the other hand, trade gains from British membership in the EU have perhaps now fully ripened, while new fruits await the plucking in the vast market to the west.
which contains the strongest and most resilient economy in the world. Four non-EU European countries have recognized this prospect: Norway, Switzerland, Iceland and Liechtenstein, the European Free Trade Area (EFTA), have begun concrete trade talks with Canada, which, if successful, will lead to substantial tariff reductions on both sides and expanded trading opportunities across the Atlantic.

Nor does comparatively limited present-day UK-NAFTA trade militate against British NAFTA membership. Four years into its accession to NAFTA, Mexico’s trade with Canada has flourished. Despite the impediments of physical, cultural and linguistic barriers, two-way trade has more than doubled, from $3.6 billion in 1992 to $7.5 billion in the first three-quarters of 1997. Whatever losses Britain would endure by having to face new EU tariffs would be more than offset by harvesting the new markets to the west.

Naturally, the decision is one that would have to be weighed carefully by the people of Britain and their elected representatives. Some of those on the Tory back benches have sponsored an Early Day Motion to join NAFTA that echoes similar moves in the United States Senate. But perhaps we can add impetus to the debate in Britain by offering a few points from the Canadian experience.

Members of NAFTA operate in a largely tariff-free zone. But since it is not a customs union, member countries make their own decisions regarding tariffs vis-à-vis other countries. Above all, NAFTA is not a monetary union – nor does anyone suggest it would ever become one. Each member maintains its own labour and environmental standards, and disputes are settled by panels which determine whether a member has followed its own trade laws.

Whatever fears trade activists harboured turned the tables on them in an address to Conservative Party members yesterday’s men, touting “obsolete” and the American tariff schedule looks quite similar. It is these walls that would, for the most part, be dismantled.

<table>
<thead>
<tr>
<th>Canada’s most-favoured nation (non-NAFTA) tariffs:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alarm clocks</td>
</tr>
<tr>
<td>Flour</td>
</tr>
<tr>
<td>Barley</td>
</tr>
<tr>
<td>Footwear</td>
</tr>
<tr>
<td>Beef carcasses</td>
</tr>
<tr>
<td>Grape juice</td>
</tr>
<tr>
<td>Blankets</td>
</tr>
<tr>
<td>Hydraulic turbines</td>
</tr>
<tr>
<td>Breakfast cereals</td>
</tr>
<tr>
<td>Ketchup</td>
</tr>
<tr>
<td>Broiler chickens</td>
</tr>
<tr>
<td>Potatoes</td>
</tr>
<tr>
<td>Brooms</td>
</tr>
<tr>
<td>Shampoos</td>
</tr>
<tr>
<td>Carnations</td>
</tr>
<tr>
<td>Strawberries</td>
</tr>
<tr>
<td>Carrots</td>
</tr>
<tr>
<td>Sweet corn</td>
</tr>
<tr>
<td>Carving knives</td>
</tr>
<tr>
<td>Ties</td>
</tr>
<tr>
<td>Cheese</td>
</tr>
<tr>
<td>Vermouth</td>
</tr>
<tr>
<td>Cigarettes</td>
</tr>
<tr>
<td>Wood furniture</td>
</tr>
<tr>
<td>Cocoa powder</td>
</tr>
<tr>
<td>Wool suits</td>
</tr>
<tr>
<td>Doors</td>
</tr>
<tr>
<td>Wool yarn</td>
</tr>
<tr>
<td>Durum wheat</td>
</tr>
<tr>
<td>Yoghurt</td>
</tr>
</tbody>
</table>

A casual stroll through any Marks & Spencer retail store in Canada reveals how many British products still find their way across the Atlantic in spite of prohibitive tariffs.

Even though Britain’s proportional trade with the EU has grown as a result of tariff reductions, a little more than one-third of Britons regard themselves as “belonging” to Europe, as opposed to belonging to their local community or to their country. The Economist reported on October 3, that over 60% of Britons feel “Not very or not at all strongly” that they are a part of Europe. A far greater percentage feel that they “belong to a local community; to England, Scotland or Wales; or to Great Britain.

They were not asked how they feel about North America, but it would be interesting to take a poll of what proportion of Britons would describe themselves as belonging to an “English Speaking World” or to a “North Atlantic Triangle” in association with Canada and the United States – as compared to the mere one-third who feel they belong in some way to Europe. Our guess is that a somewhat higher proportion of Britons would choose North America if asked. We also happen to believe that British NAFTA-sceptics would prefer not to ask such questions.

As we noted in the Canadian House of Commons in February, a country’s trade alliances should reinforce its historic foreign policy and defence alliances as well as its most cherished cultural ties. Indeed trade alliances have the greatest prospect of being mutually beneficial when they are built on the foundation of long established historic, strategic and military alliances. A trade alliance involving Britain, Canada and the United States would clearly enjoy such a foundation.

The British Prime Minister revealed his own brand of NAFTA-scepticism to the Labour Party conference this month when he labelled British Eurosceptics “far right,” and seemed to imply that British integration with Europe is simply inevitable. Perhaps he needs to be reminded by someone on the British scene that nothing is inevitable – certainly nothing that happens on the European continent.

Conservative Party members may have hit upon this when they endorsed by 84.4% their leader’s pledge to oppose the single European currency in the next election in Britain. Tory Eurosceptics called it the “last roar of the dinosaurs”, and must have been even more discomfited when Mr Hague turned the tables on them in an address to Conservative Future and called the Europhiles yesterday’s men, touting “obsolete” ideas.

Strange as it may seem, at this moment there exists a unique and historic opportunity in Britain. Political leaders can lead Britain forward. They can offer Britons a bold new transatlanticist vision that would take the country where she truly belongs in light of her history, culture and economic prowess. They can offer them NAFTA, a free trade area one and a half times the size in population and economic might of a pan-European federation. If British people expressed interest in this idea, then Canadians and Americans would welcome them warmly.

Preston Manning is Leader of Her Majesty’s Official Opposition and Leader of the Reform Party of Canada. Charlie Penson is Official Opposition Critic for International Trade
In Britain’s National Interest

Extracts from an address by Conrad Black
to the Canada Club, on Tuesday, 13th October, 1998

Today, despite all the perturbations in the world’s financial markets, the United States has a $9 trillion economy, practically full employment, negligible inflation and no net public sector borrowing requirement. The diverting sideshow of the current president’s pecadilloes and his attempts to disentangle himself from them are an indignity but not a comment on the strength of the country or its economic pre-eminence.

I put it to you that virtually the same elements in the British and Canadian media who were telling us 11 years ago that the USA was in inexorable decline are those most noisily proclaiming the imminent demise of the entire economic system now. The BBC and CBC and the Labour supporting newspapers here, the Guardian, Independent, Observer and often the Financial Times, and the usual Canadian media outlets, inevitably led by the Toronto Star, are the principal propagators in both countries of what is often close to economic hysteria.

My impression is that, even more than usually, psychology is playing an important role in general economic thinking. All or most of those who said that Reaganomics would lead to disaster, who said that the USSR would win the Cold War, who said that Japan would economically surpass the United States, have now fastened themselves like a limpet to legitimate cyclicalists such as Alan Greenspan and Warren Buffet to promote a climate of extreme economic gloom.

Only about one per cent of the money invested in the New York Stock Exchange has been borrowed. Only 13% of US GNP is in foreign trade and most of that is with relatively reliable countries such as Canada and Britain. No serious forecasts that I have seen produce negative or even stagnant economic growth for the US. What are investors going to do with their money? They are unlikely to plunge into commodities or stash it in their mattresses like pre-revolutionary French peasants. With the public sector almost completely out of the bond markets and gradual declines in interest rates, a massive durable desertion of equities is unlikely. The worst scenario I have heard from any incontestably sane person is a loss on the Dow of another thousand to 1500 points if the 401,000 investors are spooked by their first quarterly notices of decline in asset values for some years. Such a decline would bring the Dow down about 30% from its high, amply fulfilling the Federal Reserve Chairman’s longstanding suggestions of a correction, but it is hardly likely to become, the 90% decline from 1929 to 1933.

Japan was the first ghost conjured at the banquet. Japan is no United States but it is a mighty economy with a huge current account surplus. Its ability to export to its neighbours has declined and the United States is not prepared to accept the unlimited exportation of unemployment from Japan to the great cities of the US. But Japan now has a 25% savings rate it is dutifully depositing in a banking system where the depositors will be protected but which has a negative shareholders’ equity and which pays most depositors less than one per cent. This is almost as nonsensical as stuffing savings in mattresses but it is not the hallmark of an economic basket case.

Latin America had a cameo role in the drama. Brazil has a potential reserve problem, but now that the most credible government in the country’s history has been re-elected, the problem should abate and the international community is prepared to help. Even if the opposition, led by an ancient leftist demagogue, had won, Brazil would only have reverted to the economic confusion it has known for much of its history. Again, the agents of moralistic anti-capitalist hysteria will have to do better than this.

Another dog that I suspect is not making it, though it is supported by many of the same people, is monetary union for Britain. Unlike many Eurosceptics in this country, I am both a Francophile and a Germanophile. I think and hope Euro-federalism has some prospects of at least partial success for those countries with an aptitude for it. The French and Germans, for notoriously well known historic reasons, have social safety nets that have effectively become hammocks. Out of fear of the role of discontented mobs in their history, a role that has no real parallel in the history of the English speaking countries, France and Germany have tax and benefit systems which, by Canadian and Anglo-American standards, subsidise unemployment and disincetivise work.

British trade patterns are also clearly distinguishable from those of the other EU countries. Almost twice as much of Britain’s trade, as a percentage, is with North America than is the case with other EU countries as a group. Britain’s share of trade with the EU has actually declined recently, and if exports shipped on through Rotterdam and other European ports outside the EU and overseas investment earnings are included, the European Union’s percentage of British exports is probably about 40% and less than 10% of the UK’s GDP. Conversely, the exports of a number of countries to the European Union, including those of the United States, have risen considerably more rapidly than have Britain’s in recent years. Over the last ten years direct net investment in the United Kingdom from the United States and Canada has been one and a half times the corresponding figure for EU investment in this country. And British net direct investment in North America has been more than double UK investment in the European Union. These trends are continuing, imperious to EU preferences.

The annual cost of Britain’s adherence to the EU is nearly £10 billion in gross budgetary contributions, though almost half of this is returned in EU spending, albeit most of it on things which the UK government would not choose to spend money on. Higher food prices in the UK because of the Common Agricultural Policy cost this country rather more than £6 billion annually, though about half of that is rebated directly to British farmers. The overall cost of the EU to Britain then is between £8 billion and £12 billion, or around 1.5% of GDP. There are also the costs of regulation, and the heavy political costs of eroding sovereignty and the tacit encouragement of provincial separatism as Scottish and Welsh nationalists envision receiving the sort of direct grants that have benefited Ireland.

Jacques Delors used to accuse Britain of “social dumping”. Monetary union means harmonisation. I must ask if anyone seriously imagines that EMU will cause British taxes and social spending to be harmonised downwards.

There is no credible version of Euro-integration that does not involve a massive
Britain, we are told, can be "at the heart of bland assurances that nothing will be lost. Almost the entire argument is in terms of the continental European powers. Here, never advocated in this country, unlike in the idea of a united Europe is obvious but it is almost imperfect though they are, began. The choice for Balkan policemen, be bombed, practice only applied to the Moslems, be that the European embargo, which in order. It was only when Senator Dole announced that: "This is the hour of Europe." Less well known is that he went on to say: "If one problem can be solved by the Europeans it is the Yugoslav problem. This is a European country and it is not up to the Americans. It is not up to anyone else."

The Americans were delighted to abstain from that theatre and the European solution was the traditional one in the Balkans of the major powers choosing their local protégés and turning a blind eye to the "cleaning" of the most vulnerable local parties in the hope that the strongest would maintain order. It was only when Senator Dole announced that the US Senate would demand that the European embargo, which in practice only applied to the Moslems, be ignored and that the Serbians, the European choice for Balkan policemen, be bombed, that the process toward to Dayton accords, imperfect though they are, began. Britain may choose Euro-integration but, if so, it should be a conscious choice, not a resigned submission

As I had occasion to point out at the Centre for Policy Studies a few months ago, [see European Journal, Vol 5 No. 9], quoting the distinguished German journalist Josef Joffe of Suddeutsche Zeitung, in Euro-matters the White Queen of Alice in Wonderland, who had six impossible ideas each day before breakfast, meets Winnie the Pooh, who when asked if he wanted honey or jam on his bread responded "both, but leave out the bread". I don't think Britain could accept the Swiss option which provides free movement of goods with the EU but not of people. If the British again had to produce passports when travelling to EU countries, it would be rightly seen by almost everyone as a retrograde step. Britain could do at least as well as Norway which retains full access to a single market but has avoided political integration, but instead of a position on the Council of Ministers has only a vague right to be consulted. I believe Britain could use the existence of its right of veto and large current account deficit with the EU to negotiate complex reciprocal access of goods and people, withdrawal from the political and judicial institutions and emancipation from the herniating mass of authoritarian Euro-directives with which the UK has been deluged.

At the same time, the UK could negotiate entry into NAFTA, which will be renamed anyway and is already negotiating with the European Free Trade Association and with Chile. Such an expanding NAFTA would have every commercial advantage over the EU. It is based on the Anglo-American free market model of relatively restrained taxation and social spending, which is the principal reason the United States and Canada together have created net an average of two million more jobs per year than the European Union for the last 15 years. NAFTA, as its name implies, is a free trade area only. The United States will not make any significant concessions of sovereignty and does not expect other countries to do so either.

When scratched at all, many of the leading Euro-federalists of my acquaintance profess some resentment at the subordination of Europe to the US during the Cold War and have a somewhat mystical concept of the early re-emergence of European leadership in the world. In my opinion, Europe possesses neither the geopolitical strength nor the political maturity to exercise any such role. We are not slaves to the past but it is not necessarily irrelevant that the only major European country to have had a consistently responsible foreign policy for the last two centuries is Britain and that there is no precedent for a war-free Europe without an American present in it.

**Britain may choose Euro-integration but, if so, it should be a conscious choice, not a resigned submission**

**Even in this country, the old Labour left believes the United States escalated and prolonged the Cold War, and the High Tory right, the followers of Arthur Bryant and Enoch Powell, have held that the United States cheated Britain out of her empire and replaced it with an imperialism of its own. You need only watch Jeremy Isaacs's current television series on the Cold War to get a flavour of Old Labour thinking. Harry Truman and Winston Churchill had as much to do with starting the Cold War as Stalin, we learn. General Marshall's Plan was a drive for US commercial monopoly and the West didn't win the Cold War. Gorbachev chose to end it. This burlesque of the facts doesn't tell us as much about recent history as it does about what went wrong at Covent Garden. What is astonishing to me is how blind many of these people are to the widespread European desire to cut the Anglo-Saxon community down to size – which in practical terms means detaching Britain from her transatlantic moorings and subordinating her to Europe while straight-arming the North Americans, except for possibly a few patronising gestures to Quebec.**
Britain is at the centre, geographically, culturally and politically of an Atlantic community, whereas she is in all respects on the periphery of an exclusively or predominantly European order. No doubt sincerely, the British Government seeks to maintain NATO as the linchpin of the country’s defence arrangements. But the unintended consequence of a Britain ever more closely integrated into a European foreign and defence policy would be a Britain torn away from her natural Atlanticist vocation.

If the Prime Minister seriously wants all this, then, in my opinion, he hasn’t thought it through, either as a statesmen or as a political leader. I take him at his word that he will be governed by the national interest and is prepared to be convinced by developing events, as seems to have been the case with proportional representation. If, as some of our editorial writers believe, he is relying on David Simon, Clive Hollick and Labour’s other business friends to persuade the great British public of the virtues of Euro-integration with the aid of EU propaganda funds, then I don’t think it will fly. Unlike most of Britain’s history with the institutions of Europe, the next steps will not taken furtively or inadvertently. Whatever the imbalance in the correlation of forces between the main political parties, Britain will not sleepwalk further into Europe. It will only go further after one of the great political battles in the country’s modern history. If this is Tony Blair’s wish, he will need all of his considerable skill and will have to jettison his traditional caution. He will have to lead us there and he will have the fight of his life.

Canada, like Britain, has an important role to play in the world. They should do so together and in general concert with the Americans, whose importance in the world, contrary to what many thought at my last appearance here, will be no less in the 21st century than it has been in the twentieth.

Conrad Black is Chairman of the Telegraph Group Ltd.

The Plain Economics of the Euro

by Dr Eamonn Butler

A few weeks ago, Goldman Sachs decided to postpone its planned floatation. Though traditionally one of the most bullish of the big merchant banks, it knew that a time of global stockmarket panic was not a good time to launch such a brave venture.

For the European Central Bank, however, there is no holding back. Though the world’s markets are still in turmoil, it is still pressing on with an even braver venture, the launch of the euro. The timing of such an enormous monetary experiment can hardly inspire an increase in the world’s shaky confidence.

Size really does matter

And enormous it is. The GNP of the euro countries pips that of the United States. More international trade will be done in euros than in US dollars. So confident are some of the euro’s backers that big currency areas are the antidote to fragmented and jittery markets that they have urged other parts of the world to follow their example.

Other countries might be prudent to see what a fist Europe makes of it first; because size is a mixed blessing in monetary terms. The bigger a currency area, the more unlikely it is that your monetary policy will be right for every village, town, region or country that it covers. Places like Hong Kong, which have linked themselves to the US dollar and been forced to come off it, testify to that. Places like the UK, forced out of the ERM, might suggest the same.

But whatever the experience of other countries who have pegged themselves to the US dollar, the fact is that America is a vast single currency area which works amazingly well. So why can’t the euro?

The straight answer is that the US grew up with the dollar: it has a single economic and political structure that allows a single currency to work there. Europe does not: and a single currency will not work properly in Europe until it does.

Market turmoil is all around us just now: so consider how Europe and the United States would respond to some economic shock – say, a sudden plunge in the price of oil.

The American case

In America, lots of Texan oil producers suddenly find themselves out of work. Other businesses in Texas suffer too, wages slide and there is gloom all round.

But eventually the gloom is dispelled. Some people up sticks and move to other states where prospects are more promising. The lower wages now prevailing in Texas attract investors to come in from other states and build new factories. And there is a rush of money from Washington too, as welfare dollars flow to Texas. With new money and new jobs all coming in, eventually Texas recovers.

The UK case

Falling oil prices here mean that lots of UK oil industry workers lose their jobs. The local economy slides generally and, once again, there is unemployment and gloom all round.

But the UK can adjust through the exchange rate. Because we are getting less for our oil exports, the pound falls in value. A low pound and falling wages make the UK more attractive for overseas investors. Cash flows back in, new jobs are created and the UK recovers.

The euro case

Countries in the euro area, of course, cannot adjust to shocks like these through the exchange rate – because there is no exchange rate between member countries, they all use the same currency.

It is also harder for Europeans to adopt the Texan solution of simply moving to somewhere else where conditions are more promising since language differences are a significant barrier, and separate national pension, tax and benefit regimes add to the problem. For social policy reasons, European countries also impose significant labour market rigidities: so the option of taking a lower wage and waiting things out is not open to people either – they simply get fired.

Yes, Europe has social and regional funds which can go from the centre to distressed regions – but far too small in size to be an effective economic stabiliser.

The importance of convergence

When economic crises strike, as they do, and different Euro members face differing degrees of economic pressure, there will be no way for them to adjust painlessly. Unemployment will take the strain.
The idea of convergence is that, if all the EU countries are going in roughly the same direction economically, no great strains should occur between them and no serious adjustment will be needed. Certainly, as a group they might face problems with respect to the rest of the world, but there is still an exchange rate between the euro and other countries which allows adjustment there.

The fudges, as different countries have struggled to meet the convergence criteria laid down at Maastricht, have been audacious. And it seems unlikely that those countries which have had to squeeze to get under the barrier will continue squeezing once they are in the single currency area and can let others carry their burden.

The impossibility of convergence

But even if the convergence criteria had all been properly met, and countries were all resolved to conduct themselves prudently from now on, convergence today does not prevent the emergence of strains between Euro states tomorrow. Indeed, one can be sure that such strains will emerge.

The countries of Europe are not homogeneous. Sweden has its timber, France has its grapes, Germany has its heavy industry. Global changes in the price of any of these would put a strain between that country and the others. And global changes in prices are as certain as death and taxes.

There are different trading links, too. The UK trades extensively with the United States, for example, and Germany with Eastern Europe. If the US economy started to boom while Eastern Europe declined, the Germans would be demanding lower interest rates while the Brits would be worried about overheating and inflation. No single EU rate of interest, as implied by the single currency, would suit them both.

For the UK this is really bad news. Its historical, trading and structural differences mean that it is often out of step with the ups and downs of the other European economies. It is also more sensitive to short term interest rate changes; so a euro interest rate that was not quite right for the UK could affect it very badly.

Political convergence as a solution

Nevertheless, a single, Europe-wide interest rate policy is exactly what is implied by the adoption of a single currency. In a single currency area, there has to be a single monetary policy.

But equally, there must be a single fiscal policy – taxation and public spending – since the two are complementary tools of economic management. That does not exist today, but it is inevitable.

Europe will never be homogeneous, any more than the United States is homogeneous. Economic changes will affect different parts of it in different ways. But if EU countries cannot adjust to that through the exchange rate, what is left for them? To let unemployment take the strain? Must Spaniards continue then to tolerate unemployment rates of 20% and more? Will Germans stand by while Poles take the jobs they have priced themselves out of?

Inevitably, there will be calls to beef up the federal welfare budget, so that the countries which have been hard hit by economic changes, but denied the power to do anything about it by the centralised monetary policy, can pass the burden back to the others. Just as the US single currency economy holds together because welfare dollars go from Washington to hard hit states, so will Europeans demand a pan-EU welfare system to hold things together here.

To fund that federal welfare provision in turn requires more reliance on federal taxes, and central decision making about how to spend them. So the monetary union leads inevitably to a closer political union. When we are debating the merits and demerits of joining the single currency, we should be mindful that we are also debating the case for a single politics.

Dr Eamonn Butler is Director of the Adam Smith Institute in London.

... news in brief

Political debate within Bundesbank

The call by the incoming German Finance Minister, Oskar Lafontaine, for a cut in German (and European) interest rates has stirred up a debate within the supposedly independent Bundesbank. Positions have been taken up according to the political allegiance of each protagonist. Thus three Social Democrat members of the bank’s governing council, Messrs. Kühbacher, Welteke and Jochimsen, have echoed Lafontaine’s call and indicated their support for his suggestion that monetary policy be relaxed. It is likely that Welteke, whom the Handelsblatt now nicknames “Oskar Welteke”, will replace the Christian Democrat nominee Hans Tietmeyer when he retires in mid-1999. Prior to Lafontaine’s call, Welteke had been a hard opponent of interest rate cuts.

[Le Monde, 17th October 1998]

Stoiber attacks SPD on Europe

The prime minister of Bavaria has given an interview in which he has expressed what sound like strongly Euro sceptic views. Speaking in favour of German patriotism and saying how important it is for Germans to be proud of their country, he attacked the SPD for its internationalism. “For Oskar Lafontaine, towns like Strasbourg and Paris are emotionally closer than Dessau or Munich. He is an internationalist, he dreams of a great European state. But that is a mistake! Europe must not become a cold machinery for solving problems. In this heterogeneous Europe the individual nations must be the binding links and they must remain so. There must not be a great European state with its capital in Brussels of which Lafontaine dreams.”

He goes on to attack the EU’s lack of legitimacy, the fact that 60% of German laws come from Brussels, and the fact that German voters cannot vote Commissioners out of office. “We need a new balance between Europe, nation and region”, he says, calling for a charter laying down precisely what are the EU’s competences. On the other hand, he does not, of course, call into question the single currency, to which his Christian Democrat party is obviously very strongly committed.

[Süddeutsche Zeitung, 17th/18th October 1998]

French central banker calls for rate cut

The pressure towards a cut in European interest rates seems to be growing. Jean-Pierre Gerard, a member of the monetary council of the Bank of France, has said in an interview that a relaxation of European monetary policy would be beneficial. He has said that France and Germany could reduce rates together because growth is slowing in both countries and because the 10% depreciation of the dollar which has occurred since the beginning of July is “equivalent” to a 1% rise in interest rates. Meanwhile, the director of the IMF, Michel Camdessus, has also said that a cut in rates would be a good idea. On the other hand, Italy’s political turmoil makes a cut in rates there difficult (they are 1% higher than in France or Germany) and this makes a concerted pan-Europe cut, including Italy, more problematic. [Le Monde, 21st October 1998]
Japan and Europe: How can the links be strengthened?

Will it be easier for Japanese firms to do business in the European Union if a single currency is established?

A speech given by Haruko Fukuda at the Wilton Park Conference on 3rd September 1998

This morning I have been asked to open a discussion on whether Japanese companies will find it easier to conduct business in the member countries of the European Union (EU) once the single currency comes into circulation. To put it slightly more precisely, will there be more Japanese factories on the continent of Europe and will the single currency make it easier for the Japanese to trade with Europe – and vice versa (I say vice versa because some smaller European countries may find it easier to trade through the euro, their own currency, than through the US dollar) – and lead to a significant increase in the volume of trade?

When I was asked to speak at this conference some months ago on this theme, my immediate thoughts were the following. Businessmen, Japanese or otherwise, conduct business where there are opportunities: the opportunity to make profits and where there is a good prospect for their business to grow. They invest where there is sufficient demand to justify their presence and where profit-making opportunities are perceived to exist on a long term basis. That means they look for a secure political environment, a stable and expanding economic environment, and a welcoming social environment. Techniques of financing trade and investment – accountancy and banking – are their forte and preserve. After all, multinational companies have become used to trading in a global floating exchange rate regime since 1971 – 27 years ago. They have become quite sophisticated by now in matters of currency hedging, transfer pricing, balance sheet translations of foreign exchange gains and losses, and other techniques of global management. Japanese businessmen are no different from any other nationality of businessmen when it comes to fundamental business decisions and the decisive factors are broadly similar if not the same.

Will the introduction of a single currency have favourable consequences in the long term for the political, economic and social environment in Europe? It is in this context that I should like to raise a few issues for discussion this morning in the hour that is allotted to us.

Let me say at once that it is in everyone’s interest that the single currency should be a success, whether Britain is in it or not. This is important for Japan, for the USA, for Britain and all countries in the world who trade with Europe or look to Europe for investment and technological expertise in their own countries such as India, China and those in Africa and South East Asia. Europe in economic and political disarray would be very bad news for the world economy just as the present crises in Japan and Asia and indeed Russia are worrying for all.

Is the single European currency likely to be a definitive success? No one can be sure of this until at least one, if not two, economic cycles have been completed. We are therefore talking about an experimental phase lasting some ten to fifteen years. Just take a look at the experience of NAFTA, which seemed to be and was hailed as an immediate success following the Mexican crisis a few years ago, but recently the Canadian dollar has been falling sharply. No one argues from this that NAFTA has failed for Canada at this stage. In economics there are bound to be ups and downs; continental Europe will be no exception.

Strengths or weaknesses of currencies are, moreover, subject to political influences as well as economic and financial developments. For example, would a war between Turkey (a key member of NATO) and Greece (a member of the EU but not of the single currency) have a more adverse effect on the euro than, say, a continued advance of extreme right wing parties in France, Germany and Austria?

A successful single currency experience would imply a dynamic and a prosperous economic region trading competitively with the rest of the world. But the attempt so far to bring the disparate economies of Europe into a single currency zone has resulted in rising unemployment in the principal participating countries, notably France and Germany. If unemployment continued to rise (we have seen it abating slightly in Germany in recent months as the economy entered the upward phase of the cycle), will the demands for protectionism grow? Such concerns are at the back of everyone’s minds when enlargement of the Union to the East is contemplated.

What about the economics of the operation of the single currency itself? Emphasis is usually placed on arguments for or against a single European currency, but in terms of economics (and politics) is not the more important issue the advantages or disadvantages of having a single interest rate? How, for example, is Ireland, one of the beneficiaries of membership of the EU and one of the largest recipients of “EU” funds, at the peak of a boom in its economic cycle with an interest rate at 6½%, going to cope with a euro rate of (around 3½%) on 1st January 1999? (Doubtless this is one of the reasons why the European Central Bank is already hinting at the likelihood of a higher euro interest rate.)

Any interest rate suitable for Germany next January will either be wildly inflationary for Ireland or require almost politically impossible increases in Irish direct and indirect taxation. This is just one obvious and early problem which will face the European Central Bank. But it will constantly recur in many of the component states of the European Union in one form or another. The critical economic question underlying doubts about the long term viability of a single European currency is whether it will be possible to make a single interest rate applicable to the economic, social, and political needs of eleven very diverse countries, many of them at different stages in their economic cycles. One only has to read the strong criticisms of the British Monetary Policy Committee by British exporters and farmers to appreciate the intensity of hostility which the European Central Bank is certain to encounter.

Either serious inflation, or massive unemployment, or huge transfers of capital, or very socially destabilising movements of...
population – not just of labour – seem likely to threaten before the necessary degree of economic convergence can be achieved to make the single currency look like a permanent success.

And that is before the admission of many relatively less advanced economies of Eastern and Central Europe who have already been promised admission to the EU in the very years when these great economic problems are going to have to be faced. Will this provide the secure political, economic and social environment for Japanese investment that I have described as desirable?

Turning to a slightly different question, will Japanese investors in Europe be as happy to invest in Germany, Holland and France as they are at present when they know that the Deutsche Mark, the Dutch guilder and the French franc have been replaced by a currency so open to influence by Italy, Portugal and Spain? Will they, for instance, as many Germans fear, decide to invest in the low cost areas of Europe when there is apparently to be no currency or interest rate penalty for doing so, as compared with an investment in Northern Europe? Up until now Japanese direct investment in Europe has predominantly been in the UK, France, Germany and Holland. The smaller economies of Portugal, Greece and others have benefited little from the outflow of investment capital from Japan as the enclosed table demonstrates.

As soon as the single currency enters its first period of turbulence and trial, you may be sure that economic commentators will start posing this question – and some politicians will advocate this as the solution – which will have an immediate impact on the share prices of the companies concerned, as well as on their investment policies, even if the break-up never occurs.

It is important to remember that from the Japanese standpoint the overwhelmingly important market is the United States and that this will continue to have priority in their thinking. In any conflict of economic interest between the USA and the EU, Japan will tend to side with the USA, not least because she looks to the USA for her defence against an Asia which now has four nuclear powers – China, Russia, India and Pakistan – all of whom seem closer to Japan than Europe. Theoreticians often underestimate the importance of geography in economics and politics. As an Australian Prime Minister once pointed out to a British Prime Minister: "What you call the Far East looks to us surprisingly like the Near North."

The growing anxiety in the USA about the single European currency as expressed recently by Milton Friedman, Martin Feldstein, Newt Gingrich and Henry Kissinger is only the tip of an American iceberg. Each of those four, with varying degrees of emphasis, have predicted that the

<table>
<thead>
<tr>
<th>Year</th>
<th>No. ¥100M</th>
<th>No. ¥100M</th>
<th>No. ¥100M</th>
<th>No. ¥100M</th>
<th>No. ¥100M</th>
<th>No. ¥100M</th>
<th>No. ¥100M</th>
<th>No. ¥100M</th>
<th>No. ¥100M</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>127</td>
<td>186</td>
<td>87</td>
<td>83</td>
<td>57</td>
<td>110</td>
<td>16</td>
<td>41</td>
<td>7</td>
</tr>
<tr>
<td>1981</td>
<td>49</td>
<td>110</td>
<td>31</td>
<td>54</td>
<td>55</td>
<td>116</td>
<td>20</td>
<td>138</td>
<td>7</td>
</tr>
<tr>
<td>1982</td>
<td>64</td>
<td>176</td>
<td>35</td>
<td>102</td>
<td>76</td>
<td>194</td>
<td>24</td>
<td>73</td>
<td>2</td>
</tr>
<tr>
<td>1983</td>
<td>66</td>
<td>153</td>
<td>50</td>
<td>93</td>
<td>58</td>
<td>117</td>
<td>25</td>
<td>113</td>
<td>2</td>
</tr>
<tr>
<td>1984</td>
<td>68</td>
<td>318</td>
<td>50</td>
<td>117</td>
<td>48</td>
<td>245</td>
<td>30</td>
<td>452</td>
<td>1</td>
</tr>
<tr>
<td>1985</td>
<td>85</td>
<td>375</td>
<td>60</td>
<td>67</td>
<td>48</td>
<td>172</td>
<td>38</td>
<td>613</td>
<td>5</td>
</tr>
<tr>
<td>1986</td>
<td>142</td>
<td>984</td>
<td>52</td>
<td>52</td>
<td>59</td>
<td>210</td>
<td>60</td>
<td>651</td>
<td>4</td>
</tr>
<tr>
<td>1987</td>
<td>178</td>
<td>3,665</td>
<td>99</td>
<td>152</td>
<td>50</td>
<td>604</td>
<td>71</td>
<td>1,628</td>
<td>5</td>
</tr>
<tr>
<td>1988</td>
<td>211</td>
<td>5,213</td>
<td>148</td>
<td>494</td>
<td>67</td>
<td>533</td>
<td>105</td>
<td>3,088</td>
<td>12</td>
</tr>
<tr>
<td>1989</td>
<td>285</td>
<td>6,989</td>
<td>168</td>
<td>1,505</td>
<td>119</td>
<td>1,438</td>
<td>112</td>
<td>6,039</td>
<td>11</td>
</tr>
<tr>
<td>1990</td>
<td>270</td>
<td>9,957</td>
<td>171</td>
<td>1,841</td>
<td>134</td>
<td>1,811</td>
<td>134</td>
<td>3,046</td>
<td>10</td>
</tr>
<tr>
<td>1991</td>
<td>221</td>
<td>9,495</td>
<td>132</td>
<td>1,177</td>
<td>119</td>
<td>1,519</td>
<td>118</td>
<td>2,674</td>
<td>8</td>
</tr>
<tr>
<td>1992</td>
<td>197</td>
<td>3,853</td>
<td>82</td>
<td>586</td>
<td>65</td>
<td>998</td>
<td>84</td>
<td>1,867</td>
<td>10</td>
</tr>
<tr>
<td>1993</td>
<td>139</td>
<td>2,964</td>
<td>62</td>
<td>636</td>
<td>61</td>
<td>884</td>
<td>76</td>
<td>2,488</td>
<td>10</td>
</tr>
<tr>
<td>1994</td>
<td>59</td>
<td>2,259</td>
<td>26</td>
<td>438</td>
<td>19</td>
<td>761</td>
<td>40</td>
<td>1,098</td>
<td>14</td>
</tr>
<tr>
<td>1995</td>
<td>62</td>
<td>3,332</td>
<td>37</td>
<td>1,561</td>
<td>59</td>
<td>530</td>
<td>45</td>
<td>1,439</td>
<td>14</td>
</tr>
<tr>
<td>1996</td>
<td>77</td>
<td>3,873</td>
<td>25</td>
<td>566</td>
<td>30</td>
<td>643</td>
<td>36</td>
<td>1,238</td>
<td>13</td>
</tr>
</tbody>
</table>

Total 2,301 49,336 1,315 9,464 1,124 10,885 1,035 27,358 135 2,552 253 4,045 342 2,483 350 4,042 126 8,141
single currency will produce turmoil. This is in complete contrast to the former and almost universal American encouragement of ever greater European unity which has dominated American political thinking since the Marshall Plan. This fundamental change of emphasis in the USA will not be lost on Japanese governments and businessmen.

In his brilliant book *Over Here*, published in 1997, Raymond Seitz, the recently retired American Ambassador to the Court of St James, devotes a chapter to Britain's attitude to Europe, as seen through his very acute American eyes. He sums up the difference between the British and the Continental approach in an illuminating phrase: "For the British, Europe is a place, not an idea" (Page 302). That will be true of the Japanese also.

On the issue of the Single Currency, Ambassador Seitz has this to say (Page 306): 
"For much of British opinion the bridge too far in Europe is the creation of a single currency. For Europeans the monetary union is designed to make integration irreversible, and in the process to make Germany more continental than national. To achieve this goal, European countries have to surrender their individual control of monetary policy, which in one step is about as close to sacrificing decision-making as you can get. Binding currencies together in a monetary union has never happened before, and this is a brave and hazardous [my emphasis] undertaking. It is also an undertaking of political elites, and there is little evidence in France or Germany, for example, that a single currency has the enthusiastic support of their populations."

My comment on this is that modern Japan has little stomach for "hazardous undertakings". The Japanese investor in the euro will proceed with great caution.

Ambassador Seitz' s conclusions can be summed up in two of his sentences: First: "There is no convincing analysis which says that the British will suffer measurable economic damage if they are outside a monetary union rather than inside." (Page 308) And second: "Location and language together make London's financial position unassailable." (Page 235)

Many Japanese businessmen are likely to agree with those two propositions and to continue in their view that the best base for their business within the Single European Market is Britain, with its much lower social costs and attractive tax regime and absence of corruption. As my attached tables show, this has long been the settled view of most Japanese investors in Europe. The figures reveal that between 1980 and 1996 Japanese investment in Britain has been five times greater than in either France or Germany, twelve times greater than in Spain, and twenty-four times greater than in Italy, and insignificant everywhere else, except in Holland – always the exception one has to make when generalising about the economics of the European Union – where Japanese investment has been half that in Britain. Holland has been the great economic success story of the EU in many ways but the reasons for this require a separate analysis, most particularly because Holland has an exceptionally adverse trade balance with Japan.

That brings me from investment to trade. As well as the investment statistics, I am also attaching the trade figures between Japan and the countries of the EU. I have, in my remarks so far, tended to concentrate on investment rather than trade because it is less volatile and, I think, a better indicator of long-term thinking. Indeed, a rather striking example of trade volatility has occurred as recently as the past month. The all-party Trade and Industry Committee of the House of Commons published its report entitled *Industrial and Trade Relations with Japan* on 29th July. It emphasised the importance of the reprocessing of used nuclear fuel at Sellafield in terms of Anglo-Japanese trade (Para 38). It said, I quote: "BNFL has a Japanese orderbook of around £2 billion and prospects for further orders of the same scale BNFL's exports to Japan represent a steady platform upon which other UK companies - both nuclear and non-nuclear - can develop." Only a few days later the British Government announced – partly as a result of the growing threat of world terrorism – that all reprocessing of used nuclear fuel in Britain is to cease. So much for that particular "steady platform"! That will, of course, be a blow to Japan as well as for Britain.

It is often forgotten that Britain enjoys an overall trade surplus in its business dealings with Japan because of its invisibles – mainly financial services – despite its huge deficit in trade in goods with Japan; the UK imports twice the value of goods it exports to Japan. Germany has a similar negative balance with Japan although the volume of trade is much higher. Japan exports considerably more to Germany than to Britain but also imports greatly more from Germany than from Britain. This is probably because Japan imports German-made motorcars in considerable numbers. Holland imports a lot from Japan but exports very little. France and Italy have a positive balance of trade with Japan because Japan finds France a very difficult country in which to do business and Italy has a very stringent quantitative control on the import of motorcars.

So the trade statistics, although much less favourable to Britain than the investment statistics, do not reveal a wholly different pattern. In the foreseeable future, the changing strength of the Japanese Yen and the general state of the Japanese economy is likely to have a far greater impact on the levels of trade between Japan and Europe than any consequences flowing from the introduction of the Euro. All the indications are that Japanese imports from all European countries will sharply decline although Britain's invisible trade via the City of London will be less vulnerable to the coming Japanese recession than the exporters of goods to Japan.

Will the introduction of the euro significantly change the pattern of Japanese investment and trade in Europe? I do not think so, for the reasons I have sketched as a basis for discussion. About 80% of world trade is at present conducted in US dollars. Japan trades all over the world and for Japan the euro will be just another currency. The Deutschmark, even in its days of greatness before the Wall came down, was never a major trading currency and the euro, for the foreseeable future, will be a weaker currency than the pre-unification Deutschmark.

That brings me to my final point. Enlargement to the East brings the European Union ever closer to Russia and the Ukraine. The economic and political futures of those two countries are wholly unpredictable. The euro is likely to be very sensitive to events in Moscow and Kiev to a degree that was never true of European currencies sheltering under NATO's nuclear umbrella during the Cold War. Japan knows what it is like to live with Russia as a near neighbour. It will be a new experience for the European Union once Poland and Hungary have been added to its ranks. What fun Mr Soros will have! It may make Wales seem all the more attractive to a nervous Japanese investor.

*Haruko Fukuda is a Member of the Council of the Nikko Research Centre*
The Choice Facing the UK and Scotland

by Bill Walker, OBE

During the years I was in Parliament I tried to warn my parliamentary colleagues and the voters of the constitutional dangers inherent within devolution and the European Union. I said that “the Constitutional Conventions proposal for Scottish devolution was unsound and when linked with the European Union’s Federal Europe of the Regions would inevitably lead to the break-up of the United Kingdom”.

Sadly, I failed as an advocate. Few listened, and my message was ignored. It gives me no pleasure that my worst fears may soon become a reality. Can we stop it happening? Yes, I believe we can. Time is short, but we still have a choice. All unionists and the Conservative Party must join forces to oppose 'Scotland in Europe'.

In Scotland today the Scottish National Party with the above slogan is believed to be offering Scots independence and more control over Scotland’s affairs. It has captured the “Braveheart” of many of Scotland’s voters.

In reality, swapping London and the UK for Brussels and the EU cannot be independence. It is honourable and honest to seek independence. It is neither honourable nor honest to pretend that ‘Scotland in Europe’ equals independence. Yet none of the politicians or their spin doctors who oppose the SNP have to date concentrated precise questions on this aspect of SNP policy.

They should be asking, is this a good swap? Will it allow elected Scots to have more control and more influence than is presently the case? Will Scots have more or less control over political and economic decisions?

Within the UK’s unwritten parliamentary constitution, Scots representing Scottish, English, Welsh and Northern Ireland constituencies can become Cabinet and junior Ministers in any department. They can also become law officers; and the most recent senior law officers of England have been Scots.

In present and past governments a substantial number of Scots have held senior Cabinet posts. Within the UK Scots have had a good deal. Tony Blair was born and educated in Scotland, the Chancellor of the Exchequer, the Foreign Secretary, the Scottish Secretary, the Chief Secretary to the Treasury, the Lord Chancellor and the Defence Secretary are all Scots. Many of the junior Ministers are also Scots.

Thus Scotland, with less than nine per cent of the UK population, often enjoys more than twenty per cent of the political and economic decision makers. So if the UK is judged by Scots to have been a failure and found wanting, then it is the Scottish politicians who have failed, not the Union.

In reality, swapping London and the UK for Brussels and the EU cannot be independence

The SNP have never made a secret of their admiration for the European Union’s socialist agenda. The same is true of their intention to use the devolved Edinburgh parliament as a vehicle they would drive towards separation.

At the time of the referendum in Scotland, it was the policy of the Conservative Party to oppose devolution. I believe that history will record that the failure of the party to lead and organise the “Think Twice – NO” campaign and the inequality of funds contributed to the lacklustre and poorly organised ‘No’ campaign.

No one should be in any doubt about the road which the SNP vehicle will travel. They will use the Edinburgh parliament to break up the UK. When this is achieved, they will sign up for the European single currency and Scotland will then become a Region of Europe – a region where all political and economic decisions will be made by unelected non-Scottish bureaucrats and bankers in Europe. To claim this as independence is a political fraud.

Switzerland and Norway are independent. They are not members of the European Union. Consequently, EU political and monetary policy and judgements by the European Court of Justice cannot be forced upon them. Their supermarkets can ignore the recent ruling by the ECJ about designer clothes as well as any other judgement made by the Court.

A Scotland in Europe which has signed up to the single currency will be forced by the European Court of Justice to implement all the taxes and spending measures as well as all interest rates which have been decided upon by the non-Scottish bureaucrats and bankers of Brussels and Frankfurt.

Unionists within and without the Conservative Party, and particularly at Westminster, should now be alerting the people to the combined dangers of Labour’s devolution policy and the European Union’s ‘Federal Single Currency Agenda’.

It is not as yet too late, but time is of the essence. All who oppose further European integration and all who believe in the United Kingdom should now join forces.

Only a United Kingdom can prevent the federalist agenda of Europe being implemented. Only the UK can frustrate this grand design. The UK outside the single currency will be capable of maintaining the British and Scottish national identity. This in turn would prevent the creation of the European superstate and Scots would still have positions of power and influence on matters affecting Scotland within the UK.

Consequently, the first priority today must be to maintain the union between Scotland and the rest of the UK. In the short term, this can best be achieved by electing true ‘unionists’ and eurosceptic candidates and not party yes-men to the new Scottish parliament in May 1999.

We have the choice and should not be diverted by the nonsense about the will of the people as expressed during the referendum. The referendum was a political fraud and a farce. The contents of the Devolution Bill were never investigated or fully debated. It was a pig-in-a-poke chooser. The slogan ‘Scotland in Europe’ is also a political fraud and a farce and must be exposed as such.

4. The political ‘price’

The current impulse of the EU, reinforced, although mildly, by the Treaty of Amster-
dam, is towards a ‘deepened’ community with voting weights shifted in favour of the
more populous nations so as to push through contentious issues and protect the
bigger countries’ interests from being hijacked by a voting coalition of the smaller
states. This is seen as the only way to ‘main-
tain momentum’, achieve more centralised
decision making ‘to get things done’ and a
more coherent and unified foreign policy
(see below).

Such a philosophy may suit the ‘deepening’ champions in the existing
Union. But it is incompatible with the
arrival of five, let alone eleven, new nation
states, most of whom have been moving heaven and earth to regain their national
identity and who will anyway want a full say
in the Union.

The prospect is raised of a Europe of
small states constantly, and quite democ-
ratically, outvoting the bigger powers. The
inevitable consequence will be the emerg-
ence of an inner core or cabal of larger
nations who will ‘fix’ matters their way.

All this inevitably raises larger doubts
about the nature and purpose of the
European Union today. If the EU is what is
says, or seems to aspire to be – a real union
of states – does it make sense to seek to
incorporate five or six or ten more states
into the club at all?

As Timothy Garton Ash has pointed out,
the strategic goal of unity, built on the twin
political desires of France to extend its
influence through a European bloc and
Germany to be purged of all past mis-
demeanours by total European immersion,
may be an admirable thing for all of us. But
it is not, and can never be, the formula for
bringing together in a common market and
common confederation of liberal order the
vast multiplicity of cultures and peoples
that is modern Europe.

Should it therefore try, and might the end
result not be to disunite and poison the
European ideal rather than reinforce it? Do
the rules and processes of EU integration, as
at present designed, assist free market
liberalisation and the escape from the
socialist past? Or do they actually work the
other way, shoring up socialistic and
bureaucratic practices and delaying the
whole liberalisation trend?

Questions such as these are beginning to
be asked in the capitals of the would-be
member states.

The politics of membership of the EU
seemed such an obviously worthwhile goal
from the very moment of Soviet withdrawal
that the idea was hardly a question at the
outset. The argument seemed even more
forceful in the light of the fact that the
Russian retreat was ominously incomplete,
with heavy troop commitments remaining
in the Kaliningrad enclave round the back,
so to speak, of the Baltic states.

Yet even in the last five years the whole
tone and texture of this European Union
has shifted in a way which raises anxieties as
to exactly what it is the new democracies are
really joining. “Economically and socially,”
write Helen Szamuely and Bill Jamieson,
“the East Europeans appear to be com-
mitting themselves to a perpetual condition
of second rate membership” – assuming, of
course, that they get there at all.

As has been noted, the original com-
munity, seen by Jean Monnet as something
entirely novel and most definitely not a
federation or United States of Europe in
the classic sense, now calls itself a ‘Union’
rather than the less ambitious sounding
‘Community’. Even if it is no such thing and
unlikely to become one (and the rhetoric is
highly ambiguous on this central issue), is
this the sort of construction in which the
east and central Europeans wish to be
captured?

The plunge into European Monetary
Union at a speed clearly dictated by politics
rather than economics, and with barely a
reference to the implications for the new
and poorer applicant states (although one
needs to be increasingly careful about the
statistics when it comes to measuring real
living standards) can only intensify the
unease.

The absence of any serious attempt
during the Amsterdam Treaty process to
begin adapting the institutions of the EU to
the admission of more members and
structures necessary for a greater Europe
gives these doubts yet a further twist, and
sends a clear and highly negative message to
the waiting applicants – that they will be
waiting a great deal longer yet.

The weighting of votes, the matter of
membership or structure of the Com-
misson in an enlarged Europe, the size and
shape of the European Parliament – none of
these problems, central to the workings
of an enlarged Community – has been
addressed. On the contrary, the mood along
the axis of the Franco-German system is to
avoid these matters and put all energies
into completing the great Euro-zone
experiment.

Optimists may see evidence of a counter
trend in the rumoured French campaign
to bring back Jacques Delors at the head of a
re-opened constitutional debate about
Europe’s future.

But even if this materialises, the question
remains whether the Europe M. Delors is
known to favour, with a much stronger
Commission and diluted representation for
the smaller states, offers the kind of Europe
they hoped for.

That the Mediterranean and Iberian
member states have even less interest in
seeing the Union look eastwards, or in
losing investment and Brussels-sourced
structural and regional funds to these
eastern Johnny-come-lately intruders
makes the enlargement cause even more
friendless, whatever may be the official
pledges of support and determination.

5. The search for security

As in many other areas of European politics
the pattern of events which has wrong-
footed the original European aspirations is
the evaporation of the Soviet Union and the
emergence as a highly uncertain quantity of
the new weak Russia on Europe’s eastern
flank.

If the original purpose of European
integration was, as many people believed, to
keep the Soviets at bay and save Western
Europe from the same fate as Central and
Eastern Europe, what is the purpose now?

The answer ought to be obvious, as it was
back in 1945. It must be to guarantee all
Europe (and especially its most vulnerable
border states) against another tyrannous
occupation and to entrench the liberal democratic order throughout the continent for all time.

The first of these aims is plainly best served by a reformed and enlarged NATO and events have indeed advanced well on this front without any agonised debates about institutions, voting powers, acquis impositions or anything else of this nature.

It is true that at a more technical level the idea of an enlarged NATO has caused unease, especially amongst military men and those who have played a part in NATO's enormously successful, and subtly integrated, performance during the Cold War years. Their concerns, and their worry that NATO expansion could re-ignite Russian hostility unless properly presented, should be respected.

But the political objective is unambiguous and overwhelming. It is first to provide a secure neighbourhood for all of Europe with the full participation and backing of the Atlantic powers to the west (the US and Canada) and the friendly flank powers to the east (Turkey) and second to entrench conditional and liberal democracy throughout the region.

The second task, the entrenchment of open and liberal systems, both political and economic, is the one which should be the EU priority, whilst at the same time doing nothing to frustrate the parallel security goal.

But the record is good on neither of these fronts. Obsession with building up Western European Union as a 'European defence identity' distracts from the central NATO-based mission, while EU handling of the Turkish and Cypriot issues cuts across the real European security agenda with a cavalier insouciance which would be laughable if it was not so dangerous.

The decision to go ahead with the Cypriot application for membership, whilst excluding Turkey, adds a new and potentially dangerous chapter both to the enlargement and to the EU external policy record.

The EU acceptance of the Cypriot application undermines any incentive there might have been to reach a compromise. If Greek Cyprus can deal direct with the EU, why bother about an agreement with the Turks in their 'illegal' state in the north?

The decision to go ahead with the Cypriot application for membership, whilst excluding Turkey, adds a new and potentially dangerous chapter both to the enlargement and to the EU external policy record.

From the Turkish point of view this all looks suspiciously like enosis by the back door. The Turkish sense of being outmanoeuvred and isolated is vastly reinforced by the brusque and insensitive handling of Turkey's own application.

In the words of the American negotiator Richard Holbrooke, who found when he arrived in Cyprus last April that all discussions were completely deadlocked, 'the failure to put Turkey on the same basis as the other eleven countries that began the accession process was a mistake'.

With bitterness and anger on the increase in Turkey, which are the worst counsellors in times of tension, the preservation of peace in the eastern Mediterranean is now at stake. Graeco–Turkish reconciliation, which like Baltic participation ought to be a prime objective of true Europe builders, has been instead set back years by EU 'foreign policy'.

The one area where Europe-wide co-operation and solidarity has been greatly enhanced is defence and security. But this is thanks not to the EU but to the brave and persistent efforts of the NATO powers to take the political risks and put the creation of a secure and free Europe first – above even the understandablen reservations of many experts who view NATO enlargement with dismay.

The EU preference for the WEU as the vehicle of a European defence identity makes the NATO expansion process more difficult as well as loading yet another condition for membership on the applicants. This is the foreign policy of an entity, the EU, which puts other considerations before enlargement and which clearly has a minimalist, almost residual, approach to the whole enlargement project.

6. Europe and the liberal order

Back in the early nineties it was assumed by the architects of Community enlargement that the task was one of bringing a group of hopelessly socialised and stagnating economies from the east back into the free market and capitalist ambience of western Europe. As time has gone by, this picture, which was never entirely accurate, has become even less true.

While Western Europe – with the exception in some respects of Britain – has continued to bury itself deep in a culture of state welfare, labour market protection and subsidy, the East and Central Europeans have moved rapidly ahead in opening their economies, privatising and liberalising on all fronts. Starting from miles behind, with virtually no private ownership, they are now leapfrogging way ahead with lively private sectors, shrinking state involvement and deregulation on all sides.

Thus two quite distinct patterns and philosophies have developed which have somehow to be embraced in the larger Europe. If the present EU had a more relaxed view about its own identity and saw itself as a looser collection of states, there would be much less of a problem here.

Different zones of Europe could operate different degrees of paternalism and centralisation à choisir and yet work together in community.

There can be no question that to make a common market work the most blatant forms of non-market intervention and unfair subsidy have to be ironed out, which requires a degree of central political authority to enforce rules and police matters.

But when this doctrine is carried into an attempt to homogenise cultures and broad economic and social conditions in the cause of political union, the ground is laid not for practical unity but for discord and division.

The pity is that good Europeanism, which ought to embrace and encourage diversity, has become mixed up with a hopelessly and unrealistically over zealous search for uniform standards. The yen for tax harmonisation is a classic example of this zeal carried too far.
In consequence the British, whose record in standing up for a liberal and free Europe is second to none, have been depicted, and have allowed themselves to be depicted, as bad Europeans.

This refusal on the part of the European determinists to accept and make the best of the defining characteristics of Europe's ancient states, as a fact of life, has been damaging not only for Britain but for Europe's whole future, and certainly for the future of an enlarged Community.

As Rodney Leach has observed, "no amount of goodwill towards Europe can make these features evaporate". If we are to debate Europe's future honestly – and enlargement provides the obvious occasion for such a debate – then tolerance of these unalterable differences must be built into the future constitutional structure of Europe and turned from a cause for recrimination and division into a binding virtue.

Set on its present path of 'irreversible' integration the European Union is going to find it hugely difficult, if not impossible, to digest the new democracies of the east. A Europe ready to accept and build upon all its diversities will find the task far easier – and swifter.

Countries are what they are and what they have grown to be over the generations. Their past cannot be unwritten. If the thought processes of the EU could accept this fact the future of Europe would be much more secure.

7. Destiny, foreign policy and common sense

A unified and coherent European foreign policy has long been the ambition of many of Europe's leaders, particularly those from the smaller member states.

The longing is for Europe itself to act like a state and to use its combined weight and influence like a state in the full nineteenth century tradition. The word 'destiny' keeps on appearing, along with calls for a clear and inspiring vision of Europe's role as a new superpower in an unbalance world.

This kind of rhetoric has little appeal in Britain where the collective memory of destiny builders in Europe tends to be unfavourable. But it also worries the new democracies whose external outlook and interests are far from uniform and whose perspective on world events may be very different from that of Brussels, Paris, Bonn or London.

The attempt so far to impose a common strategic framework on the foreign policies of member states gives little enough encouragement. The Bosnian fiasco, the premature recognition of Croatia and the lack of unity in dealing with Iraq all come to mind.

But it is aspects of the enlargement process itself, in a sense the clearest immediate expression of EU foreign policy, which send out the most worrying signals.

It has first to be asked whether it was really wise to distinguish so sharply between one group of East and Central European states and another in the negotiation process. The decision to go for negotiation with a fast-track group of five countries plus Cyprus went against the counter view that all European countries should be entitled to apply and have their cases heard. The danger of the chosen course is that it creates a new divide in Europe, when the overriding aim should be a continent-wide home (or at least club) for all.

For example, the undoubtedly welcome decision to 'call for interview' the dynamic little Estonia but leave Latvia and Lithuania outside cuts clean across the trend towards Baltic states partnership and co-operation which ought to be a prime objective of European policy makers.

The EU attitude to trade links between the applicant states seems equally unhelpful. We are of course talking here not about the old Comecon planning system, with all its absurdities, but about new and productive trade links between, for example, Hungary, the Czech Republic and Poland. A stronger consideration in Brussels appeared to be the need to prevent East European products, especially agricultural products, from too much access to the West, while insisting that subsidised EU products were dumped on the bewildered newcomers.

It has anyway to be asked how these bilateral negotiations aimed at enlarging the European regional trade bloc fit, if at all, into the wider context of multilateral trade liberalisation.

For one thing, it is now possible for the EU to propose a Transatlantic Economic Partnership with North America (replacing the even more sweeping idea for a New Transatlantic Marketplace which was shot down by France), why cannot a similar approach be adopted, with appropriate safeguards, for Western Europe's own 'family' in the east?

Indeed, at a more fundamental level there seems to be something curiously dated about the European Commission's way of looking at economies, and at trade patterns and bilateral negotiations with other independent states.

While Brussels beavers away at measuring per capita incomes, cost comparisons between states and other aggregated data, the modern world of intangible economies advances in unrecorded and unmeasured ways.

Much of the data on which the negotiators appear to be relying about the applicant countries may be both misleading and out of date. The increasing preponderance of so-called weightless factors in international commerce, reflecting the shift of economic activity and power to distribution, services and the knowledge intensive sectors, undermines familiar notions of nation-centred economics.

Under the pressures of globalisation and the incursions of the Internet, the open and fast growing economies of East and Central Europe are probably more intertwined with those of the existing EU than their governments or Brussels officials begin to comprehend.

This is not to say that nation states are redundant or dissolving, although this view has many fashionable adherents. In terms of cultural identity and the need for civic order the nation state is more central than ever. As the economic aspects of life drift away from nation state level the pressure on national institutions to fulfil new and even more demanding roles increases.

A Europe which therefore carefully avoided any clamping together of disparate cultures and promoted and encouraged national governments in their new roles would therefore be entirely in tune with the way the world now works. But that, regrettable, is not at present the way of the EU.

8. What to do now

What now is to be done – what can, in practical terms, be done, especially by the UK – to set the enlargement process firmly back on the rails?

The central task is to formulate a strongly European policy, dedicated to the vision of a wider Europe in which democracy and the liberal order are entrenched and protected, and which carries us forward from the old Franco-German arrangement, or 'project'. This wider and much more up-to-date perception need in no way be hostile to the innate values and purposes of the Franco-German project. Its aims were, and remain, to the benefit of all. There is no need, in
shaping a new future, to repudiate the past. Bridges can and must be built between them.

But one way or another we now have to move on. The old European structure, with all its enormous achievements, must now be reconstructed to match entirely new conditions and new phase of history. The often declared strategy of the present Labour Government – to get closer to the prevailing European integrationist orthodoxy and thus demonstrate a degree of commitment which the previous Government is alleged to have lacked – therefore seems to contain a basic flaw.

Good Europeans should not now be cosying up to the past but building on it and replacing it. There is no need to sound anti-European or xenophobic in doing so. What has been achieved in past decades is magnificent and deserves deep respect. But the successful pursuit of European enlargement to embrace the real heartlands of Europe now demands a different approach.

First, the language, which sets the tone and context for fresh policies, must be changed. It is diversity and not uniformity which must be both hymned and protected and it is the exquisite and precious goal of an enlarged Europe of free and independent nations, bound together in a whole variety of ways and common interests which must take priority in every speech and perforation over the narrower aims of deeper political integration.

Second, a powerful re-sifting of the *acquis communautaire* must be launched to comb out the practices and policies which are either out of date or frankly socialistic and hostile to free market liberalisation.

Third, EU policy must be made consistent with, not antagonistic to, the aims of global free trade as upheld by the WTO. Many dedicated Europe builders have always believed and hoped that EU integration would pave the way to global free trade. But now these rhetorical hopes must be matched with policy. Open regionalism must become the reality.

Fourth, the energies must somehow be mobilised to revisit yet again the institutional issues which stand like concrete blocks across the path to early enlargement. It is often argued, not least in London, that the smaller European states, including the new applicants, cannot be allowed too much of an equal say in EU affairs, since they might outvote the bigger nations on crucial matters. The answer to this is not to try and rig voting procedures against the smaller nation states but to limit realistically the issues and powers over with the EU voting regime runs. The answer is not less democracy in Europe but less centralisation of powers and competences.

The European Court of Accounts has established that the flat rate is in fact on average 30% higher than the actual travel costs incurred by MEPs. They are allowed to claim taxi fares even if they have walked, and air fares even if they have taken the train, for instance. Those who defend the present system actually admit that the bogus expense claims help supplement the income of less well paid MEPs. In other words, the whole thing is a scam which the European Parliament has just voted to prolong. [Suddeutsche Zeitung, 21st October 1998]

**German nuclear decision bad for France**
The Green-inspired decision by the incoming German government to close down the country’s nuclear generators is a slap in the face for France. The two countries had been developing a special relationship on nuclear development, with Siemens and Framatome working on a new European pressurised water reactor since 1989. Further, France sells 40% of the electricity it generates from used nuclear material to Germany: the Red-Green coalition in Bonn has announced its intentions to break off these contracts. [Le Monde, 17th October 1998]

**New German government’s tax plans attacked**
The six leading economics institutes in Germany have harshly attacked the tax plans of the incoming German government. They call the tax plans insufficient and lacking in courage. The institutes also say that the tax plans will cause economic slowdown in Germany, falling to 2.3% this winter. The number of unemployed is predicted to rise back above 4 million next year. [Suddeutsche Zeitung, 21st October 1998; Handelsblatt, 22nd October 1998]

Lord Howell, former Chairman of the House of Commons Foreign Affairs Committee, is an advisory director of Warburg Dillon Read. He was Conservative MP for Guildford, 1966–97.


… news in brief

**The new internationalism**
It is a key tenet of the 1960s mentality which reigns in the new German government - as well as in much of the world outside - that international solutions are the best answer to national problems. Thus the EU has been explicitly evoked as a stabilising factor in the new Red-Green German coalition contract which was signed in Bonn on Tuesday. In it, the Greens and the SDP spell out the principles which will govern their co-operation. They include things like each party forbearing to overrule the other on matters which it considers of fundamental importance. But the fact that Germany will have the presidency of the G7 group of industrial nations and of the European Union next year is mentioned as a force for cohesion between the two parties. It is typical of this mindset to assume that stability is better imposed from the top down than from the bottom up – and a striking way of trying to lend credibility to a coalition which some sceptics think may collapse during the lifetime of the present Bundestag. [Suddeutsche Zeitung, 21st October 1998]

**MEPs vote to keep their expense payments**
The presidium of the European Parliament voted on Monday against a proposal to reimburse MEPs only for their actual travel costs, instead of paying them a flat rate as now. Although the new regulation does provide for a reduction in this flat rate – the EU’s costs for travel expenses will thus fall by about £630,000 to about £28 million per year – the decision to maintain the flat rate amounts to institutionalised fraud. The European Court of Accounts has established that the flat rate is in...
There cannot be many more Quixotic tasks these days than the defence of the UK’s present tax system. Hector the Inspector, for all the childish cartooning surrounding the introduction of self-assessment last year, is about as popular as that other bowler hatted figure of public scorn, the Ulster Orangeman. Hector’s attacks on modest family businesses have rightly drawn down the wrath of the Revenue’s Ombudsman and resulted, in the Farthings Steak House case for example, in the unprecedented award of costs against the Revenue arising from their oppressive and unjustified investigations.

Even where a public spirited individual takes on the massed ranks of Hectors and wins – as Professor Willoughby did earlier this year in the House of Lords – Sir Hector does not give up. A defeat in court is quickly followed by some new clauses tacked onto a finance bill, and the taxpayer invited to a return match – if he dare.

Nevertheless, despite its obvious shortcomings, our tax law has so far been ours – at least as far as the major direct taxes and customs duties are concerned. Parliament has traditionally guarded its privileges to raise taxes with the utmost vigour, and recent decades have shown how much difference the election of a new government or the determination of MPs can make to our tax system. Under the Tory administrations, the top rate of tax fell from 83% to 40%. Under the previous Labour administration, an amendment co-sponsored by the left winger, Audrey Wise, indexed personal allowances for inflation. One change helped the well-off greatly; the other was the most significant inflation. One change helped the well-off greatly; the other was the most significant...

But Parliament’s sovereignty over our direct tax system is under severe threat; as is the independence of our tax judiciary. The source of the threat is, as ever, the EU – in particular the European Court of Justice.

There are two misleading myths – or ‘nophemisms’, as Dan Atkinson christened them in the June 1998 issue of the European Journal (p. 22) – put around by the EU-philês on the subject of tax. The first is that there can be no EU encroachment on the Member States’ sovereignty in direct tax matters without the unanimous consent of the Council of Ministers. Gordon Brown is a formidable peddler of this line, which he repeated time and again at the York ECOfin in March. The second is that any such change will be vetoed by the Government – a sentiment which Tony Blair made much of when he addressed France’s National Assembly in French at the beginning of this year.

Both these ‘nophemisms’ are proudly on display at the moment. Brown is making a great public fuss about defending London’s euro bond market against the Commission’s plans for a confiscatory 20% withholding tax on interest payments, whilst his Treasury spindoctors and minions, like Lord McIntosh, quietly prepare the ground for a cave-in. “We will not go into the discussions [on the withholding tax] with a commitment to veto before the discussions have even begun”, were McIntosh’s weasel words reported by the London Evening Standard on 6th October 1998.

Two recently reported cases in the European Court of Justice (ECJ) have given the lie – once and for all – to this nonsense. In one case the ECJ’s decision has inserted a continental view of tax avoidance into UK tax law which is completely at variance with our established precedents and fundamental legal concepts. In the other a judgement handed down by the ECJ rewrites an important piece of company tax legislation and, to cap it all, trespasses on the prerogative of the House of Lords, sitting as the UK’s highest court, to establish the facts in a case before it.

Both cases came before the ECJ as a result of our courts using the procedures set out in Article 177 of the Treaty on European Union (renumbered Art. 234 after Amsterdam). Under this article the ECJ has the jurisdiction to give “preliminary rulings concerning the interpretation of the Treaty”. This jurisdiction has two facets. The first is permissive in effect. “Where [a] question is raised before any court or tribunal of a Member State, that court or tribunal may, if it considers that a decision on the question is necessary to enable it to give judgement, request the Court of Justice to give a ruling thereon.”

The second is mandatory. “Where any such question is raised in a case pending before a court or tribunal of a Member State against whose decisions there is no judicial remedy under national law, that court or tribunal shall bring the matter before the Court of Justice.”

Clearly Art. 177 has a broad reach. No court likes to have its judgements later called into question, and so there is a natural bias for courts to refer knotty matters of interpretation to the ECJ especially where EU law – in areas such as VAT and customs duties, for example – is applicable by means of directives and regulations. Kenneth Clarke’s series of budgets made it much easier for even the lowest levels of VAT and Customs Duties Tribunals to refer difficult matters directly to the for preliminary rulings, and the professional tax press is now full of reports on cases where the ECJ has handed down a ruling on the interpretation of the 1977 VAT Directive, often giving rise to a considerable loss of tax revenue for HM Customs and Excise (the Elida Gibbs case of 1996 was estimated to cost the Treasury £75m, according to Taxation, 7 November 1996, p. 148).

It is also clear that mandatory referrals will be demanded by taxpayers who feel aggrieved by some aspect of the UK’s tax legislation, against which (they argue) there is no remedy in UK law. Denying yourself the chance of obtaining a cut in your tax bill would test the principles of the most EU-sceptic of British taxpayers; and the sorts of large international companies that can afford ECJ referrals are rarely so high-minded. So mandatory referrals to the ECJ under Art. 177 at the behest of a taxpayer are becoming increasingly common.

The two cases under review neatly illustrate these two methods of having a UK tax case heard before the ECJ. The ‘permissive’ route is exemplified by R. v Commissioners of Customs and Excise...
ex parte EMU Tabac Sarl & Ors (Imperial Tobacco Ltd, Intervener) Case C-296/95 in the ECJ. The matter in dispute was the right of Customs to levy excise duty on tobacco products brought into the UK from other EU states by an agent acting as the 'personal importer' for an individual UK consumer. The case turned on the conflict between the agency principle in UK law and the interpretation of Article 8 of the relevant Council Directive 92/12/EEC, and was reported in The Times for 9 April 1998 and summarised *in extenso* by Angela Cunningham for *Taxation*, 21 May 1998 p.206 (from where all quotations are taken). The ruling handed down to the UK's Court of Appeal favoured Customs but the reasons given by the ECJ make grim reading for defenders of the UK's fiscal independence.

"The Court took the view that, even if the agency principle were common to all Member States, it was one deriving from civil law, and more specifically from the law of obligations, and did not necessarily fall to be applied in the sphere of fiscal law, where the objectives were of quite a different nature. That is not the approach of the United Kingdom tax system whereby the rights and obligations arising from relationships, such as agency … underlie the tax treatments of the parties in those relationships."

In Belgium and other continental jurisdictions, the tax codes have explicit provisions which allow their tax authorities and courts to look at purpose of a transaction to see if it can be regarded as avoiding tax. If it can be, it is disregarded without further ado. In the UK a line of tax cases from W.T. Ramsay Ltd. v Commissioners of Inland Revenue HL 1981 54 TC 101, to the recent CIR v McGuikan HL 1997 STC 908, has established the doctrine that the substance of a transaction is to be considered, not merely its form. But the whole Ramsay doctrine is predicated on the fiscal consequences of legal relationships. The threat to a central tenet of UK tax law is plain. As Angela Cunningham concludes: "if direct taxes are ever harmonised, who knows where the UK's rather delicate approach to tax-motivated relationships will end?"

The second case is more worrying still. It is now well over two years since the House of Lords, in response to a submission by the plaintiff in ICI v Colmer (now ECJ Case C-264/96), referred to the ECJ a series of questions concerning the compatibility of certain restrictions on consortium relief for UK companies with EU law. An Opinion by the Advocate General Tesuaro was handed down in December 1997 but only available in translation late in February 1998, just before Brown was so insouciantly showing off his fiscal prowess in York. The final decision was handed down by the ECJ on 16 July 1998. The case is reported in *Taxation*, 9 July 1998, pp 390–392, in a summary written by the tax barrister, Jolyon Maugham, and *Taxation*, 6 August 1998, pp 491–493, in an analysis by David Evans and Alastair Monro of KPMG. All the extracts and quotations following have been taken from these sources.

**… the reasons given by the ECJ make grim reading for defenders of the UK's fiscal independence**

The matter in dispute was whether losses made by a group of companies not resident in the UK in which ICI had a consortium interest were disallowable for UK corporation tax purposes without prejudicing the general EU right to freedom of corporate establishment. If a tax disincentive which would discourage the creation of cross-border corporate structures could be shown to exist, then the relevant UK tax law would be ruled in breach of Article 52 of the Treaty on European Union.

The judgement of the ECJ has followed in all major respects the Opinion of the Advocate General, which dealt first with the circumstances under which Lord Nolan referred the case under Art. 177 from the House of Lords to the ECJ. The facts of the case were that the majority of the companies in the group whose losses the UK Revenue was disallowing for consortium relief were resident outside the EU altogether. Even if UK legislation did not differentiate between companies resident within the UK and those resident in the rest of the EU, ICI would have had great difficulty winning its case in the House of Lords. The referral to the ECJ on the grounds that the ECJ has jurisdiction over the laws of Member States which discriminate between EU and non-EU resident bodies was therefore peculiar in itself, until we remember that it is the plaintiff, ICI, that has forced the House of Lords' hand – because, in the words of Art. 177, “there is no judicial remedy under national law” against the Lords' decision.

The Advocate General certainly did not want to take this point. Instead he stated that "it is for the national court to assess the relevance of and need for a preliminary ruling. That court is in the best position to gauge the relevance of any questions of Community law raised in the dispute. Therefore, only where a question is manifestly irrelevant to the main proceedings will [the ECJ] refuse to respond to such a request."

In other words, no matter what the 'route' of the Art. 177 referral may be – alternatives I have characterised as 'permissive' or 'mandatory' – the ECJ will conveniently assume that the national courts are seeking a ruling from the EU's supreme court.

Having disposed of the preliminary point, the Advocate General dealt with the substance of the case. He began with the familiar mantra – most recently used in the Safir case when the ECJ struck at Sweden's fiscal independence in direct tax matters – that "although, as Community law stands at present, direct taxation does not as such fall within the purview of the Community, the powers retained by the Member States must nevertheless be exercised consistently with Community law." The very formulation of this warning demonstrates, past all gainsaying, that the ECJ is working extremely closely with Commissioner Monti to demolish every last vestige of national tax sovereignty. The Advocate's conclusion is that the UK's consortium relief legislation is indeed restrictive, and therefore contravenes Art. 52 on the freedom of establishment and does not come within any exceptions allowed for in Art. 56 (para. 23).

Jolyon Maugham remarks on several surprising statements in the Advocate General's Opinion. The details are too technical for this article, but he concludes that "to the best of [my] knowledge, nothing in the Court's jurisprudence on the subject of direct taxation bears out [this] dichotomy [in the AG's argument]." (p.391). Most alarming is the fact that the Advocate General appears to be directing the House of Lords to find on matters of fact, when "having established that the UK consortium relief provisions were capable of constituting and impediment to the freedom of establishment [in the EU], he
should have left it to the House of Lords to establish whether the provisions did on the facts constitute such a restriction."

Since the Advocate General’s Opinion has been adopted by the ECJ now that it has issued its final judgement on the case, a truly dreadful precedent has been inserted into UK tax law, against which no amount of political complaint, or ‘hoo-ha’ as it’s called these days, can avail. Parliament is now impotent to change the law back again – the Factortame case ended that route. And the courts are now not only obliged to submit to the ECJ’s ruling on Art. 56 matters, but will inevitably begin to refer all difficult direct tax matters – even, eventually, Income Tax ones – up to the ECJ on the ‘permissive’ route, for “preliminary rulings”. Gordon Brown might as well throw our national veto in a Brussels dustbin, and hand over all tax matters to majority voting in the Council and to the European Commission for all future primary legislation. He is, in effect, out of a job.

None of these developments is at all unexpected to those who have been observing how closely intertwined are the ECJ’s tax judgements and Commissioner Monti’s efforts to destroy the fiscal sovereignty of the Member States. The ECJ has just used a Single Market provision, Art. 59 – prohibiting restrictions on freedom to provide services in the EU – to attack Sweden’s insurance company tax legislation in the Safir case (judgement delivered 29 April 1998, reported Taxes, 22 May 1998, p. 505/6). It identified as its guiding principle the need to “enable the objectives of the Single Market to be met”. These are precisely the reasons given by Monti in his discussion document Taxation in the European Union IP(96)243 of 20 March 1996, which details his plans to push through an EU directive on the taxation of savings by using Single Market procedures allowing for qualified majority voting. The first draft of the directive has now been made public, and Brown’s only objection on behalf of the UK is to ask for the City’s dealings in certain bond instruments to be exempted by the Commission from the scope of its proposed withholding tax regime. Even this objection is going to be overruled. Brown is preparing to trade off the UK’s overall rebate on the contributions to the Community budget demanded by Brussels for a wide range of tax harmonisation matters, of which this tax on savings is just one.

Evans and Monro conclude their review of the ICI case with a stark warning that the UK’s fiscal independence has gone for good. “There are many more areas of UK tax legislation which are potentially contrary to Art. 52. It clear from [this] decision that the Inland Revenue must undertake a full review of the legislation so that it can be amended to comply with European Community law. [Otherwise] many more claims [for very substantial refunds of tax] will follow.” Parliament has, it seems, no choice but to pass any amendments the Revenue and the Treasury between them may decided.

The implications for the UK’s continued fiscal independence are extremely serious, and those like Gordon Brown who still shelter behind the fig leaves of veto and unanimity among Member States must be publicly confronted with them. It is time for British Hector’s cause to be championed in Westminster. I fear, however, he will get the same treatment from the Blairites as those other bowler hatted survivors from another pre-EU age – scornful impatience.

Is there a new Don Quixote in the House?

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

"Moving on Up", the European Foundation’s pamphlet exposing plans for tax harmonisation is now available. See page 32.
Unfunded Pension Liabilities in the EU: An Update

by Douglas Ellison

One of the most emotive topics that the general public has taken on board in the EU debate is the potential bill that the British taxpayer will face for unfunded pension fund liabilities of our fellow EU states. For those familiar with the argument forgive me for restating the problem. Unlike Britain, the vast majority of EU states have generous state provided pensions. However, these generous pensions are funded out of current tax receipts levied on the working population. Despite many European governments having made these expensive promises, there exist limited or no segregated funds that have been put aside to provide a return to finance these unknown liabilities. The limited existence of private pension arrangements across the EU compounds this problem, resulting in a significant percentage of the population dependent on state support in their retirement. In Britain, pension funds have assets in aggregate equivalent to almost 75% of GDP, compared to France with pension funds owning assets equal to 5.6% of GDP, Germany 5.8%, Italy 3.0% and Austria 1.2%.

The growing numbers dependent upon this support augments the problem whilst, at the same time, making it difficult in the consensus of politics of the EU states to endorse electorally unpalatable measures to deal with it. According to EC figures, the rate of payroll tax in most EU countries necessary to finance pension commitments post 2010 nearly doubles from levels today, rising by nearly 20% of the wage bill. In Britain no such increase is forecast to be necessary.

The intractable dual demographic problem that all EU member states, including Britain, face – declining working population and rising life expectancy – means that there are fewer and fewer working age people to be taxed to concurrently finance pension outgoings. The simple fact is that, as the ‘baby boomers’ reach pensionable age, their place in the workforce is not being replaced by new entrants. This decrease in the ratio of people of pensionable age to those in work providing tax receipts to the government to finance such payments is expected to fall from 4 in 1960 to 2 by 2030. The OECD estimates that by 2030 35% of the population will be over 65, compared to only 15% in 1960.

According to OECD projections, the dawn of the millennium will usher in an age where we spend a greater number of years out of employment than we do in the labour force.

Traditionally this problem has been addressed by member states borrowing or printing money, thus allowing the real value of pensions to decline to defuse its explosive nature. As most of the worst culprits have signed up to Phase 3 of European Economic and Monetary Union, these methods should no longer be available to them if EMU works as intended. From January 1st 1999, member states will give up their rights to manage their money supply for themselves and will become legally bound to comply with the Maastricht debt and deficit criteria, acting for the benefit of the collective good of the EU, under the direction of the ECB.

Coincidentally with the launch of the euro, the scale of the pension problem has undoubtedly worsened. Since the original OECD estimates of these liabilities were made in 1996, estimates of the unfunded have risen for the following reasons:

1. Falling interest rates have raised the current cost of this euro black hole. As interest rates fall, more and more money today has to be invested to yield a future defined monetary target.
2. Rising EU unemployment has exacerbated the burden on the working population. Since 1996 EU unemployment has continued to rise, meaning that a dwindling number have remained in work to finance the current pension commitments. Furthermore, at the same time, the underlying finances of member states have worsened as the social security budgets have expanded along with the numbers unemployed. With advances in healthcare, it also means that the growing percentage of older people in the population will necessitate a rising healthcare budget as well.
3. Mergers and restructuring of companies and cuts in public sector employment, encouraged by taxation incentives and union pressure to lower the pensionable age, have resulted in not only a significant number of early retirements, but a growing ongoing practice to allow employees to take early retirement on full pensionable rights.

In 1960 life expectancy in men was 68 years, with 50 of those years spent in employment. Today, life expectancy is 76 years but only 38 of them will be spent in employment. This double whammy of reducing the workforce and lengthening the time over which pensions must be paid will significantly worsen the current problem.

4. National and EU derived legislation limiting the length of the working week has increased the taxation burden per productive hour worked by the labour force. Further moves to limit the length of the working week will increase the burden of financing these liabilities per productive hour employed. The OECD estimates that if productivity growth continues at its post 1973 average of 1.5% per annum, the decline in the proportion of the population employed would mean that the growth of material living standards will halve post 2010.

5. Declining stock markets and fears of financial crashes will undermine private sector savings, placing greater reliance on public provision of pensions. Already annuity rates in Britain today are the lowest since the 1960s, having fallen by 25% since May.

6. Moves to impose withholding taxes on EU investments will increase the cost of these unfunded liabilities, as more money has to be invested upfront to counter the negative impact of non-refundable withholding tax deductions.

7. Moves in countries like Britain to discriminate in favour of younger employees via initiatives like the New Deal, will consign older employees to unemployment and further dependency upon the state for support during their remaining working life and exacerbate the problem of their reliance on the state in retirement.

Despite the fact that member states have taken some action to deal with this growing liability (for example, raising the pensionable age), it is clear that this is insignificant given the size of the figures involved.

The question remains what impact will there be upon Britain for this profligacy of our partners? First, in the absence of wholesale reforms, the day of reckoning is
drawing increasingly nearer. Clearly, devoid of the inflationary option, member states must either raise taxes or renge on their promises. Either option seems limited given the fact that average EU rates of tax are already over 50% and that reducing pension payments would be political suicide (witness Sweden's recent election result). In anticipation of this growing burden, markets will undoubtedly start penalising euro zone interest rates to reflect the fact that somehow member states will have to fund potential liabilities which amount in many cases to over 100% of GDP. If Britain is in the euro at this time, it too will be penalised for our partners' having lived beyond their means by higher euro interest rates and higher levels of inflation than otherwise would have been necessary.

Secondly, it is inconceivable that, with these levels of contingent liabilities, member states can hope to comply with the Maastricht criteria. 1999 OECD forecasts made before the global downturn in 1998 estimated Germany's gross debt at 64.2% and that of France at 66.4%. Italy was allowed to enter EMU with over 120% of debt to GDP to start with – not counting their estimated pension liability of a similar amount. How will the EU deal with these clear breaches of Maastricht? Imposing fines as laid out in the Stability Pact? Clearly this would compound the problem. But, if the Maastricht provisions are allowed to be so openly flouted in this way, why not in others? In particular, article 104b which, so the Commission is at pains to assure us, prevents member states or the EU bailing out other members. But why should we believe or indeed condone selective reading and application of the Maastricht Treaty provisions? Indeed, there are already moves afoot by multinationals to lobby the Euro-Commission for the standardisation of pension arrangements across the EU to permit them to realise cost savings from centralising their pension administration and provision. Could it not be the case that such a harmonisation to assist the completion and workings of a single market will be imposed on us and a special EU pensions tax levied to finance the implications of such a decision? Is there some precedent for this with the equal pay provisions of article 141 in the Social Chapter and the Defrenne sex equality case, where the rectification of alleged competition disadvantages were grounds for imposing Social Chapter measures under QMV.

Frank Field, Chairman of the Social Security Committee at the time, clearly recognised these dangers when he stated in Parliament, "Britain may be asked to share the cost of other countries being less careful about meeting future pension liabilities." Indeed, for many, there is no doubt that Britain will be liable for a share in this cost. Article 2 of the Maastricht Treaty states that we have contracted to establish a joint balance sheet (or as they put it "economic and monetary union, ultimately including a single currency") – note that the single currency comes AFTER the merger) where assets and liabilities of the member states are pooled in a new merged entity, that of Europe.

In response to Angela Knight's (the Eco-nomic Secretary at the time) statement that tough decisions on tax and pension levels would be needed in the future by the worst offenders, the Social Security Committee's Report on this issue stated, "to suggest that 'tough decisions' will be made and implemented without huge political and social distortion strains credulity." What does indeed strain credulity is the ignorance and misunderstanding that many of our elected representatives have according to the fact that, as demonstrated by this issue, being part of the EU collective confers obligations on Britain with respect to our partners, which will cost Britain far in excess of any benefit we may derive from being part thereof.

Douglas Ellison is a Deputy Chairman of Greenwich and Woolwich Conservative Association and a National Committee Member of the Campaign for an Independent Britain. He is also one of the founders of the Campaign Against the Single Currency. He works in the City for ING Barings.

--- news in brief ---

"The new centre" evaporates in Germany

Gerhard Schroeder's new government got off to a bad start when the man who has for long been tipped to become Economics Minister refused to accept the job. Jost Stollmann has been peddled as symbolising the new, dynamic, business-friendly face of the Social Democrats during the election campaign. But when it came to carving up the government cake, the leader of the Social Democrats, Oskar Lafontaine, has insisted on a mega-ministry including Finance, European affairs, and much of the portfolio of the Economics Ministry as well.

According to the German press, Schroder gave him these powers in order to strengthen German influence in Europe, even though it has meant overriding the traditional German division between the Economics and Finance Ministries.

The head of the CDU, Wolfgang Schauble, said that Stollmann's decision not to participate in the government showed that Schroder's much-vaunted "new centre" (die neue Mitte) was fast disappearing in the fact of the consolidation of old-fashioned red-green (i.e. left-wing) policies. [Handelsblatt, 20th October 1998]

In an interview, Jost Stollmann has made it clear that he interprets his exclusion from the government to Lafontaine and to his left-wing grip on the new government. "Gerhard Schroder was the guarantor for my ideas", he said. "But I observe that Oskar Lafontaine has dominated the content of the coalition agreements. He has also taken personal decisions to support his policies." When asked if this meant that Lafontaine was the real Chancellor, Stollmann said that there was now a group within the new government which was determined to resist any "modernisation". [Suddeutsche Zeitung, 21st October 1998]

The clipping of the wings of the Economics Ministry has also been criticised by industrialists and others. "I can't think of much to say about [Werner] Muller", said one, referring to the new and largely powerless Economics Minister, and alluding to the famous sarcastic first line of a book about Hitler. [Suddeutsche Zeitung, 21st October 1998]

In a final twist, a prominent regional SPD politician who counted as a hard-line opponent of the Greens and of left-winger within his party, has suddenly resigned after 25 years in politics. Klaus Matthisen said that he wanted to do something responsible instead and has taken up a job in the private sector. But his surprise decision is being interpreted as confirmation that his longstanding opposition to the Greens has failed. [Suddeutsche Zeitung, 21st October 1998]

---

German unemployment dips below 4m

As expected, the total figure for German unemployment fell under the supposedly symbolic, but in fact utterly meaningless, four million threshold. There are now 3,965,400 Germans on the dole, 130,100 fewer than in August and 342,700 fewer than last September. The breakdown is 2,733,000 in West Germany and 1,232,000 in East Germany. [Handelsblatt, 7th October 1998]
The EU Should Heed the Lessons of the Berlin Airlift

by Keith Marsden

The recent commemoration of the Berlin Airlift didn’t lack irony. On 24 June 1948, all land communication routes to Berlin were cut by the Soviet military authorities and its population risked starvation or absorption into the Soviet bloc. The Allied response was a massive airlift of food flown in by US, British and French aircraft in round-the-clock missions. Yielding to Allied resolution, Joseph Stalin lifted the blockade in May 1949, paving the way eventually to German reunification and the break-up of the Soviet empire.

Fifty years on, EU leaders are failing to show similar goodwill and foresight. They seem unwilling to take risks that would ultimately benefit their own countries and their former adversaries. The tables have not exactly been turned. There’s no blockade. But Eastern European countries now confront formidable trade barriers in Germany and the EU generally, especially for their food shipments. As a way around these barriers, the possibility of entry into the EU club has been held out tantalisingly to a few aspirants. But it’s unclear when, or if, they will be able to meet the stringent eligibility criteria. Here are some of the hoops through which they must jump before they reach the promised Euroland.

EU “aquis” are adopted.

This sounds like privileges that will be granted once they have proved their worth. In reality, it means the implementation, prior to accession, of a huge backlog of EU regulations. The EC report Agenda 2000 unconsciously gives the game away by saying that “this is a far greater challenge than in earlier enlargements” because “Community legislation has expanded considerably. Certain policies which were limited at that time today consist of an impressive set of principles and obligations.” Not everyone will agree with the word “impressive”. Another way of putting it would be “a bureaucratic morass” which restricts the freedom of firms, workers and consumers and is often counterproductive.

Candidates must have “the capacity to cope with competitive pressure and market forces within the Union”.

In fact, EU legislation will hamper their ability to compete. Agenda 2000 says that the preconditions to be met include: “equilibrium between supply and demand is established by the free interplay of market forces; prices, as well as trade, are liberalised”. Yet such conditions do not exist in large swathes of the EU economy, especially agriculture and public services. The EU’s real concern is the threat East European exporters will pose to its own producers if they are not hobbled by the same burdens.

Minorities must be respected.

Agenda 2000 draws attention to the large proportions of ethnic minorities in applicant countries and says that cuts in cultural subsidies in Hungary give cause for concern. It ignores the refusal to grant citizenship to long established foreign workers in Germany, or the social exclusion of immigrants in France (the multi-ethnic composition of its national football team notwithstanding!). It neglects US experience which shows that assimilation is best achieved by giving immigrants the freedom to establish a niche in the economy through hard work and enterprise, without being tied up in too much red tape or requiring “cultural subsidies”. A US Department of Labor study found that median earnings of recent immigrants were 35% below the median for US born workers, due largely to lower educational levels and lack of fluency in English. But the gap disappears when immigrants become integrated into the US labour market and educational/training system. The median wage of female immigrants who had lived in the US for 15 or more years was 9% higher than the median for US born females. Equivalent male immigrants earned 3% more than their native counterparts. Most immigrants in Europe can only dream of such a future.

Price gaps in agriculture must be eliminated or reduced.

Agenda 2000 complains that “in most of the candidate countries currently important price gaps (in the sense of lower prices than in the EU) exist for the main commodities”. The gap varies from around 10–30% for cereals and oil seeds, 40–50% for sugar beet, 30–40% for milk and dairy products, and 35–45% for beef. Unfortunately, the EU sees this as a problem, not an opportunity for European consumers to cut their food bills. So it has set very high external tariffs on food. Current rates average 75% for cereals, 62% for sugar, 60% for dairy products, 107% for beef, and 48% for beer, for example. Thus, despite having twice the area of arable land and five times as many agricultural workers, exports from the former Soviet bloc countries took less than 1% of the EU market for food products in 1996.

Significant barriers to market entry (establishment of new firms) and exit (bankruptcies) must be removed.

Again, double standards are being applied. State monopolies remain in several EU countries and sectors. Huge subsidies are granted to banks (e.g. Credit Lyonnais), coal mines, railways, shipbuilders, etc., to escape bankruptcy. State aids to industry have topped 40 billion ECU annually in recent years. Transfers to agriculture from taxpayers and consumers have reached over 120 billion ECU, or 1.5% of EU GDP, according to the OECD. This is double the percentage spent on tertiary education in France and Spain, and well above the share of R&D in Italy (1.3%), Spain (0.9%) and Greece (0.3%) – strange priorities. Agricultural subsidies prop up inefficient farmers, featherbed the fat cats among them and are all too often siphoned off through fraud. Protection distorts resource flows and encourages waste.

The EC tries to justify its Common Agricultural Policy (CAP) on equity and poverty grounds. But there is considerable evidence that there is no income problem for most farm families, in the sense that their overall incomes are not low and compare favourably with households in general. This is often achieved by diversification of income sources, particularly among small farms. Moreover, real income from farming alone increased by over 20% from 1993 to 1996, whereas incomes of workers in other sectors remained relatively stagnant. And subsidised food exports from the EU have undoubtedly harmed really poor farmers, particularly in Africa.

There has been much talk about reform of the CAP. But the changes to date merely tinker around the edges, or shift resources from one form of protection to another. The
The European Journal • November 1998

CAP lacks transparency. Its regulations and procedures are highly complex, and open to abuse. The EU should follow the example of New Zealand which scrapped most of its agricultural subsidies and controls in the 1980s. After some initial pain, the reforms have yielded widespread gains for producers, consumers and overseas suppliers. They demonstrate that efficient farmers can prosper without going cap in hand to Brussels.

Social standards must be raised by applying EU legislation. Agenda 2000 states that "standards among the applicant countries are generally low in the social sphere", and argues that "too slow an adaptation of their standards could undermine the unitary character of the acquis and possibly distort the operation of the single market". In fact, levels of employment, wages and working conditions vary greatly within the present EU. So does government expenditure. According to Eurostat, German spending on social benefits (in ECU per person) is more than three times higher than Irish spending, and nearly five times more in France than in Portugal. Yet real incomes have risen faster in Ireland and Portugal. Market forces and productivity growth have done more to improve living and working conditions than government intervention. The current members of the EU shouldn't deny newcomers the opportunity to use their comparative advantages by insisting on more complex rules and higher standards than they have maintained themselves. This is not the way to welcome former captive states into a supposed free market community.

Rethinking of the EU’s enlargement strategy is needed if the lessons of the Berlin Airlift are to be learned. It should progressively open up its economy to the whole world rather than merely absorb a few (subservient) neighbours into a “fortress Europe”. Such a radical shift would require political courage and determination. Are today's Western leaders up to the challenge?

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

Advertisement for ‘Economic and Monetary Union: What would it really mean for me?’ published by The European Foundation

European Foundation Briefing Papers

Since January 1998, the European Foundation’s Research Unit has produced various briefing papers. These papers, some of which were commissioned by economists and MPs, cover crucial aspects of the European debate. They have been sent to leading academics, journalists and businessmen across the world.

Briefing papers can now be obtained from the European Foundation Research Unit. Previous papers are listed in the Summer Journal.

Briefing Papers currently available include:

* The Working Time Directive
* The Common Foreign and Security Policy
* Public Information on EMU (first of three)
* The British Presidency of the EU

Price £2.50 each from the European Foundation Research Unit, 61 Pall Mall, London SW1Y 5HZ
Britain’s Place in the World: Time to Decide
by Crispin Blunt, MP (London, Centre for Policy Studies, 1998)
31 pp £7.50, ISBN 1 897 969 85 6

Reviewed by Dr Nigel Ashford

The debate on Europe is marred by obfuscation. Phrases such as ‘becoming closer to Europe’, ‘being fully committed to Europe’ and ‘we must not miss the train’ lack clarity. I welcome this attempt to identify the central problem in Britain’s relations with Europe, and to present two policy options. Crispin Blunt, Conservative MP for Reigate and a former adviser to Malcolm Rifkind as Foreign Secretary, argues that Britain has to make a choice now between political union and independence. Unfortunately the pamphlet has three weaknesses: it fails to develop the nature of the alternative to the EU; it does not rebut any preferred option of flexibility; and it would not unite the Conservative Party.

The author bluntly (and incorrectly) states that “the UK has a choice between two positive visions: a committed role within a new European polity, embracing the concept of supranationalism; or a traditional independent role balancing our interests in Europe, the USA, the Commonwealth and the wider world. More important than the actual decision is that the nation now makes a clear choice” (pp 1,2). British policy has been to maximise economic interests and strengthen its role in the world, whilst blocking the growth of power of the supranational institutions of the EU. Blunt believes that those two objectives are now incompatible. He rejects the idea that there can be a compromise around the policy of ‘Britain wants to be in Europe, but not run by Europe’.

He describes the shift of British foreign policy from the three circles of the USA, the Commonwealth and Europe to EU membership. Blunt implicitly favours a return to the three circles, but does not recognise that it was the collapse of that policy which contributed to the decision to apply for membership. The US never talks about the special relationship any more. The Commonwealth (no longer the British Commonwealth) is taken to embrace the rest of the world, including bizarrely Japan and China. He presents Europe as the UK versus the rest, when the continental countries are not monolithic.

Blunt presents three strategic options. The first is the revival of the three circles. The form that this would take is obscure. Blunt talks of “Developing a relationship with Europe linked through trade and the single market. It would require the mechanisms to be negotiated to establish a new relationship with the European Union” (p 11). Does that involve withdrawal from the EU? How would the relationship change with the USA, the Commonwealth and the rest of the world? Blunt does not say.

The second option is wholehearted commitment to a supranational Europe. Blunt claims that this would provide the UK with stronger influence inside the EU, but I am unconvinced. Despite his best efforts, it is clear that Blunt does not support this option. Elsewhere I have explained why the UK is most reluctant to accept a federal Europe (Politics Review, February 1998). I believe the reasons are so deep rooted as to make it very unlikely that the UK could accept a supranational EU. However the identification of obstacles is not the same as putting the case against. Blunt is disingenuous by not openly opposing this option.

He tries to undermine the third option, flexibility, by describing it as the third way. This is the position advocated by Michael Howard and Malcolm Rifkind in earlier CPS pamphlets. Howard proposed, “The nations of Europe should come together as a series of overlapping circles: different combinations of member states should be able to pool their policies in separate areas of their own choosing.” Rifkind proclaimed, “I believe our vision of a flexible Europe based on accommodating the interests of all its member nations can help secure a Europe genuinely at ease with itself.” Blunt dismisses this as inevitable leading to a two tier Europe. However, flexibility covers a multitude of possibilities based on time (multi-speed), space (tiers) and matter (à la carte). I advocate a Europe à la carte based around the single market.

The chances of some form of flexibility are now high. Not all continentals favour supranationalism, as demonstrated in the Danish and French referendums and German opinion polls. Support for it has waned as many of the advantages of cooperation, such as peace, security and a single market, have been achieved without federalism. Enlargement will make some form of flexibility almost inevitable.

Blunt argues that the UK must choose through a referendum and considers four possible outcomes. The UK could vote yes to political union with full understanding of the consequences; or “‘Yes’, but only as long as it’s economic”. The third option is to vote “‘No’ but only for now”, and the fourth is to renegotiate. This section is meaningless without explaining “what is the question?” and “how does one interpret the result when people vote for different reasons?”

Finally Blunt urges the Conservative party to campaign for an early and decisive national referendum to end the arguments over Europe and the divisions within the party. This is naive. As Blunt’s less than hidden agenda is renegotiation, probably involving withdrawal, this policy would be firmly resisted by those who favour continued membership. The party would be under great pressure to identify its preferred option and that too would divide the party. This is no solution to the party’s internal differences.

This is a valuable contribution to the debate by raising fundamental issues. However, Blunt is incorrect that federalism or independence are the only options. The UK should thoroughly consider the alternatives to a federal Europe, and advocates of flexibility must flesh out their proposals.

Dr Nigel Ashford is Senior Lecturer in Politics at Staffordshire University.
The Guilty Men – Conservative Decline and Fall 1992–97
Reviewed by Jonathan Collett

"The Guilty Men" is an intriguing and often fascinating account of recent Conservative party history between 1992 and 1997. Hywel Williams is able to offer an insider's view through his role as special adviser to John Redwood, whilst Secretary of State for Wales, and subsequently as his campaign manager in the 1995 and 1997 Conservative party leadership contests and as the Director of the Conservative 2000 Foundation, the short-lived think tank initiated by Redwood.

The analysis is lucid and the revelations come thick and fast. How much of the account is objective and accurate and how much has been altered by wishful thinking and the distortion of time is a moot point. Williams' own talents cannot be doubted. His is a strong mind and his political and historical knowledge deep. The book is excellently written, never fails to be enthralling and is packed with Williams' classical allusions.

But however much he tries to appear the objective historian, Williams does not seem to be able to conceal his own bitterness. The source of this bitterness we are never told, apart from the decline of a once great party. No single character described by Williams emerges with any credit. Even John Redwood is ultimately described as one of "the guilty men". Yet it is not entirely clear why. Williams admires his integrity, his bravery and his vision at a distance.

Some of the personal attacks on the so-called "guilty men" seem very far wide of the mark. Those involved in Eurosceptical circles will not recognise the descriptions of such valued stalwarts as Iain Duncan Smith, Bill Cash, Norman Lamont, Christopher Gill and Lady Thatcher, the very people that Williams was completely reliant upon during the period described.

On other issues Williams just does not seem to be able to make his mind up. He claims the credit for devising the concept of the 1997 general election becoming another "coupon election". Without his persuasion Paul Sykes' initiative would not have taken place, we are told. Yet he later dismisses Sykes as an eccentric northern figure who liked to drape himself in the union flag. Williams describes a trip which he organised for Redwood to go to the USA as a great success. Yet in similar style derides the Republicans he met there, including Newt Gingrich, as simplistic zealots.

Indeed Williams' attachment to Euroscepticism and free market thinking appears to have been skin deep. He now ridicules the arguments of those opposed to a single currency and appears to be an advocate of protectionism. The one intellectual proposition which he puts forward in the entire book is a fallacy. By claiming that the British tradition was similar to that of the mercantilist and protectionist continent, he is wrong. Such an argument completely ignores the repeal of the corn laws in the 1840s and the British free trading and maritime tradition. In seeing similarities between Victorian England and the France of Colbert he is surely mistaken.

Although his own philosophising proves contradictory and pretty unsustainable, the great strength of the book is Williams' inside knowledge of both Conservative party leadership contests. He describes in fascinating detail how Redwood was not actually let down by both Howard and Lilley, as many supposed, after the first ballot because there had been no gentlemen's agreement on the fourth and fifth placed candidates supporting the other candidate of the right. He meticulously details the voting intentions and actual voting patterns of Tory MPs.

The Clarke/Redwood axis formed after the second ballot, as infamous in Conservative circles as the Ribbentrop/Molotov pact is not clearly explained other than as the only other option beside a pact with Hague whom Redwoodians despised. The events leading up to the formation of the pact are thoroughly detailed in common with the rest of the book but again the analysis and raison d'être is missing.

The book is a fascinating read but it must be very hard to write a book which contains no heroes. As a literary weapon, bitterness should be directed and targeted rather than randomly and monotonously spread around like a semi-automatic machine gun. The tale is fascinating but, with so much of its history so recent, will many recognise the picture portrayed?

Jonathan Collett is Campaign Director of the Bruges Group.

Britain’s Economic Destiny: A Business Perspective
by Sir Michael Edwardes, Bruges Group, 1998, £3.95
Reviewed by Michael Webster

The pamphlet Britain’s Economic Destiny: A Business Perspective consists of two speeches by Sir Michael Edwardes. Both together provide an excellent summary of the main economic and political concerns of a single currency.

The first speech was delivered to the Kingston Chamber of Commerce and the second to the Bruges Group.

In his first speech Sir Michael, Chairman of British Leyland 1977–82, bluntly points out some of the commonly known failings of the European Union: too much bureaucracy, regulation, the damage to the beef and fishing industries… One could go on. Particularly effective in illustrating this bureaucratic monster is a well chosen quote from James Callaghan’s memoirs, “I recall one low point when nine Foreign Ministers from the major countries of Europe solemnly assembled in Brussels to spend several hours discussing how to resolve our differences on standardising a fixed position of rear view mirrors on agricultural tractors.” This took place in the late 1970s. One wonders what they discuss now!
However, Sir Michael believes in the Single Market and rightly points out its importance to British trade. But he reminds us of the fact that those with 'Euro-tunnelled' vision would like us to forget: that there is a wider world beyond the EU.

Sir Michael's first speech lists fifteen reasons why Britain should not join the single currency. Inevitably, many will be familiar to those with knowledge of the arguments. However, the first reason Sir Michael lists does catch the eye by its bluntness. "We do not need to do it", he says. This type of confident statement is not often made by sceptics of the single currency, who too often use negative sounding, though no less valid, arguments about the currency's failings rather than putting forward a positive alternative role for Britain in the world.

Sir Michael also takes this positive line in his second speech. He welcomes the euro on the basis that it will make life simpler for British business, who will have to deal in fewer foreign currencies, and points out that the fact some of our EU partners will be out of 'synch' (due to the one size fits all nature of the single currency) is essentially their problem. Britain, he says, should count herself lucky not to be our opponents wish to avoid.

Sir Michael's pamphlet will greatly assist in moving the debate on to the very ground of business and the warm words of senior members of the Government? The reason Sir Michael concludes is that Gordon Brown sees the euro as a political project and is motivated to join it for political reasons "but has decided, for the sake of public opinion, to argue for membership in terms of spurious economic advantage". The acknowledgement of the importance of politics to the euro is the real underlying strength of this excellent pamphlet. Sir Michael, unlike many businessmen, commentators and indeed the Government, is aware of the politics of Europe. Throughout the text he sees the euro not in purely economic terms, but also from the highly important political perspective as well. He understands sovereignty and make mention of the possible political strains and stresses the euro could cause and their potentially disastrous consequences. This political as well as economic debate is exactly the type of dialogue the Government and Europhiles are trying to prevent.

Michael Webster is Parliamentary Researcher to Tim Loughton, MP, and Peter Ainsworth, MP.

... news in brief

Those successful Russian reforms

Thanks to the crisis, Russian GDP has slumped by 16% since the beginning of the year. The real income of ordinary Russians fell in the last 12 months by nearly one third. Even before the crisis, industrial production in Russia had fallen by 4.5% since last September. These are the worst figures for 4 years. [Deutsche Presseagentur, Handelsblatt, 20th October 1998; Suddeutsche Zeitung, 17th/18th October 1998]

Russia is also expecting one of the worst harvests in recent memory. Farmers have reaped less than half of last year's harvest. The potato crop has also dropped. The devaluation of the rouble has also caused imports to collapse without domestic agriculture being able to make up the shortfall. An agricultural institute in Russia is also predicting shortages of meat, oil and butter early next year.

How health sold Britain down the river

One of the French officials involved in the negotiations for British EEC membership has described in a recent book how Heath gave more concessions than the Pompidou government had ever dreamed possible. Jacques Calvet, who since became the chief executive of the Banque Nationale de Paris and later of Peugeot-Citroen, and who has made his name as an unremitting enemy of the Maastricht treaty, has written about his experiences as an official in the early 1970s when he prepared the financial elements of the negotiations for British entry. "Like any financial official I had drawn up very demanding conditions for the candidate country President Pompidou then negotiated in such a perfect way with Prime Minister Heath that he obtained concessions from him which exceeded our wildest dreams." [La Grande Faillite, Comment l'Eviter by Jacques Calvet, Plon, Paris, 1998, 118 FF, quoted in Le Monde Livres, 16th October 1998]

Germany abandons ius sanguis

In a major development, Germany has announced a radical reform of its citizenship law. By allowing people of non-German ethnicity to obtain German citizenship if they have lived in the country for 8 years, or if they were born there of foreign parents, Germany has broken with a tradition formulated in 1913 according to which only people of German blood had the right to citizenship. This measure directly concerns the 4 million foreigners who have lived in Germany for 8 years and who will now have the right to a German passport. (There are 7.3 million foreigners living in Germany.) A second aspect of the reform is that Germany will no longer require those applying for naturalisation to give up their original nationality. [Le Monde, 16th October 1998]

Those barbaric Americans

Writing in Le Monde about how the British and the Germans are growing closer, and about how this means that the French will henceforth have to accept a triangular relationship in Europe, a French columnist argues that this tendency is being reinforced by British disappointment with the United States. "Like us, British leaders have perfectly understood in their bones, after the attack on Bill Clinton by the Republican congress, that the United States have become entirely incapable of leading the democratic world and that they will remain in the semi-barbarian state for some time to come." [Le Monde, 20th October 1998]
MEPs’ expenses

With the European Elections now on the political horizon, the interest in members’ expense allowances has increased dramatically. A vote on travel allowances, 22nd October 1998, split MEPs 244–214 against reform. Thus the existing arrangement still stands. This pays MEPs a lump sum for airfares, based on the distance between Parliament and their constituencies. No receipts are required and the Court of Auditors found that the total travel bill in 1996 was 30% more than if members had flown every journey business class. The travel bill was £18 million, one part of the overall £100 million expense account run up by representatives. What can MEPs earn over and above their salary?

There are various estimates, some made first in the pages of the European Journal. This month Eurodata updates the calculations.

Subsistence and attendance

MEPs on parliamentary business may claim £165 per day for meals and accommodation. This amount may be claimed even when board and food have already been paid for.

MEPs are unusual in that they may also claim another £190 for each day’s parliamentary session they attend. MEPs sign in at 9am to collect this allowance. Analysis of voting statistics throughout 1997 showed that of an average 480 MEPs attending on any session day, an average of 337 would vote. As many as 150 MEPs (x £190, remember) turned up but did not participate. These therefore cost European taxpayers £28,500 each day.

Anecdotal evidence suggests that when forced to cancel private engagements to attend to parliamentary business, some MEPs claimed for the loss of their own time.

The double site of the Parliament is a comparatively small but obvious factor in explaining the high overall operating costs of the 626 MEPs. Many members share transport between Brussels and Strasbourg while still claiming individually on expenses.

Office allowances

Overall Parliament pays each member up to £100,000 to run his or her office.

As in the UK Parliament, many MEPs pay relatives to undertake secretarial and research work. Proof that the money has been paid out as a salary is needed only at the request of the Auditors.

The recent attempts to bring the European Parliament into line with national business and public sector practice – reimbursing travel for its actual cost, not an inflated estimate – have now been blocked and will not be raised again before the Euro-election. Interestingly, voting in this particular debate attracted a third more MEPs than usual.
Advertisement for
‘The Single European Currency in National Perspective
A Community in Crisis?’
Edited by Bernard H. Moss and Jonathan Michie
Published by Macmillan Pres
Advertisement for
‘This Blessed Plot’
by Hugo Young
published by Macmillan Press
Advertisement for ‘Moving On Up: EU tax harmonisation plans’
by the Research Unit at the European Foundation

Advertisement for
Business For Sterling
Speakers List
The European Foundation

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

Objectives

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

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

Activities

The Foundation pursues its objectives by:

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

The Foundation

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

It concerns itself with the following main topics:

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

Subscription Rates & Donations

UK: Minimum £25; UK Senior Citizens & Students: £15.00; Europe excl. UK: £29; Rest of World: £33

Rates shown will be correct at least until Summer 2001. After this date please check by phone/fax/e-mail before subscribing.

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

I enclose my annual subscription of £ _______ (minimum £25, Senior Citizens & Students £15.00)

plus postage: UK nil, Europe £4, Outside Europe £8 made payable to The European Journal.

Name (in capitals): ___________________________ Title: ______________
Address (in capitals): ___________________________
__________________________________________
__________________________________________
__________________________________________
Tel: __________________ Fax: ______________ e-mail: ______________

Please enclose your cheque made out to “The European Journal” and return this form to:

Subscriptions, The European Foundation, 61 Pall Mall, London SW1Y 5HZ
Telephone: +44 (0) 20 7930 7319 Facsimile: +44 (0) 20 7930 9706 E-mail: euro.foundation@e-f.org.uk