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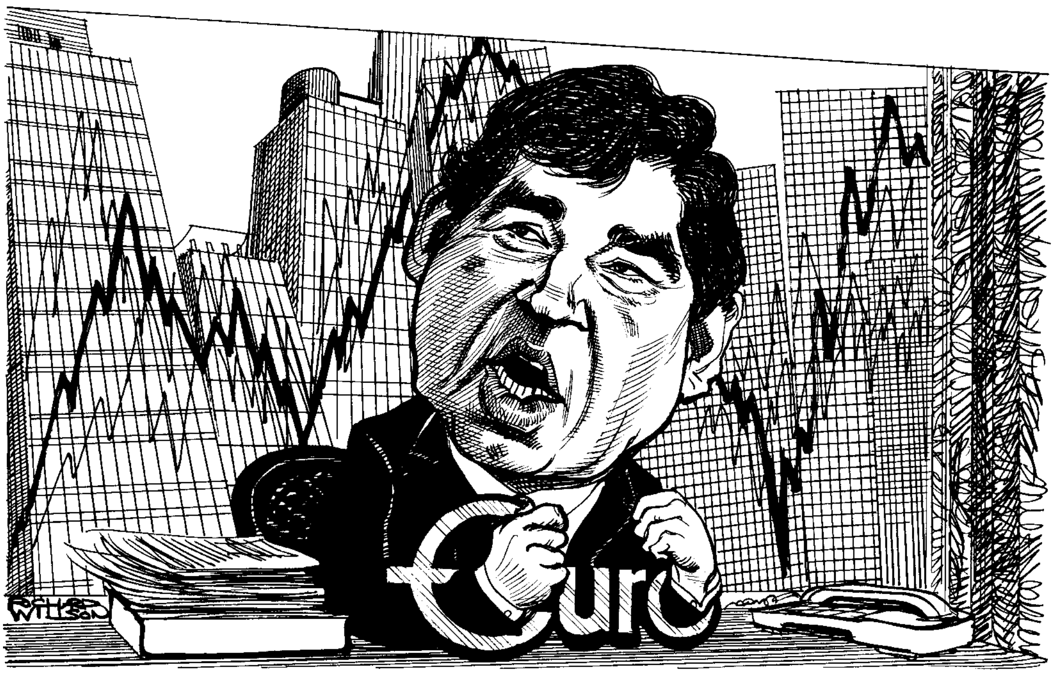
THE EUROPEAN JOURNAL

THE JOURNAL OF THE EUROPEAN FOUNDATION



Hugo Llewelyn

EMU and the British Property Market

SPECIAL REPORT: **EUROPE or AMERICA?**

Dr Nigel Ashford
Conrad Black
John Bolton

THE EUROPEAN FOUNDATION 61 PALL MALL, LONDON SW1Y 5HZ
CHAIRMAN: WILLIAM CASH, MP

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Editor: Tony Lodge

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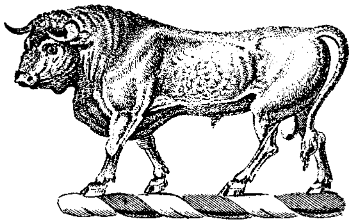


Sterling Stuff

The importance of the setting up of Business for Sterling cannot be overestimated. It was getting dangerously late in the day but it was established in the nick of time. We wish them well and they have our full support. The plain fact is that the resources available to the prospective 'Yes' campaign are simply vast – the Government, multinationals, European institutional propaganda, and the lack of impartiality on radio and television. And it is no good our thinking that the campaign begins when (presumably after the next General Election) the then Government passes its Referendum Bill. That will be far too late. The campaign must start now – the literature prepared, the organisation put in place, the constant monitoring and repudiation of bogus arguments and the creation of a level playing field in the funding along the lines set out in my Referendum Bill in 1996. We invite Lord Neill to recommend that this is done in the interests of real democracy and debate and to do so as soon as possible. He has been given the task of advising on political funding by no less a person than the Prime Minister himself, who can hardly complain if the rules are impeccably fair.

What is also impressive about Business for Sterling is the range and variety of those who have so far come forward. We would urge all those who read this Journal to turn to page 36 which sets out the prospectus and to complete the supporter application form AND to do their bit by recruiting at least five like-minded friends or companies – from across the spectrum of business, large, medium and small – to do the same.

The European Foundation, for its part, will continue to work ceaselessly for a 'No' vote through the *European Journal*, the *Intelligence Digest*, Briefing Papers and by every means at our disposal.

We urge everyone to write to their trade and professional associations, to their local newspapers and trade and business journals, to get on the local media and to write to the national press as often as possible and to keep Business for Sterling in the public eye at all times. The European Foundation offers a £250 prize to be awarded to the best and most original national and local strategy plan for the 'No' campaign, including slogans and suggestions for literature and the Internet. The winning entry will be published in the next edition of the *Journal*.

In the meantime, the Foundation is glad to announce that our Open Day on July 15th was a great success, attended by as many people as our offices could accommodate, from all walks of life, from the media and from every part of the country. We are also able to announce that we are holding a Grand European Debate on Monday 26th October, by kind permission of the NatWest Bank at their Gibson Hall in the City of London, full details of which will be included in the next edition of the *Journal*. We have also published a new pamphlet, *Economic and Monetary Union – what would it really mean for me?*, which is available free of charge from the Foundation and which replies to the recent glossy publication from the European Movement.

The Foundation now has 23 Heads of Office throughout Europe. Our research staff includes three with first class degrees. Our publications (which will shortly include one-page bullet points on all the main issues designed for 'Joe Public') will be available in the languages of each country on the Internet to rebut the propaganda flowing ceaselessly from the European institutions for further European integration and political union. We will be promoting our positive slogan: "European Trade – YES, European Government – NO; Democracy – YES, Bureaucracy – NO".

We are grateful to those very many subscribers who answered our call for financial support for the Foundation with their substantial generosity and would ask any others who have not yet responded to do so as generously as they can.

The Foundation was greatly heartened by the recent powerful message from the *Sun* against the single currency. We are a non-party organisation dedicated to the same cause in the national, European and international interest. There can be no commercial freedom without political freedom. There can be no political freedom when the prime decisions on national interest rates, inflation and jobs, not to mention taxation, are surrendered to unaccountable European institutions with majority voting and to the European Central Bank whom no one can question or call to account. This will destroy democracy and freedom in the United Kingdom and Europe.

Bill Cash, July 1998

The *European Journal* will take its customary break over the summer. The next edition, dated September/October 1997, will appear in early October. We wish all our readers a restful holiday.

Tony Lodge

A Disillusioned English Europhile in France

by Richard Tracey

On Sunday 18th January there was a rally in Paris of *les chômeurs et exclus* who fear, amongst other things, that their 'rights' – arguably the most generous in Europe – will be jeopardised when France abandons the franc. They demand a referendum on France's entry to EMU. Fat chance – President Chirac would no more dare risk it than Chancellor Kohl!

Robert Hue (whose French Communist Party has two ministers in the French government) was at the forefront of the rally surrounded by a baying group of malcontents who carried a bloody effigy of Monsieur Jospin's head held high on a pole like Macbeth's: a quaint reminder of Parisian 'people power' in the aftermath of 14th July 1789.

The anxiety of the French Left is that France's membership of EMU will inevitably bring fiscal standardisation throughout Europe and thwart their desire to have ever increasing amounts of money poured into a bottomless welfare pit. But Mr Blair, so full of zeal to reform the British system, seems not to have seen that EMU membership will affect member states' spending on welfare. He is fighting hard for 'modernisation' in Britain which, if he gets it, will be just puffed away by the European Central Bank and the European Parliament when he lets go of the purse strings and the sovereignty of his own parliament. When the cost of employing people in Britain approaches French and German levels, small businesses will be destroyed, unemployment will soar and all Tony's attempts at good husbandry – so full of sound and fury – will have come to nothing. This is not just a question of having a minimum wage – in France the total cost to an employer of employing a person, even on the SMIC, can be more than twice the money that that person actually receives.

The trouble with many politicians is that they have very little practical experience of running a small business in their own countries – and certainly not in a European country other than their own. Have any of the new boys and girls at Westminster had any such experience? In France the problem is endemic. Virtually all the senior politicians graduated from the élitist *grandes écoles* into the civil service and the transition from civil servant to politician is feather-bedded by the fact that a *fonctionnaire* who wins an elected office is guaranteed his old job back if the electorate subsequently kicks him out. Many French politicians hold several jobs at once, which enables them to accumulate very high earnings at the taxpayers' expense. Per capita France has more civil servants than any other country in the world and to pay their wages more and more punitive costs are heaped upon the *patrons.* It is little wonder that morale is so low and unemployment so high. The French State seems determined to extinguish any sparks of enterprise that still glimmer amongst its people – once the most ingenious and creative in the world. *Le Figaro* has already gone into deep mourning for *Notre pays, la belle France.*

But who am I to voice my views? I am not a politician. I am not an economist. I am not even really a businessman. I am an English teacher who arrived in France on 14th July 1989 – two hundred years to the day after the storming of the Bastille.

Bliss was it that dawn to be alive, but to be – well – forty-three at the time was very *heaven*! Full of Europhilia, my wife (who speaks four European languages perfectly) and I decided to start our own business offering residential 'A' level French courses to British students, and translation and interpreting to local businesses. Our courses have proved extremely successful but the demand for translation has declined in tandem with the economy in France.

We love so much about France: the people – who are incredibly hospitable to those who speak their language; French food; French wine; the open countryside; the Breton stone houses like the one in which we live; the granite cliffs of the American coast looking out over the symbolic *grissly rockes blakke* which were so important to Chaucer's Dorigen; but above all we love the space around us – even driving a car is still enjoyable on the uncongested roads. However, in the nine years we have been here, we have been converted to Euroscepticism and, with two small children, we are beginning to feel that we shall, as many French people are doing, have to move the organisation of our business outside the French administrative system.

We British are great breast beaters. We constantly proclaim how bad our schools are, how poorly young people are prepared for the world of work, how bad the NHS is, how racist we are, how class obsessed we are, and so on. But above all we proclaim what bad Europeans we are! The French may be less Eurosceptic than we are – but they have learned to be Eurocynical!

When we first came to France and were trying to set up our business with very limited funds, we discovered that office equipment can cost three times as much in France as in England so we decided to import certain things ourselves. We bought a French fax machine in Britain for £500 (the same model cost 14,000 FF in France), a Japanese photocopier – which, ironically, had been made in Rennes under licence – for £600 (15,000 FF in France) and a personal computer for £900 (30,000 FF in France). Because this was pre–1993, we went through the rigmarole of reclaiming British VAT before paying French VAT instead. However, the fax rolls, toner cartridges and diskettes that these machines consume also cost several times as much in France – so we ordered them to be despatched from England. The result was that our orders always got mysteriously stuck in a French customs office somewhere. On one occasion, after waiting three months for a box of diskettes, we had to get our British suppliers, a small and new company, to send a fresh order and reclaim on their insurance. The following week, we received both our original order and its replacement on the same day, from the same sorting office. Our British suppliers then told us that they no longer wished to send goods to France. Triumph for French protectionism. The delivery of my copies of the *Spectator* and the *Weekly Telegraph* then started to go astray and regularly arrived two weeks late or not at all. After numerous complaints (clearly not just from me), these journals were despatched from France using the French postal service, and they still are. Victory for *La Poste* over the Royal Mail – *Vive l'euro-cynicisme*! At about this time several British lorries carrying British lambs were hijacked and their contents burned alive; the gutters of Brest ran red with Spanish wine whose vats had been destroyed by hit squads from Bordeaux; and now the destruction of Spanish strawberries and fresh vegetables is an annual event in southern France. How many British haulage companies have received compensation from the French government for the losses they incurred during the lorry strike – not last year's lorry strike, the one in 1996? The figure by the end of 1997 was 0.4%. And how very convenient BSE has been for Eurocynical continental farmers: why bother to set fire to British lorries, even if it is rather fun, when the full majesty of Brussels will give you an even better result?

But we must not forget that Europe is a dream, an ideal, a hope for the future, a way of preventing wars. The English teacher who came to France as an idealistic European, with a multilingual Dutch wife from Spain, has lost Miranda's enthusiastic wonder at such a brave new world; he has remembered that Lear's attempt to prevent future discord ended in tragedy; that Gonzalo's vision of the golden age was risible; and that the piece of virtue set betwixt Antony and Octavius as the cement of their love (like the Maastricht and Amsterdam Treaties) became the ram to batter the fortress of it. Is the European dream Utopia, 1984 or Samuel Butler's Nowhere backwards? Will a United States of Europe, made up of former nation states, prove any more durable than the USSR or Yugoslavia? The United Kingdom created by the Act of Union has already lost most of Ireland, and Scotland and Wales look as if they will melt like Prospero's pageant leaving not a rack – or rather just England and Ulster – behind.

Robert Hue has his reasons for being against the euro; Jean-Marie le Pen is also against it but for different reasons. I have little affinity with either of the political extremes in France, but I fear that monetary union will be a very dangerous leap into the dark, and not just for France and Britain, if it is imposed upon peoples who are unwilling, unready and unconsulted.

Richard Tracey left his public schoolmaster's job in England in 1989 to run A-Level French courses in France with his multilingual Dutch wife.

The Negative Implications of European Monetary Union on the Property Market

by Hugo Llewelyn

This article is based on a speech given to the Royal Institute of Chartered Surveyors conference in Dublin in March 1998. It assesses the impact that joining the single currency would have on the Commercial and Residential property markets in Europe and particularly the UK.

As a professional working in the world of commercial property investment, my advice to clients has to take into account a myriad of different factors which affect investment performance. Policy decisions by central and local government, combined with legal and socio-economic issues, affect investors' returns via the liquidity of the market, perception of risk in that market, ability to finance the deal and the supply and demand of commercial space. These property fundamentals also have a strong bearing on the residential occupational market, particularly as many people buy their houses with the expectation that their value will rise.

There is no more important policy decision, however, than central government's manipulation of interest rates, which directly affect the finance rates that are the purse strings of property investment and occupation. Moves in interest rates check or encourage building development, they deter or assist mortgagees; in general they dampen or inflame the demand for land.

The biggest impact that EMU will have on its participant countries is that they will hand over control of their interest rate policy to the European Central Bank. Whilst there are other implications, the most important is that each country will no longer be able to set its own interest rates according to its economic needs. The European Central Bank, supported by the National Central Banks, will set interest rates across the whole of the EMU band. No one country will be favoured, according to ECB policy.

The key to the success for this union of interest rates, for countries wishing to join EMU, was that each country should meet a series of criteria set by the Maastricht Treaty.

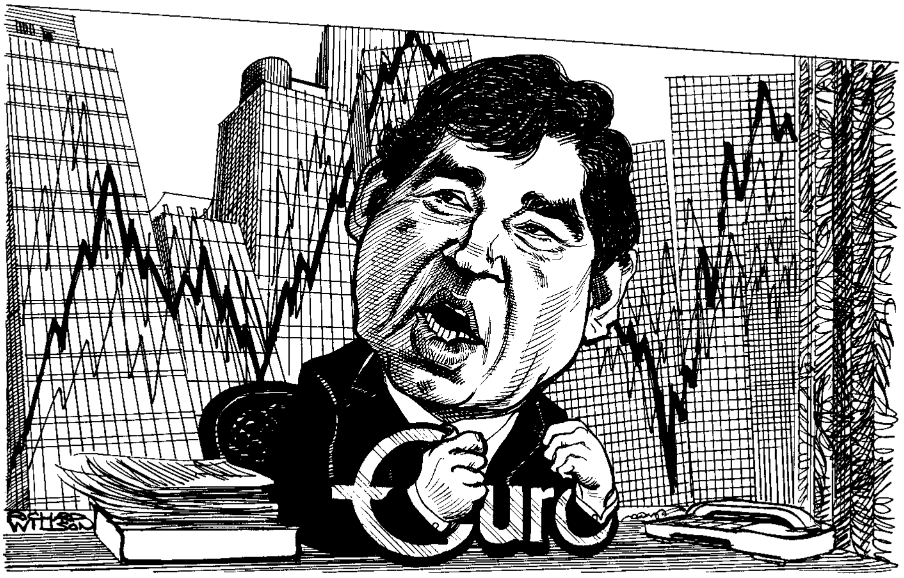
As the reader will be aware, these are based on targets regarding inflation rates, budget deficits as a percentage of GDP, debt as a percentage of GDP, long term gilt rates and conformation to ERM banding. As at April 1998, only France, Finland and Luxembourg met these criteria. Ireland is close but still has a 64% debt to GDP ratio (though this has come down from 67% in 1997).

The Ecofin council, the council of finance ministers from EU participant nations, has agreed however that all 11 countries wishing to join the first wave of EMU membership should be allowed, despite this lack of convergence. This was ratified by Tony Blair as President of the EU in May this year.

It is a dangerous sign that, even in economically similar countries within the pact, convergence is not occurring. This is particularly demonstrated by the spread in long term gilt rates, where there is a disparity of some 150 basis points between UK and Germany as at May 1998.

After January 1st, all the in-countries will derive the same long term interest rate. It is most likely that the German interest rate will be used to define the benchmark. This means that countries such as Spain, Portugal and Ireland will have to bring their long term gilt rates in by between 50 and 100 basis points.

Given that the pricing of prime property and good secondary property yields is strongly tied to gilt rates, as these types of investments are viewed on a bond basis with a perceived risk, liquidity and growth factor added, there will be a significant shift in these markets to re-align property yields with the European long term gilt rate. This is an essentially unnatural interest rate shift which may be of short term gain to property



investors, but will undoubtedly be of adverse effect in the longer term as European interest rates rise to stem inflationary growth. It will mean devaluation in companies' books, the unwillingness of property owners to sell at a loss and the solidification of the property market, with obvious repercussions.

Secondary and tertiary property will also be affected by this yield shift, but to a lesser extent. These properties will become more easily financiable in the short term, increasing demand, but will then create problems for their purchasers in the longer term if interest rates go up and rental values are insufficient to cover interest rate payments.

This immediate adjustment is compounded by the fact that no country will be able to decide its interest rate policy in the future, the loss of a key tool for controlling each country's local economy. This affects local property markets particularly, where interest rates almost completely dictate the supply and demand of available space and investors in the market to buy it.

With interest rates under its own control, each country can manipulate the economy to ensure that booms and busts are regulated to some extent, that development does not occur at times when it is not needed, but does when there is residual demand in the market. It is vital that this local control is maintained because the property market is inelastic and cannot readily adjust to problems of over-supply. The development boom of the late 1980s and subsequent crash affected the commercial and residential property markets for far longer than the stock and gilt markets. Three years into a strong stock market, we are only now beginning to see a resurgence in the fortunes of property as an investment.

The European countries that have chosen to join EMU in the first wave are giving up this right and, by doing so, are essentially destabilising their own property markets. Greater levels of foreign investment in the pound than have been seen for some time indicate that foreign investors take this view as well.

This does not just apply to commercial property, whose returns perhaps follow consumer spending and other economic movements, rather than dictate it. In the residential occupational market, which affects every consumer, interest rate movements are also relevant.

Every household that owns its own residence pays its mortgage before spending money in the shops. Low interest rates and low mortgage rates correspondingly mean that there is more money in the pocket of the average person at the end of each month and consequently more expendable income.

This is a key kick-starter of economic growth in recessionary times. Similarly, when the economy overheats, an increase in interest rates hits home owners and consumer spending decreases in the shops.

Within Europe there are extremely different levels of domestic ownership. In Ireland 81% of the population own their own houses, whereas in Germany the figure is 40%. Loss of control of interest rate policy will mean that national governments who preside over countries with high domestic ownership will be unable to control consumer spending in the way they currently do through the interest rate mechanism, and will be left with no other controlling economic tool except tax increases, which are politically unpopular, and therefore not always pursued in the economic interests of a nation.

Slow GDP growth in each country is preferable to boom/bust economics for the promotion of the stable environment in which the commercial property market thrives. Whereas the gilt and equity markets can readjust to volatility in the market owing to their liquidity, the property market is far more susceptible to long periods of over supply, which effectively kills the market. Thus loss of interest rate control is particularly bad for the property market. If one looks at the gilt market in the UK, in October 1997 there was rapid fluctuation based on rumours of the UK joining EMU this year. This fluctuation levelled out after guidance from the Chancellor and the gilt market has now returned to normal levels. During this time the property market did not re-price itself at all, because it is slow to react to such changes. However, once it does react the effects are much harder to counter.

The property market cannot afford for interest rate decisions to be outside local control if it is to survive in contention with the other investment markets.

The UK Property Market

There are several factors within the UK over and above these general factors that make it essential that the UK does not join European Monetary Union. Obviously, as we have seen, loss of interest rate control would be disastrous for the UK's residential and commercial property markets, for both investors and occupiers.

If the UK joins the European Monetary Union, it will also lose its ability to dictate labour policy. Adherence to the Social Chapter will mean that, in order to maintain a level playing field across Europe, Great Britain will have to sacrifice some of its labour market flexibility.

Currently there is a flexible minimum wage and only a 48 hour maximum working week, with the trade unions having much less control; though this is being eroded. The mentality of the British workforce and the pool of skilled labour, particularly around London, are also key to the attractiveness of the country to foreign corporations, and give the UK a significant edge over the rest of Europe.

To sacrifice this by joining EMU would be to sacrifice occupational demand, the other key staple in the property market, which leads to increases in rental values and encourages the use of otherwise derelict sites. The benefit of reducing hedging costs for exporters is significantly less (albeit that this is extremely difficult to quantify) than the amenity gained by a flexible labour market policy. One only has to look at the recent regenerative investments by Nissan in Sunderland and LG in South Wales to confirm the benefits of this particular policy. Given that the Far Eastern economies are suffering, it is vital that this competitive edge is maintained by the UK in the light of reducing internal investment in the EU from the Far East.

The UK particularly would suffer by joining up to EMU now because its current rates for long term (10 year) debt, at 5.85%, would have to converge dramatically to achieve parity with the other European states. There would be a 150 basis point shift for UK government bonds to align with the new eurobond forthcoming in the summer.

If the markets were to converge to that extent, the UK would enter a massive boom period, which is currently being staved off by high interest rates, followed, of course, by a very deep recession. The UK is not converging with the rest of Europe at the moment, nor has it done so in the last 25 years, and this is why it is essential for all UK markets, and particularly the UK property market which bears the scars for much longer, to remain out of EMU.

The mature British investment market in property receives investment from many countries outside the EU and signing up to EMU could jeopardise this because we are effectively tying ourselves to less mature property markets, for no gain other than hedging reasons.

It is absolutely essential therefore for both the residential and commercial property markets in this country that we do not join EMU, give up our control of interest rate policy and lose the competitive edge that our labour force currently holds. Frankly, it would be better from a property perspective for every EMU country to retain control over its own property markets, given that these markets are an integral part of the intricate socio-economic cultures that are unlikely to survive the blanket of economic standardisation that EMU portends.

Hugo Llewelyn, BA (Oxon), ARICS, is a property investment consultant at Chesterton. For further information he can be contacted on 0171 312 5468. The opinions expressed in this article are not necessarily that of his company.

Subject: European Language

The European Union commissioners have announced that agreement has been reached to adopt English as the preferred language for European communications, rather than German, which was the other possibility. As part of the negotiations, the British government conceded that English spelling had some room for improvement and has accepted a five year phased plan for what will be known as EuroEnglish (Euro for short). In the first year, "s" will be used instead of the soft "c". Sertainly, sivil servants will resieve this news with joy. Also, the hard "c" will be replaced with "k". Not only will this klear up konfusion, but typewriters kan have one less letter. There will be growing publik enthusiasm in the sekond year, when the troublesome "ph" will be replaced by "f". This will make words like "fotograf" 20 per sent shorter. In the third year, publik akseptanse of the new spelling kan be expekted to reach the stage where more komplikated changes are possible. Governments will enkorage the removal of double letters, which have always been a deterent to akurate speling. Also, al wil agre that the horible mes of silent "e"s in the languag is disgrasful, and they would go. By the fourth year, peopl will be reseptiv to steps such as replasing "th" by "z" and "w" by "v". During ze fifz year, ze unesesary "o" kan be dropd from words kontaining "ou", and similar changes vud of kors be aplid to ozer kombinations of leters. After zis fifz yer, ve vil hav a reli sensibl riten styl. Zer vil be no mor trubls or difikultis and evrivun vil find it ezi tu understand ech ozer. Ze drem vil finali kum tru.

Franco-German Divorce?

by Bill Cash, MP

As the German elections approach, it is worth looking at the way in which the opposing parties view the European question and Germany's role within it.

The Christian Democrat position has become increasingly nationalistic, as an unpopular EMU has to be sold to a sceptical public. The Bavarian Christian Democrat members of the Bundestag recently met in Northern Bavaria to hammer out their manifesto, and its 10th policy was "The euro is as German as the D-Mark". The statement was printed in inverted commas in the text itself because, as the CSU's press office explained, it is a quote from Theo Waigel, the leader of the party who is also the German Finance Minister. "He says it all the time", said his aide.

The conference was, incidentally, also notable for the increasingly anti-immigrant tone of the Christian Democrats' campaign. The CSU demanded in its paper that immigrants in Germany learn German properly and that they make every effort to integrate. This may not be unreasonable until one remembers that Bavaria is the *Land* where it is most difficult for foreigners to get citizenship in the whole of Germany.

The immigration issue is important in the European context because Germany and Austria (the future and present holders of the presidency) seem to be moving towards delaying the enlargement process for fear of mass immigration of cheap workers from Poland, the Czech Republic and Hungary. Vienna is not talking about delaying implementation of the free circulation of persons until 2015. This means that the Eastern European states will be obliged to fulfil all the obligations of EU membership – assimilating the mass of European legislation, "restructuring" important industries like steel – for decades without enjoying any of the alleged benefits of membership.

In a separate development, a prominent German academic, Professor Werner Weidenfeld of the University of Munich, laid out the EU-imperialist stall in an article in the Neue Zurcher Zeitung on July 10. The article's subtitle was "World power political ambitions based on economics". Resonant with the language of geopolitics, the respected pro-European academic who also acts as co-ordinator of German foreign policy in his capacity as an adviser to Chancellor Kohl, went on: "The euro-space (*der euro-raum*) will catapult Europe into the status of a world power. A new world monetary system dominated by Europe and America will replace the old dollar-based arrangements. The Atlantic relationship will have to be re-evaluated. But what the Europeans still lack is the ability to think in world political categories." There was a "power political vacuum" in the world between Britain's pro-American stance, France's anti-Americanism, NATO enlargement and Russian "nervousness". The EU was not yet filling this, although it is becoming "a central field of gravity". Carried away by his imperialistic fantasy, Professor Weidenfeld delighted in the fact that "soon every seventh state in the world will be a member of the EU… The dreams of the war generation are about to be fulfilled."

> the future of the Franco–German alliance is less certain than it has been for many years

Finally, in a lengthy interview, the Vice-President of the Bundesbank, Johann Wilhelm Gaddum, stated that: "EMU is a highly political undertaking". When it was put to him that Germany had given up the most in EMU, Gaddum replied, "I hold this argument to be completely wrong. Germany is the largest partner in the European power game… The Federal Republic will ultimately be the country which profits most from European unity, even if this is not immediately visible."

As I have argued for over a decade, we are now facing a German Europe rather than a European Germany.

How much will change if Gerhard Schröder is elected Chancellor in September? Schröder's instinctive commitment to European integration is much weaker than Kohl's. A Protestant from Hanover, he is more naturally anglophile and atlanticist than the Catholic Rhenish incumbent. In private, he regards the French belief that they can control the Germans through EMU as absurd, knowing that "in a monetary union it is the strongest economy which will sweep the board". He even flirted with outright Euroscepticism last year, although he quickly started to tow the orthodox line in order to obtain support for his candidacy from the heavily pro-European Social Democrats.

Whatever happens in the German elections, the future of the Franco-German alliance is less certain than it has been for many years. In both capitals thoughts about the future divorce arrangements are in the back of the minds of senior officials and ministers as they prepare their monetary nuptials. On the other hand the Franco-German relationship has weathered many tensions before and its breakdown cannot be forecast with certainty.

What is certain, however, is that the argument over the presidency of the European Central Bank has caused deep distrust of France in Bonn and the perception that Kohl sold out German interests has caused precisely the nationalistic discourse described above. Above all the argument showed how the fundamental goals of the two main protagonists in EMU remain diametrically opposed and that therefore EMU will be built upon a seismic faultline of different political intentions. In these conditions of instability it is essential that the Maastricht arrangements be renegotiated. I have been calling for this for years and yet neither the Major nor the Blair governments has even deigned to consider the option. Renegotiation is essential if we are to build the stable, flexible and friendly Europe we all want.

Bill Cash is Chairman of the European Foundation.

Britain Has a Choice

We should take the American option

*The following are edited extracts from a speech, entitled "Britain's Final Choice: Europe or America?" given on the 9th July 1998 by **Conrad Black**, Chairman of the Telegraph Group Ltd, at the annual meeting of the Centre for Policy Studies in London*

Today the greatest engines for collectivism, illiberalism and hyper-regulation in our national life are not as they were in this country 25 years ago, the trade unions, not the insatiable needs of nationalised industries, nor the rigidities of centralised state planning. Rather the principal threat to this self-governing nation and its freedoms as we have exercised them comes from the ever-increasing ambitions, benignly conceived though they are, of the European Union.

We do have choices and while the European option is an obvious and looming possibility, we must not be gulled or bulldozed into believing that it is the only possibility.

Unlike many Eurosceptics in this country, I am both a Francophile and a Germanophile. I think and hope Eurofederalism has some prospects of at least partial success for those countries with an aptitude for it. Out of the fear of the role of discontented mobs in their history, a role which has no parallel in the history of the English-speaking countries, France and Germany have tax and benefit systems which by Anglo-American standards subsidise employment and disincentivise work.

None of the continental European countries has a particular affinity with the United States and Canada, or anything slightly comparable to Britain's dramatic modern historic intimacy with North America. British trade patterns are also clearly distinguishable from those of other EU countries.

There is no credible version of Euro-integration that does not involve a massive transfer of authority from Westminster … to the institutions of Brussels and Strasbourg, which are, by Anglo-American standards, rather undemocratic and unaccountable. And I fail to see how any aspect of a special relationship with the United States and Canada could survive monetary union and common defence and foreign policy.

The steady cascade of Euro-directives and European Court decisions subsumes the sovereignty of the EU member states into the Union gradually. Monetary union would deliver monetary policy to a supranational authority and severely erode national control over fiscal policy.

A common foreign and defence policy would reduce national sovereignty in member countries virtually to the level of local government. No one should doubt the implications of going much further into Europe for Britain and for the western alliance.

The European desire to close out a century of terrible European wars with a political structure that effectively precludes war is commendable enough. But the absence of a major conventional war in Europe since 1945 is due to the American presence in Europe, not chiefly to the actions of the Europeans.

Next to the US there are eight or 10 other countries, of which Britain is one, that are strong relative to all the others and have some international standing. Only the United States is greatly more important than these eight or 10 second echelon powers; and Britain is listened to now and traditionally more seriously by American policy-makers than any other country.

Britain's status as a prosperous and respected country on the edge of Europe, and also now on the edge of an English-speaking world which Britain founded, is wholly unsatisfactory only to those who become severely neurotic in contemplating the overwhelming economic and military power and popular cultural influence of the United States.

We [Britain] could use the existence of our veto right and our large current account deficit with the EU to negotiate complete reciprocal access of goods and people, withdrawal from political and judicial institutions and emancipate ourselves from the herniating mass of authoritarian Euro-directives with which we have been deluged. At the same time we could negotiate entry into the North American Free Trade Agreement, 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. The United States will make no significant concessions of sovereignty and does not expect other countries to do so.

When the possibility of such an arrangement is admitted, the cry goes up that we would be dominated by the United States. In fact, Britain's sovereignty would be in much better condition than it now is. Canada has lost no additional sovereignty after entering into the free trade agreement. The American effort to propel Britain head first into Europe is abating. President Clinton's feeling today is one of vexation with the European resistance to further market liberalisation. And, like his predecessors, he has learned how relatively easy and important it is to reach agreement with the British and Canadians.

Americans have backed political union partly as a way of reducing the risk of another intra-European war among the individual nation states. But now there is concern that the attempt to manage a monetary union and subsequent development of a political union will lead to increased conflicts within Europe and between Europe and the United States. Even if it succeeds there is no reason to suppose that a united Europe would necessarily be more willing to share the burdens of global leadership, as some American policymakers have hoped.

No one should underestimate the extent to which Eurofederalism is inspired by a resentment of the soft hegemony of the Americans and, as some would have it, the Anglo-Americans, these 50 years.

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 presence in it.

When the war in the former Yugoslavia broke out the then president of the

European Council declared that this is the "hour of Europe". We must face the fact that Europe's solution was both ineffectual and unjust and only a US military presence, which Europe initially requested stay away, produced any humanitarian progress.

One of the main purposes of advocates of European unity in this decade has been to stand up to America culturally as well as economically and politically. What is astonishing to me is how this desire to cut the Anglo-Saxon community down to size – which in practical terms means detaching Britain from her trans-Atlantic moorings and subordinating her to Europe, while straight-arming the North Americans, animates even some of the most cosmopolitan and democratic of modern-day Europeans.

EU foreign policy can have four possible consequences for the United States. The first is that the EU will assume its fair share in defending the liberal world order. This seems to me the least likely option. Second, EU foreign and security policy could simply be ineffectual. Third, it can be ineffectual in terms of its impact on a given situation but also obstructive of effective American responses.

The fourth possibility is that Europe will successfully come together and form a bloc that seeks gradually to diminish American influence on the Continent or elsewhere. Europe would be much less respected militarily without the full American guarantee of its security.

As Martin Feldstein has argued: "A politically unified Europe with independent military and foreign policy would accelerate the reduction of the US military presence in Europe, weaken the role of Nato, and to that extent make Europe more vulnerable to attack."

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 moorings. Britain would gradually dissociate herself from a proven alliance system. Had it [a common European foreign and security policy] operated at the time of the Gulf war it is almost certain that the majority of EU nations would have voted against military action. Nor could Britain have launched the Falklands campaign.

If the United States received a signal from a British government that it wished to avail itself of a North American option they would respond immediately. If America were jubilant, Canada would be ecstatic.

If our European friends realised such an alternative was being seriously considered, it would make the work of British negotiators much easier.

Britain, unlike all other EU countries, has a choice. It has a common Atlantic home. Now we are being herded and prodded into a European cul-de-sac amid official prevarication and dissembling with the only enthusiastic noises coming from unrepresentative and often aberrant quarters.

I am in favour of European integration for most of the EU countries. However, I think there are better alternatives for Britain suitable to this country's unique historic, cultural and geographic characteristics.

Failure seriously to examine alternative European and Atlantic policies now would be a monstrous disservice to this country, to its history and to all that it may yet achieve.

American Attitudes Toward "Europe"

What next for the Atlantic Alliance?

by John R. Bolton

Most Europeans probably believe that America continues unquestioningly to support the seemingly irresistible integration of Europe. After all, the "United States of Europe" should sound reassuringly familiar; prominent Americans have long echoed Henry Kissinger's question "who do I call when I want to talk to Europe?"; and the President of the United States continues to support publicly the European Union's ongoing consolidation. There does exist, however, a growing body of opinion in America, unarticulated within the Clinton Administration or the Department of State, which takes a much more "Eurorealist" view about developments on the Continent. These Americans worry that Europe's current fascination with itself is a kind of isolationism that will, sooner rather than later, harm both Europe and the United States.

First, though, to understand the contrary poles of America's attitudes toward "Europe", we must begin with an inherent, although long-ignored, conceptual difference between the Marshall Plan and the North Atlantic Treaty Organization. Although both were launched to resist Soviet expansionism at the Cold War's outset, and received overwhelming, bipartisan support in the US, they were perceived differently by many Europeans. While all mainstream European political leaders enthusiastically supported NATO publicly (and still do), many silently objected to the "hegemonistic" role of the United States in the Alliance. While hoping to maintain the American presence, they also desired an independent military capability, manifested initially in the Western European Union; an organization that existed only on paper for most of its history.

For some European theorists, the Marshall Plan was very different. Already seized with the notion of integrating Europe economically to prevent future Continental wars, they saw the massive amounts of American economic assistance as a powerful tool to advance their objectives. Significantly, and without fully understanding the implications, American leaders encouraged – indeed insisted – on close cooperation among the European states. George Marshall himself drove this policy, seeing the benefits to the United States if the Europeans themselves had a major role in allocating aid levels among the recipients. By appearing to defer to European recommendations, Marshall believed that Washington would lessen the inevitable resentment towards it caused by aid levels that never quite matched recipient expectations, and also enhance the efficient use of the assistance throughout Western Europe.

Inside the State Department, Marshall's logic became embedded in the institutional culture. From the 1950s on, whenever Europeans proposed a new agreement to deepen or broaden their economic cooperation, State was warmly receptive. During the Cold War, at least, one could argue that closer economic integration paralleled and buttressed the political-military cooperation that was simultaneously deepening NATO. Moreover, a "larger" European market produced undoubted economic benefits, which were, early on, available to American as well as European businesses. Even today, the official United States view remains entirely supportive, for example, of European Monetary Union, the latest iteration of the "European" vision.

What the State Department has missed, however, is that deeper European economic integration has advanced so far beyond its Marshall Plan roots that US interests are now challenged rather than advanced by "ever-closer union". Indeed, "ever closer union" already threatens NATO, the other pillar of American post-World War II policy in Europe. Not only do the political objectives of some EU states increasingly diverge from the United States, but the membership of NATO is changing more rapidly than the EU in ways that may make it a less effective military alliance, and more like the Organization for Security and Co-operation in Europe. Thus, the changing EU priorities have changed the trans-Atlantic relationship in ways that the State Department has either completely missed or consciously ignored. Others in the United States, however, are not so unaware.

Broadly speaking, pre-Maastricht, the United States dealt with Europe in a series of bilateral relations, some stronger and closer than others, but all conducted in traditional nation-to-nation relations. Some groupings (such as the Nordics and the Benelux countries) on some issues required non-bilateral attention, but multilateral diplomacy was conducted almost exclusively in the NATO context. There, through years of hard bargaining and extensive consultations, a decision-making process developed that served the members' needs quite well. (France's withdrawal from NATO's command-structure and the expulsion of NATO headquarters from Paris, while seemingly aberrant at the time, are now more obviously understood as basic to the Euro-integrationist strategy.)

In virtually all cases in pre-Maastricht days, decision-making in the European Communities had very little real impact on the United States. Beginning approximately with the signing of the Maastricht Treaty (and in some cases before), this situation began to change dramatically, and has continued to evolve rapidly since. Through *"correspondence européen"* at staff levels, and through seemingly endless consultative meetings at higher levels (including among Ministers), EC members came increasingly to unified positions before consultations or bargaining began with non-EC members. While now commonplace for Europeans, this practice was hard for Americans to understand ("why are the Europeans doing this?") and harder still to accept ("why is everything decided before we start talking?"). For some Europeans, of course, merely forcing Americans to ask themselves these questions was satisfaction enough.

Consider the following recent circumstances, which, from the American perspective, constitute important changes in the operations of the Atlantic Alliance:

• In G-7 consultations, the four European governments increasingly co-ordinate their positions beforehand, leaving Canada, Japan and the United States to be confronted with a united front by the European members of the group.

• Within the United Nations Security Council, consultations among the United Kingdom, France and the United States reflect less the views of three nation states, and more frequently the views of the US and the EU. Although UK diplomats may have been less communitaire than their French colleagues in the early days, that difference has narrowed substantially in the last decade.

• In other UN organizations, political consensus-building often occurs in discussions within the regional groupings, with the US belonging to the "Western European and Others Group," or "WEOG." In the late 1980s, EU members of the group unhesitatingly offered their individual national opinions on any topic under discussion. While the country holding the EC presidency might purport to offer the views of the Community as a whole, no other member ever seemed inhibited. By 1992, however, the EU presidency always spoke alone, and indeed, increasingly first as the WEOG's rotating national chairmen, often EU members themselves, invariably deferred to the presidency. After the presidency announced the EU position, other EU members dutifully sat on their hands, while the non-EU states debated in front of the silent, brooding EU.

At times, the discussion would reach a point beyond the consensus previously established by intra-EU consultations. At such points, the EU would ask to suspend the WEOG meeting in order to caucus, and the non-EU members would leave the room to await the next statement of the EU position. Thus, for Americans, "European Political Co-operation" came increasingly to be understood as "American exclusion." To be sure, these developments were not entirely uniform, and some rogue EU states, such as the United Kingdom, actually consulted much more closely with the United States throughout many diplomatic endeavors. But the overall pattern was unmistakable.

With the EU's passage to the stage of a "common foreign and security policy," the split between "Europe" and America became harder for Europeans to deny, and harder for Americans to ignore. Americans in particular wonder what makes a policy "European," as opposed to "Western," or "Atlanticist"? Do "European" interests from Greece to Ireland, and from Portugal to Finland, have more in common than interests stretching across the Atlantic? And what is to happen to Canada, Australia, New Zealand, Japan and other industrial democracies whose geography makes them forever outsiders to the European Club? Many Europeans, especially those already predisposed by a strain of anti-Americanism, tended to dismiss such questions as the disappointed complaints of a deposed hegemon. If Americans feel "left out" of the European enterprise, so much the better, in this isolationist view.

Many other Europeans, and the State Department's devoted EU supporters, however, argue that nothing had really changed: an ever-more-fully integrated Europe is not invariably adverse to US interests, and is, indeed, completely consistent with NATO politico-military decision making. All the Central and Eastern European nations striving to join both the EU and NATO believe this to be true even today. Nonetheless, a cursory review of current policy concerns shows just how extensively the EU machinery is undercutting the Atlantic Alliance, not just its NATO component.

In political-military matters, the Balkans, since Yugoslavia began to break up in 1991, are a showcase of the problems caused by EU maneuverings. At the start, as I have explained previously,† the EU demanded and received the lead from a willing Department of State. Jacques Delors, then President of the European Commission, said confidently (and offensively): "We do not interfere in American affairs. We hope they will have enough respect not to interfere in ours." Moreover, EU deliberations on the Balkans have been dominated throughout not by the happy sound of brotherly co-operation among members, but by a kind of bullying that has become increasingly common and successful in EU policy circles. First, Germany insisted, based largely on its historical interests in the region, that EU members recognize the declarations of independence of Slovenia and Croatia from Yugoslavia. While this precipitous policy is not alone to blame for the ensuing carnage and ethnic cleansing, there is no doubt that Bosnia-Herzogovina saw its declaration of independence as the only way to extricate itself from Serbia's grasp, hoping thereby to find security in a united European front against Serbian force.

Having thus induced the Slovenes and Croats to jump ship, and having pushed the Bosnians, Germany then concluded that it was constitutionally barred from undertaking any military activities that might actually stop the Serbian war machine (or those of the other Yugoslav parties). Content first to rely on hapless UN peacekeeping efforts, substantially staffed on the dangerous ground of former Yugoslavia by its European NATO allies, Germany subsequently concluded that the Serbs could be kept at bay only by the threat – or actual use – of force, if somebody else was doing it. Ultimately, NATO's use of limited force, and the diplomatic intervention of the United States brought about the Dayton Accords. (While Dayton, in my view, is gravely flawed, I do not pause here to analyze its merits.) Now, ironically, the US, UK and France have substantial troop commitments remaining in Bosnia as part of the post-NATO stabilization force, while the Germans concentrate on European Monetary Union.

But EU bullying on the Balkans was not the exclusive province of Germany. Greece played its role by refusing to acknowledge that one of the republics from former Yugoslavia could even choose its own name of "Macedonia". Others in the EU (along with non-EU states) helped bypass economic sanctions imposed on Belgrade. At this moment, as NATO threatens military action directly against Serbia as a result of ethnic cleansing in Kosovo, historic European divisions are propelling NATO into an unprecedented war against a sovereign state. One must, of course, acknowledge in the case of Kosovo that the Clinton Administration is a leading proponent of force, although one doubts that a majority in Congress supports its view. Even here, German views pose a problem, insisting as they are, for their own perplexing reasons, on Security Council authorization for any NATO use of force. Of course, if NATO requires Security Council approval, we have, in effect, not only admitted Russia to NATO, but China as well.

The pattern of EU bullying also prevails in other arenas, such as dealings with Turkey in general and Cyprus in particular. America views Turkey as a NATO ally and a legitimate member of the Atlantic community. It, along with Greece, was one of the first beneficiaries of the Truman Doctrine, and it has stood fast with the United States in many disputes in times of acute crisis. Turkey's outstanding role in the Persian Gulf War, and its efforts to form close and stable relations with Israel are only two of many examples of Turkey's ongoing efforts to achieve its Atlanticist aspirations and obligations.

It comes, therefore, as a considerable surprise to Americans to learn than Europeans generally, and conservative European political parties especially, seem to consider that Turks are somehow not worthy of being considered full Europeans. Common NATO membership for Greece and Turkey, while it has neither solved the Cyprus question, nor even prevented armed conflict, has at least confined the problem for many years. Now, however, with the EU as another forum, the Cyprus issue has broken loose into a wider and potentially more troublesome context. One need not agree to agree with the Turkish position on Cyprus or other issues to acknowledge that EU politics have made the European relationship with Turkey far more difficult than it ever was before, as well as complicating the American role in trying to lead the Atlantic alliance.

Nor is the EU prepared to confine itself to "in area" activities, as some members argue with religious fervor in the case of NATO. Perhaps the most visible, if least constructive, example of an activist EU "out of area" role is the Middle East. There, the Western democracies face the common problems posed by the imperative of supporting security for the State of Israel, preventing the spread of government-directed international terrorism, and protecting vital supplies of petroleum and natural gas. Since the Six Day War, at least, the United States has been the principal external power attempting to achieve these objectives, largely because of the Cold War dimensions which also enveloped the region in the period just before and subsequent to the Suez Crisis of 1956.

In much of Europe, despite the progress in the Middle East that has been made, first at Camp David and then at the Madrid Conference, many Europeans have both resented the American role and the direction of the process. Convinced that the US tilted too palpably toward Israel, and that its involvement was enhancing the American position in the region at the expense of Europe's, these Europeans have encouraged an independent diplomatic role for the EU in the peace process. It is essentially indisputable that the Arab nations agree that the US leans too far in Israel's direction, but there is also no reason to believe that – precisely for this reason – that the US is somehow gaining a larger place in the Arab world at the expense of Europe. Paradoxically, Israel's greater political trust in the United States than in Europe is in no way impairing the extensive development of European–Israeli commerce and investment. It is also a fact, however, that the center-right of Israeli politics simply will not accept a lasting settlement that is not basically shaped with American assurances for Israeli security.

If, therefore, European commercial interests are not impaired by the high-profile US role in the Middle East peace process (and may, in fact, benefit from it), and if its political role is necessarily limited, what motivates persistent EU efforts to be taken seriously in the peace process? The real impact of EU efforts can only be concretely understood as an exercise in anti-Americanism. Prior to Suez, and even in the immediate aftermath of decolonization, France in particular saw itself as one of (if not the) leading external powers, and it longs again for those heady days. But nostalgia and envy are not policies. To the extent the EU is so driven, its major consequence will not be a peaceful settlement in the Middle East, but the exacerbation of trans-Atlantic tensions.

Indeed, it is in the premier trans-Atlantic forum, NATO, that the European Union project poses the greatest threat to an Atlantic community. First, NATO urgently needs to redefine its post-Cold War role, principally to determine whether the "out of area" restrictions on NATO's mandate need to be eliminated. Senator Richard Lugar (R., Indiana) has persuasively argued that

NATO must go "out of area, or out of business", and in Congress there is considerable support for his approach. The expected expansion of NATO to include Poland, Hungary and the Czech Republic will not address that problem, and may even increase it because of the highly dependent state of the new militaries joining the Alliance. The unresolved status of the "out of area" issue is, in fact, one reason why there is so little support in the US for any future NATO expansion.

Other than the United Kingdom, most European NATO members believe that the correct approach is to conducting solely "in area" operations. In fact, whether or not directly involving NATO structures and resources, Europeans show a distressingly isolationist view of their broader international obligations. In the recent crisis caused by Iraq's obstruction of UN weapons inspectors, only the UK publicly announced its willingness to join the United States in military action if that became necessary. In fact, at one point the only nations that had agreed to the possible use of force were the UK, Canada, Australia, and the US, a pattern that did not go unnoticed in Washington. Even during the initial Gulf Crisis in 1990, Germany and others had resisted supplying urgently needed defence resources to Turkey to protect against possible Iraqi attacks on the ground that so doing would be acting "out of area". Turkey had to remind its partners forcefully that, as a NATO member, its soil was very definitely "in area", and therefore protected by the basic Alliance commitment. Even though that problem was resolved satisfactorily, it was chilling, and should have been a clear signal of the shape of things to come.

Some EU members now see NATO's chief function (and the chief function of the US) as supplying the muscle for "Combined Joint Task Forces" that allow the Europeans to take advantage of NATO for operations that do not themselves involve core NATO interests. While these structures may prove militarily feasible, and even politically constructive in the short run, over time they will result in the fragmenting of NATO's central unifying elements, resulting in Americans losing interest in the Alliance. This would be a tragic outcome for both America and Europe, but an understandable one from the US perspective, if the EU increasingly distances itself from major US objectives. Such a process would only accelerate if the WEU became the EU's chosen symbolic vehicle. The WEU is essentially NATO without the United States, and if the Europeans downplay NATO, so will we.

Economic issues between the EU and the US are no less important than politico-military ones, and here the future is equally uncertain. Monetary union, as economists like Allan Melzer and Martin Feldstein argue, could well move the EU to even more economic autarchy, adopting exclusionary and protectionist trade policies, acting as a hostile trading bloc to US interests. Many American businesses with interests in Central and European Europe already hear from customers and partners there implicit threats emanating from the EU that excessively close economic ties with the United States will impair their prospects in the ever-larger European Union. On currency questions alone, the euro is so much more a political experiment than an economic imperative that the health of the euro will likely obsess EU leaders well into the next century. If the euro were simply a currency rather than a political statement, the US would not likely be gravely concerned with the euro's impact on the global role of the dollar. But in fact, the euro carries with it considerable political baggage, and its value against the dollar will almost certainly be seen by many Europeans as much as a political indicator as an economic one. This spells nothing but trouble ahead.

From an economic viewpoint, the isolationist impulse to exclude the United States from EU territory, over the long-term, can only harm Europe. If frustrated in creating a North Atlantic free trade zone of some kind, American attentions will inevitably turn to the huge markets of Latin America, Asia and the Pacific, which are particularly open to penetration at the present time. By its persistent inward focus on "deepening", the EU may well find in a few years that its concentration on and success at "deepening" has caused it actually to play a smaller role in the world at large.

But monetary union and deeper integration generally will also have a profoundly important political impact, one that is almost certainly adverse to American interests. Cuba, for example, is not fundamentally an economic problem, despite the uproar over the Helms-Burton sanctions, but a political problem. Similarly, rogue states such as North Korea, Iran and Libya, to which Congress has also applied economic sanctions and other constraints, are fundamentally political-military problems over which the West is deeply divided. Unfortunately, closer European Union makes these political problems harder to resolve, not easier, by making the divergent positions a test of EU machismo.

None of this touches on the larger, common problems posed by Russia and the pieces of its former empire, and China and its emergence in Asia and globally. Instead of engaging in the invariably lengthy and tedious strategic discussions about how to handle these issues, we are losing the chance to achieve a common trans-Atlantic perspective.

Some argue that our current trans-Atlantic problems are the ineluctable result of our winning the Cold War, that allies in that immense struggle must drift apart as other, more diverse challenges confront them. This is not true, but it is certainly the course we are drifting along, in several cases actively propelled by some of our European allies, consumed as they are by Europe's isolationist obsession with itself.

Ironically, we can readily solve this problem by following two central policies: First, NATO should be strengthened as the West's principle politico-military vehicle, worldwide. Second, the increased economic integration of North America, Western Europe and Central/Eastern Europe should be the highest international economic priority for the nations of all three regions. There would be solid political support for these policies in the United States, and could be as well on the Continent if we break through the political élite's isolationism.

† See "The European Union, the United States and Former Yugoslavia", *European Journal*, Sept./Oct. 1995, p. 8

John R. Bolton is the Senior Vice President of the American Enterprise Institute. During the Bush Administration, he was the Assistant Secretary of State for International Organization Affairs and a member of the European Foundation International Advisory Board. This article is a modified version of a presentation made at a May, 1998, conference sponsored by the Institute of United States Studies of the University of London.

European Integration and the Transatlantic Relationship and Trade: A Conference Report

by Dr Nigel Ashford

"The long-term objective of the New Transatlantic Agenda is the integration of the economies of North America and Europe. [We seek] an agenda for common economic and political action to expand democracy, prosperity and stability."

U.S. Seceretary of State Warren Christopher, Madrid, 2 June 1995.

Strengthening Europe's relationship with the USA is a major goal of the European Foundation, so a conference on the impact of European integration on the transatlantic relationship and trade is of considerable interest. The Centre for the Study of International Affairs at Middlesex University, under Douglas Eden, chose this as their topic for the third annual conference on 'The Future of the Atlantic Community' on 12 June 1998. Unfortunately (with two notable exceptions) the conference was marred by an excessive complacency and a failure to recognise the ways in which European integration can endanger that relationship.

The conference promised to address a number of issues. What are the prospects for the closer Atlantic Community envisaged in the New Transatlantic Agenda agreed by the Europeans and North Americans in 1995/6? Will the New Transatlantic Marketplace being negotiated with Washington by the European Commission, and supported by Britain and Germany, go forward or become a victim of internecine battles among EU members over Eastward enlargement, monetary union and control of Europe's destiny? In return for guaranteeing Europe's security, can the United States expect closer commercial co-operation? Will an integrated Europe foster or turn against the Atlantic Community idea?

These are very significant and profound questions, but most of the speakers either ignored them or assumed that integration was naturally pro-Atlanticist, without examining, yet alone refuting, less positive conclusions. My role as a participant in the audience therefore became that of asking the awkward questions.

The conference began somewhat inauspiciously with a welcome by Pauline Green, leader of the British Socialists in the European Parliament, who emphasised the work that the EP was doing in co-operating with the Democrats in the US Congress. She may not have noticed that the Democrats are now the minority party, and likely to remain so. There was little evidence that she or her group has had much success in reducing the protectionist tendencies amongst congressional Democrats. Their leader in the House of Representatives, Richard Gephardt, is the most prominent protectionist in Congress, closely allied with the trade unions, and the chief opponent of Vice President Al Gore for the Democrat nomination for president in 2000. Mrs Green was the first of three Labour MEPs heard during the day (there were no Conservatives) and the first to indicate how important it was that MEPs should meet with Congress as they were the democratic representatives of the European people. The subtext was that the EU should provide more resources to enable MEPs to travel to the US.

The conference chairman was the delightful Sir Oliver Wright, former Ambassador to the United States 1982–86, who conducted the conference with great charm and humour. He suggested that the morning's session was on the politics of the possible and the afternoon on the politics of the desirable.

The context for the conference was the 1995 agreement to pursue a New Transatlantic Agenda (NTA), and the progress (or otherwise) to be found in the text of the Transatlantic Economic Partnership (TEP) adopted at the summit in May 1998. The assessment of the summit depends on the criteria of judgement or expectations. It was clear that the speakers must have had either modest expectations or were unwilling to publicly recognise the disappointing results.

Sir Leon Brittan, as the Commissioner responsible for transatlantic trade, had made a set of proposals to achieve a New Transatlantic Marketplace (NTM). The chief features of his proposals were the abolition of all tariffs by 2010, free trade in services, and mutual recognition of standards. However the summit failed to agree on these proposals. The results were extremely modest: limited progress on market access, co-operation over multilateral trade in the World Trade Organisation (WTO), and more political dialogue.

Why were the results so disappointing? There were two main causes. The first was the refusal of the French to support movement towards free trade. 14 member states supported the Brittan initiative, but France said 'No'. This was reported in the very limited press coverage on the agreement, but many speakers were unwilling to even identify the culprit. They were unwilling to air their dirty linen in public.

The second reason is that the summit became side-tracked into the issue of 'extra-territoriality' or the imposition of US economic sanctions on European companies trading with Cuba (the Helms-Burton Bill), or the terrorist states of Iran and Libya. I am one of those who is highly sceptical about the value of sanctions as a political weapon. I am therefore pleased that the result was the waiving of sanctions However, missing from the conference (with one exception) was any consideration that there might be a security argument against dealing with rogue states. It was amusing to see countries who had been great advocates of sanctions against South Africa suddenly find that sanctions don't work when it comes to regimes that appear less reprehensible to them. More serious was that the attention given to the sanctions issue (of particular concern to the French state owned petrol company Total in its dealings with Iran) crowded out the effort that should have been given to the promotion of free trade. Again this demonstrated that the Blair Government is more concerned with immediate headlines, claiming a success over the sanctions issue, than with the long term consequences for Britain of extending trade opportunities.

Colin Budd, the British negotiator in the Senior Level Group, the civil service sherpas to the politicians, was the only speaker to directly address the questions raised in the conference programme. He identified the prospects for closer cooperation by reiterating the four goals of the Transatlantic Agenda identified in 1995: the promotion of peace, stability and democracy, meeting global challenges, improving world trade, and building bridges across the Atlantic. However repeating goals does not tell us whether they have been achieved. He mentioned only in passing one of the most ominous developments in world trade, championed by both President Clinton and Prime Minister Blair, the attempt to impose labour and environmental regulations. These have the potential to become an instrument for the promotion of the unions' desire to restrict trade under the guise of promoting a level playing field, by seeking to impose social regulations on other countries, as if what might be suitable for a rich developed western country would be suitable for a poor developing one. Their goal is to impose massive social costs on poor countries before they are able to effectively compete.

Instead of the Transatlantic Marketplace (TAM) that was sought, what was signed was a Transatlantic Economic Partnership (TEP). The latter was presented at the summit and the conference as a step towards the former. Yet, as I suggested in my question to Budd, there is an immense conceptual difference between the two. A Marketplace implies a free arena of trade with a large number of actors, primarily in the private sector, whilst an Economic Partnership suggests two players, presumably the EU and the US government. The latter is not a marketplace at all, but a potential threat to it. Thus the TEP that was agreed was not a step towards a TAM but a step away from it.

The representative from the German Embassy, Paul von Moltzane, reiterated the German position that European integration and Atlanticism were complementary and not conflictual. However this was stated rather than justified. He acknowledged that France was the primary obstacle to achieving greater progress in trade, but not that the weakening of Atlanticism was one of the primary goals of French foreign policy. How would Germany respond if, and when, it is faced with the choice of supporting the United States or the Franco–German relationship? In response to my question of whether a Common and Foreign Security Policy (CFSP) on the lines favoured by Germany, by majority voting, would be more or less Atlanticist, he simply claimed that there was an pro-US majority of member states, and so one could expect pro-US policies. Recent experience in the Gulf War and over Iraq cannot be reassuring to the US and certainly was not to me.

The next session was chaired by Richard Balfe, the second Labour MEP of the day, who introduced Charles Ries, Economic Affairs Minister at the US Embassy in London. Ries provided the usual positive spin on the summit. He described the summit as one of "unprecedented success" and quoted his boss, Tom Pickering of the State Department, that the two sides had risen to the occasion and settled their differences. This failed to recognise that the plans for TAM, which would have been of mutual benefit, had been defeated . The US backed down on sanctions in return for vague sounding phrases on: improving controls on the transfer of technology (demanded by a Clinton Administration that permitted technology that assisted the nuclear capability of China); counter-terrorism; no governmental assistance to companies to use property illegally acquired in Cuba: and a common policy against those who violated international norms. As these declarations have been made in other forums, the US gained very little.

Ries identified the US priorities as the greater use of science and technology in agreements, especially over food safety, the mutual recognition of standards, and increased openness on services. The first arises from the use by the EU of the excuse of food safety as a form of protectionism. The UK of course has had its own experience of this over the banning of British beef. The US experience was over the ban on American beef treated with hormones, which, as a WTO tribunal later demonstrated, was a purely political decision, not based on sound scientific evidence. The EU response to the WTO ruling was to demand a continued four year ban so it could find the evidence. Another example of EU intransigence was on the banana regime which discourages the import of cheaper bananas from the West Indies in order to protect southern Europeans. WTO rulings that the banana regime was illegal under international law have been met by yet another revised regime, which had to be challenged again and found illegal, again.

On the second goal of mutual recognition, that any good legally sold in one country should be able to be legally sold in any other, there are those with a different agenda of harmonisation, that there should be the same rules for every country. This was the implicit position of the Labour MEP in the afternoon. On the third goal of free trade in services, six years after the Single European Market was supposed to have been created, British companies still suffer discrimination in achieving entry into markets such as financial services where the UK has an advantage. There appears to be little hope that the US can expect much success in the near future.

Ries mentioned in passing one of the few results of the May summit, an emphasis on a growing role for labour, consumer (often pro-regulation) and environmental groups in the political dialogue. What he failed to point out is that this meant that US and EU taxpayers will pay for these lobbies to exert influence on the negotiations, when most of these groups are opposed to free trade. Thus the process that is supposed to increase free trade is actually going to pay to listen to its opponents.

On the euro, Ries reiterated the US government line that the US has nothing to fear from a single currency. First, it will stimulate structural reform and greater flexibility and thus increase markets for US goods. Most economists argue that flexibility and structural reform should be a precondition of any attempt at monetary union, and not a consequence. Second, Ries felt that there was nothing to fear from a strong euro as it was unlikely to lead to a dramatic replacement of the dollar, and that any such shifts would be slow. He never addressed the question of the consequences of a weak euro: the flood of capital into the US, the resulting impact on the exchange rate, and the consequent problems for US exporters, as has already been experienced in the UK.

The final session of the morning was by Elizabeth Bukspan, formerly the French representative in the European Bank for Reconstruction and Development (EBRD) (best known for its extravagant building and the resignation of its first director Jacques Atali), speaking in a personal capacity. She sought to present the French position, more description that defence. France sought monetary union as a means of political union, although this was undefined. France favoured policy convergence in taxation and social policy in order to prevent "distorted competition". Links with the US would be difficult as long as it remained the sole superpower, implicitly suggesting that the EU must become a rival superpower.

She was reluctant to address controversial questions herself. She sought to do so by a quite extensive quotation from a recent paper by Dominic Moisi, Deputy Director of the French Institute for International Relations, who identified four challenges for France: globalisation, unipolarity, how the EU drowns the French voice, and the collapse of the French model of centralisation and dirigisme.

I pressed the question of how US interests would be served when Mr Ries identified flexibility as the US goal and yet France wanted the harmonisation of taxation and social policy, which would lead to greater rigidities, higher unemployment and less growth. The response was to say that no one could predict what would happen. In response to another question, she recognised that France would have to change and abandon its centralisation and dirigisme, but added that change in France tended to happen thorough revolutionary moments and not gradually as in the UK. This was not reassuring for the future stability of France. The choice appears to be either French failure to adapt or political instability, or even both.

The afternoon session, to be directed towards the desirable, was launched by the third Labour MEP of the day, Alan Donnelly, leader of the EP delegation to the US Congress. The primary theme of his talk was the role of institutions other than national governments. He urged the creation of a Transatlantic Economic Assembly, similar to the North Atlantic Assembly for NATO, to provide a regular forum for parliamentarians. One of his concerns was the lack of interest and ignorance on these issues in the US Congress, which he was eager to remedy. He complained about the lack of consultation by Congress with their European counterparts. He never mentioned the lack of consultation with the US by the EC when it launched the Single European Market.

It was incredible to behold to listen to a Labour politician waxing lyrical about the Transatlantic Business Dialogue (TAB) in which businesses from both sides of the Atlantic seek to influence decision making. He described it as one of the most successful parts of the transatlantic dialogue. However, consciously or not, he identified its role as the harmonisation of standards, or common regulations: when the goal was supposed to be mutual recognition of standards, which does not require new regulations, only open access.

Who was likely to spend the time and resources to participate in these international meetings? Only large multinational corporations. They could set standards which would benefit themselves or to which they could afford to adapt. What about the interests of small and medium enterprises? How would their interests be protected? Labour has managed to conflate the interests of business with that of big business, as it successfully did over the minimum wage. The TBD will do the same, and the losers will be small business.

Donnelly was a strong advocate of a Transatlantic Labour Dialogue (subsidise the unions) and so-called Transatlantic Information Exchange System (subside consumer and environmental groups). Thus what we can see emerging is corporatism, not on a European level but a transatlantic one. Just as corporatism was so damaging to the UK in the 1970s, and continues to be on the continent in the 1990s, we are faced with the prospect of it being imposed for the whole of the west.

The best speech of the day was by Jeffrey Gedmin of the American Enterprise Institute and Director of the New Atlantic Initiative. It was the best because it was the first that was willing to burst the balloon of complacency and ask some difficult questions. He began by comparing the American attitude to Europe with a 13 year boy obsessed by a 21 year old model, who does not even know he exists. Few Americans of the élites or the masses know about the EU. This should not be interpreted as evidence of isolationism, which is a more principled position based on reflections of US interests. This domestic preoccupation can be found in both parties. He even had heard that about half the Congressmen do not own passports. Despite this, most Americans still supported a strong US role in the world.

Gedmin was sceptical whether European integration would work in the interests of Atlanticism. He was unpersuaded of the common argument in favour of the CFSP that the US needed to be able to make one telephone call to know what Europe thought. The US knew exactly whom to call when necessity demanded it. CFSP could be a force for stability but it could result in the lowest common denominator. It could lead the EU to be a stronger partner for the US or it could prevent independent states from aligning with the US. Monetary union could help introduce flexibility but it could hinder it by increasing insecurity. Monetary union had deflected the EU from the far more important project of integrating eastern Europe. He was dismissive of Chancellor Kohl's claim that MU was necessary for peace. Gedmin believed Germany was a peaceful and democratic nation that did not require further integration to restrain it, and the experience of the American Civil War showed that a single currency did not prevent such a war. While cautious about sanctions, he noted that the Europeans appeared to view issues such as Cuba almost exclusively in terms of trade and ignored the security dimensions. He demanded a more open political debate and not more pious declarations about the wonderful state of Atlantic relations. Whether this was meant as a criticism of earlier speakers I doubt, but I was able to take it as such.

In questions, I sought to explain the relative lack of interest of US politicians in international affairs and their reluctance to attend events abroad to the weak party system, which meant that politicians run on their own individual records, and so spend much more time in their districts. I made the contrast with MEPs, who know that their political future is decided by popular support for their party and not on their own actions, so they can freely travel without electoral consequences. Unfortunately in the middle of this comment, the last MEP left. In relation to a question on Germany, Gedmin noted that Gerhard Schroder, the Social Democrat candidate for Chancellor, had only been to the US twice in his life, despite numerous opportunities, whilst he had been to Cuba six times. This is not reassuring to Atlanticists.

Joseph McKinney of Baylor University gave an informed, if dry, speech on the implications of the US drive for regional trade agreements such as NAFTA, abandoning its traditional stance in favour of multilateralism. The concerns were that it would create trade barriers against the EU, divert scarce resources from global trade discussions, and be used as a bargaining chip with the Europeans. He thought that regionalism was unlikely to develop and subvert the WTO. The western hemisphere was less attractive to the US than Europe for a variety of reasons: economic levels of development, size, culture and a history of conflicts with their southern neighbours. He expressed concern over the growing attempt to place environmental concerns onto the trade agenda, and he claimed that the growing wage gap was primarily due to technology, not competition from labour intensive third countries.

Geoffrey Smith, former *Times* journalist, gave a splendid winding up speech. He was dismissive that promoting greater contact between parliamentarians, as advocated by the MEPs, was the way forward. "Heaven help NATO if it had had to rely on the North Atlantic Assembly." He emphasised that Atlanticism was not based only on shared values, as several speakers had claimed, but on shared interests. The historic trade-off, between US protection for Europe and European political support for the US, had died with the end of the Cold War. When trade conflicts had arisen previously, security considerations always meant that the élites would not allowed them to get out of hand. This was no longer true, and therefore trade conflicts are a much greater threat. Smith identified two common interests: stability in Eastern Europe (would the US maintain its involvement?) and stability in the world (would Europe be consistently involved?). Echoing my concerns expressed earlier, he believed that CFSP should not prevent states from acting independently. As I have advocated elsewhere, a CFSP based on majority voting and which bound the minority would not be in US interests. The danger is that either all would act or none at all.

Transatlantic relations are in far greater danger than most of the speakers at this conference recognised. The Atlantic Economic Partnership has the potential of moving away from the original goal of a Transatlantic Marketplace. The Clinton administration and some in the Commission and EU states share an agenda of seeking to impose an international regulatory regime on the rest of the world. The May summit could create a corporatist structure at the Atlantic level. CFSP has the potential to develop as an instrument either of inaction, or as a tool for those who want the EU to develop as a power independent of the United Sates and not as its ally. Atlanticists have much to be fearful about.

Dr Nigel Ashford is Senior Lecturer in Politics at the University of Staffordshire.

EMU: an economic gamble against the odds

by Tim Parkinson

The student of economics learns very early that this subject is an imprecise science; indeed, for many (and certainly for me), its very inexactness is an attraction. Dealing as it does with individuals, assumptions of rationality are questionable and when we magnify our studies to economies as a whole, predictions become very difficult. But life is itself unpredictable; economics is a reflection of our own attempts to come to terms with what we can only partly control and to deal with disappointment and learn from it. Of course, this is not to decry attempts to model or predict the economy, nor is it to belittle those who base their professional lives around such forecasting, but the uncertainty which is part of the essence of economics is absolutely fundamental to my belief that Economic and Monetary Union is a flawed scheme.

I have no political axe to grind, nor does my livelihood depend on being right or wrong about EMU. I am a member of no political party or grouping; and my decision to write this article stems from a request by the editor following a letter I wrote to *The Times* against EMU. I want to make these things clear because this piece is not an all out attack on EMU with any other agenda than a consideration of its economic credibility.

A decision of any magnitude, let alone EMU, requires an analysis of potential and likely costs and benefits. There are undoubtedly benefits to EMU, but let us look at the potential costs first.

The Costs

EMU represents a massive commitment by its members. Be it "pooling" or "sacrificing" economic sovereignty, members undoubtedly lose the ability to determine their own monetary policy. As the European Central Bank sets interest rates for the entire currency area, members will have to accept that rate. In the same way that a bank operating in Burnley faces the same rates as a bank in Bournemouth, banks in Bonn and Biarritz will have the same rate imposed. In the UK, economic conditions between the north and south differ; they differ between east and west, and from town to town. A single monetary policy can impose strains: during the severe recession of 1980–81 the northern manufacturing towns fared much worse than those towns less dependent on physical output, many of which were located in the south. Regional transfers of aid and the working of the market (to a greater or lesser extent) do what they can to re-establish and restructure those areas (such evolution is typical of an economy but much easier to go through in a

…news in brief

Dumas stashes it away

The wife and one of the daughters of Roland Dumas, former Foreign Minister and now president of France's Constitutional Council, have been interrogated as witnesses to the alleged corrupt activities of Dumas. The Financial Brigade is investigating the source of over 3 million francs placed in cash into Dumas' bank account between 1991 and 1996. Dumas has said that he was buying "several properties" during this period, "in case anything happened to me".

Séguin walks the tightrope

Philippe Séguin, the president of the Gaullist RPR party, is struggling to hold his party together on Europe. "Not only will we not avoid a debate on Europe", he told his party's 'summer university', "we have every intention of launching it". To this end, he proposes to organise a national convention on Europe which will bring all Gaullist groups together in order to find a "synthesis" between them. But such a task is likely to prove as difficult as for the British Conservatives: on the one hand, the senior veteran Gaullist, Charles Pasqua, declares that "We are prepared to transfer some competences, and to delegate some elements of sovereignty, but we are not ready to abandon them". On the other hand, the young mayor of Neuilly and former Budget Minister, Nicolas Sarkozy, says, "If someone thinks that we can build Europe without accepting the idea of transfers of sovereignty in order to exercise it with others, then we will disagree about the European idea". Sarkozy attacked the idea Pasqua's idea, to be precise) that there should be a classroom on a blackboard than in the towns themselves, of course).

A single interest rate must be set to benefit the economic area as a whole but will, of course, affect different areas according to those areas' economic positions – hence the convergence criteria in the Maastricht Treaty to ensure that the differences across the EMU area would be no greater than those that existed within individual countries themselves. It is possible to imagine that such a system could work: if all member countries could produce congruent economies – which would continue to remain congruent – then a single monetary policy could be adopted to everyone's benefit. My imagination is vivid enough to conjure up such a scenario. But I cannot believe such an outcome is likely.

The convergence criteria seemed reasonable in themselves, but they were designed to provide a numerical structure to the real necessity of convergence: hitting the numbers was designed to indicate satisfactory progress in the aim of making the participatory economies similarly alike. Fudging the criteria is self-defeating: EMU cannot work without great costs unless the economies are the same. And whatever the paper mathematics say, the reality is that the economies of the European states taking part are not the same. A common monetary policy will be fine for many, but very unpleasant for those in recession or booming. Active fiscal policy will be needed to stabilise those economies and this might necessitate massive transfers from rich to poor nations; while such transfers are politically acceptable within one nation, I suspect that a common European identity is not yet well enough established for such large international transfers to pass without discontent.

If fiscal policy were the preferred weapon for macroeconomic control, then governments would be using it today; that they prefer the use of interest rates suggests that the former's efficacy is questionable. The large transfers that might have to happen might not rectify economic problems as well as an appropriate monetary policy.

Of course, economists and policy-makers make mistakes today. But they retain the ability to deal with them. Joining EMU removes much of that ability and also makes economic problems more likely because the economies are not alike. This is particularly true for the UK: much debt in the UK is very interest sensitive (being largely built up to fund a large private housing sector) and the "wrong" interest rate would be catastrophic for this country. Evidence of our sensitivity to the interest rate is available every month when the monetary policy committee (MPC) of the Bank of England's decision to change (or not) the interest rate by 0.25% is the focus of that week's economic debate.

The issue of direct inward investment is difficult to assess because so many companies have a different view. As soon as one company like Toyota declares that investment in the UK would suffer if we stayed out of EMU, others like Honda say their investment decision is based more on our continuing our success in terms of productivity and a deregulated labour market. I suspect that we will lose little, if any, foreign investment but the extent of any gain or loss will be determined by the successfulness of EMU.

A single currency is not like a conventional economic decision which can be undone (albeit painfully). If it went wrong, and we found that neither were the labour market flexible enough nor fiscal policy powerful enough to resolve our problems, leaving would be expensive and massively damaging; indeed, it is Chancellor Kohl's policy to so entwine European economies that to disentangle themselves becomes prohibitively expensive. This is a dangerous route: conflict becomes more likely not less if we are unable to resolve our economic problems.

Conclusion

The MPC, or the Chancellor, or any economic decision-maker gets things wrong. This is the nature of the economic beast. But as a sovereign economic state we can try and put things right. But if we join EMU we will not be able to do that. This is the heart of my thesis: the potential costs from EMU if it goes wrong far outweigh the potential gains from the project if it goes right. It is a gamble that we should not take.

Tim Parkinson is Economics Master at Winchester College, Hants.

Gaullist opposition to the Amsterdam treaty "which Jacques Chirac wanted and negotiated. It seems incoherent to me to want to mobilise the RPR against the treaty", said Sarkozy.

Séguin thus continues to walk a tightrope. Above all he is keen to prevent a haemorrhage of support within the RPR to Charles Pasqua, who has clearly stated his opposition to Amsterdam and has called for a referendum. Séguin hopes to do this be reinstating the principle of the 'Luxembourg compromise' (i.e. the national veto) and also by writing into the constitutional reform, which will be necessary for the treaty to be ratified, a provision that European laws can be subjected to scrutiny by the French Constitutional Council. This suggestion leads one to suspect that he has not really studied the Amsterdam treaty, for the protocol on subsidiarity provides for the superiority of European law over national law, including national constitutional law.

In a separate development, Séguin has faced opposition from within the RPR to his project of creating an Alliance with the pro-European UDF liberals. Jean-Louis Debré, son of de Gaulle's first prime minister and a former minister himself, became the object of one of Seguin's famous outbursts of fury for trying to sabotage the election of a single leader of the new Alliance party. "I am not fond of coitus interruptus", thundered Séguin at Debré, by which he meant he would not seek the presidency of the new party for a mere 6 month mandate. Debre has also made himself unpopular with the other leading Gaullist, the former prime minister Edouard Balladur. Balladur has refused to be in the same room as Debré ever since he discovered that Debré had named a character in one of his novels, a prostitute, Josiane Baladur.

Berlusconi in the clink

The former prime minister of Italy and current leader of the opposition, Silvio Berlusconi, has been sentenced to two and a half years in prison for corruption. He is the third former prime minister to face a criminal prosecution, although Bettino Craxi (who is in exile in Tunisia) and Giulio Andreotti who is on trial for murder were accused of graver crimes than Berlusconi. The TV magnate denounced the trial as political and said that when the judicial process was used to eliminate the leader of the opposition, the country could no longer be considered democratic. The leader of the other main right-wing party, the National Alliance, Gianfranco Fini, agreed, denouncing the Milan court which convicted Berlusconi as "a special tribunal".

The Moment of Truth – Part II

by William Kenway

The Accession Treaty came into force on 1 January 1973, with a 5 year transitional period of adaptation before full application on 1 January 1978. Accession could not have come at a worse time for Britain. The Heath government, by financial mismanagement of an economy already in crisis, caused a sharp rise in the rate of inflation, leading to the floating of the pound and thus to the ending of its reserve currency role. There followed the oil crisis: the outbreak of war between Egypt and Israel in October 1971 caused a sudden quadrupling of the oil price. This was worse for Britain, plagued by a series of miners' strikes, than for France where the development of nuclear power was reducing dependence on imported oil. Within a year Pompidou was dead and Heath, harried by the miners, lost the election and Wilson came back.

We can pass over Wilson's "renegotiation" with the new President, Giscard d'Estaing, and the referendum that followed, as so much fluff. The fact is that the harsh terms of the Act of Accession, the sacrifices that were made to secure admission to this prosperous club, have not been offset by commensurate advantages. On the one hand Britain's freedom of action has been steadily eroded by measures that were not to its advantage; on the other it has been, for its pains, the only major net contributor to the budget after Germany, has been obliged to import European foodstuffs at well above world prices and has seen its fisheries invaded and depleted by foreign fleets under Community rules. Over the 25 years since accession British negotiators in Brussels have been dragged reluctantly along, frequently outvoted, sometimes in a minority of one, the other countries seeming to have a quite other vision of Europe. Measures that the French Press welcomed as progress were seen in Britain as unwanted interference. At popular level in Britain there has been little enthusiasm for Europe. Polls taken over the 12 years of 1974–86 as to whether EC membership was a good or a bad thing for one's country averaged 33.3% good, 35.6% bad in Britain (not including 'don't knows'), compared with 58.0% good, and only 6.8% bad in France. In the 1970s at governmental level there was a marked difference between the European aspirations of France and those in Britain. Whereas France sought to regain her proper (i.e. glorious) rank in Europe and the world, Britain merely sought humdrum economic benefits. Callaghan, Labour Foreign Secretary, told German ministers in 1974 that in the renegotiation of terms "the touchstone was what would please the British housewife".

Much of this contrast was due to de Gaulle's inspiring leadership and the lack of anything remotely comparable on the British side. One can hardly disagree with the view ascribed to President Giscard d'Estaing in 1974 by the British ambassador that the outcome of the accession negotiations had ended for good the age long competitive struggle between France and the UK with France the victor. Coming from such a fair-minded, even Anglophile, figure, this recognition of France's ingrained hostility towards Britain is striking. It has been fuelled through the ages by Britain's galling ability, especially in the 18th and 19th centuries, to get the better of France wherever their paths crossed around the world. France's "victory" in 1973 has helped her to concentrate on getting the better of the United States, while not lessening her determination to keep Britain down. To this end she has sought to whip up irritation among her partners against a Britain concerned primarily with trade and dragging its feet over union, which they, stimulated by the new situation following the ending of the Cold War, are more than ever eager to achieve. Margaret Thatcher has fought gallantly against this hostility, but inevitably failed. In this climate of opinion the choice for Britain, as Sir Roy Denman, a former European Commissioner, has argued, is to get right in or get right out; halfway attitudes are both futile and very disadvantageous.

Let us now consider the pros and cons.

The Mechanisms and Motives of Supranational Organisations

Union, they say, is strength; and through history communities, be they cities or states or nations, have aimed to form associations against dangers of some kind. But such voluntary associations have usually been alliances which are dissoluble when the danger has passed. Such an alliance is that of NATO, which has kept the peace in Europe for over fifty years. It contains no supranational features; it operates on agreed but voluntary contributions in money and arms, and any member may withdraw from it without penalty.

Voluntary associations which are supranational in character, in which the participants surrender their power of independent action to a common central authority, are exceedingly rare. On a small scale there is the example of the Swiss Confederation, in which the cantons have entrusted their assets to the confederal authority which alone issues and manages the currency. We now have the impending European Union, a much larger and more ambitious affair, in which the member nations are proposing to surrender their assets and their currencies to a central authority and resign themselves to the status of provinces in a superstate in whose policies and measures they will have a minority say only. This superstate is intended to be permanent and indissoluble. There is therefore no provision for a member state's withdrawal. Once inside the union a member state, having lost its status as a nation, would not be able to count on extricating itself except by abandoning the assets which it had transferred to the union on entry. Although this grand enterprise is theoretically voluntary, one may doubt whether all the nations involved have understood the full extent of its constraints, and whether, indeed, some of the smaller nations have not been drawn in unwillingly through fear of the two dominant proponents of the scheme. Of these two, one, Germany, has been fairly frank as to what is afoot; the other, France, the prime mover, has tended to pull the wool over innocent eyes in its struggle to achieve its purpose. We have therefore to classify this union as only pseudo-voluntary.

Supranational unions of involuntary type (involuntary in the sense that the general public was not consulted) have been numerous through the ages, brought about by dynastic mergers or marriages, by military conquest, by peace settlements or by colonisation. In our day almost all these have fallen apart under democratic influences, driven by the principles of self-determination enunciated in the Atlantic Charter and administered by the United National Organisation (another voluntary association, fuelled by contributions and thus not supranational). The architects of Europe have had to struggle against the Zeitgeist of separatism. They were not wrong in thinking that they had to act by stealth in pursuance of their ambitions. The much complained of 'democratic deficit' has been a necessary feature of their work. But sooner or later democratic pressures will grow and the European Union, like the openly involuntary unions, will fall apart unless it is accepted by the people. What are the conditions for such acceptance?

For a superstate to be stable in our democratic age the peoples composing it must be able to understand one another, they must have acquired loyalty to the superstate over and above loyalty to their nationality, they must live within the same broad economic parameters, and they must overwhelmingly approve the motives for the existence of the union. To understand one another and acquire a common loyalty they need a common language or languages. In Europe the 15 existing member states use 11 mutually incomprehensible official languages, and Ireland writes (though rarely speaks) a twelfth; the envisaged enlargement of the Union will add up to eleven further languages. The English language would, at a pinch, be acceptable as a common means of communication by all members except France, but that is a probably insuperable exception. If French be allowed, so must also German as well as English, but the populations are far from being able to express themselves in these three languages; and if three are allowed, the Dutch, Italians, Spanish and others will want theirs. On this score of language alone the projected European Union is a generation away from being a stable political unit.

As for economics, the majority of experts throughout Europe have argued that because of the insufficient synchronisation of European economies and their varying health, monetary union is dangerously premature; Europe, they say, is far from being an optimal entity for such an experiment. In any case, as its success would seem to depend on controls which only full political union can provide, the normal order of events whereby political union precedes monetary union is obviously the best one. To reverse this order – to force political union by imposing monetary union – as is now the aim, is fraught with danger. In view of what is at stake it is a risk that should not be taken.

The loyalty of its peoples, which is necessary for the stability and success of a democratic union, depends not only on adequate linguistic unity but also on approval of the reasons for the union. On this score there is yet no understanding on the part of the general public, and there has been practically no effort made to explain why political union is needed. What then are the motives underlying this drive?

The Motives Underlying the Drive for European Union

The countries of Western Europe are not facing either now or in the foreseeable future any external danger; and if they were there is NATO to defend them. So the cry goes up in every land: "why do we have to give up our independence and be ruled from Brussels?", For answer we have to turn to the prime movers of the enterprise, and first of all to France. As we have seen, France initially needed a supranational entity in order to lock in Germany; and a contrite Germany willingly fell in with this plan. Since then, Germany's increasing economic power and its reunification following the ending of the Cold War have led this energetic people, frustrated in two wars of their expansionist ambitions, to declare union as being necessary to permit them to realise those ambitions in harmony with their partners. Put crudely this means that they are asking to be allowed to dominate Europe economically (and thereby politically) instead of militarily as in the past. Political union is seen as necessary to ensure control and compliance. Thus the locked in, by dint of much hard work over the years, becomes the locker in; the ridden horse becomes the rider and holds the reins.

The need of France for a superstate now derives from a desire, stimulated by de Gaulle, to recapture the glories of her past. In tandem with Germany the French see themselves dominating Europe culturally and, above all, linguistically, combating 'Anglo-Saxon' values and the English language. Through this union they hope to make Europe strong enough to rival America as a superpower. France no longer fears Germany, but sees her as a partner in this grand enterprise.

The governing classes of most of the other continental countries resign themselves to these ambitions: the German ones they either have no wish to oppose or see no way of opposing; the French ones they do not think attainable. These motives for union are not, however, acceptable to Britain: it never intended (and, today, sees no need) to be locked in with Germany to satisfy the latter's ambitions; nor, so long as NATO continues its defence role, need it fear the formation of a continental bloc; and, being an 'Anglo-Saxon' country, it cannot very well agree to wage economic and political war against its Anglo-Saxon kith and kin. Nevertheless, say some, Britain should go into union aiming to deflect its partners from ambitions unacceptable to it. But over the last twenty-five years as a member it has not changed these ambitions one whit; impossible for it to change anything at this late stage. Yet, the same ones say, can Britain stand alone? Yes, in spite of its appallingly vertiginous decline since 1945, it can still survive perfectly well outside the European Union, and it would not be alone, as has been argued convincingly by Bill Jamieson in his *Britain Beyond Europe* (Duckworth 1994); there is no need to enlarge on this aspect in this article.

Conclusions.

1. Monetary union, on the timetable now prescribed, is a dangerously risky venture, especially in the absence of a previously established political union having authority to direct the operation. At the same time the conditions for the creation of a stable, democratic political union are at least a generation away from being realised.

2. That being so, and since the motives for union do not serve Britain's interests, she should not sign up for the single currency or apply any of the other related measures laid down in the Maastricht and Amsterdam treaties which are irretrievable commitments to ultimate political union.

3. If a majority of countries go ahead along the lines laid down in these treaties, Britain should consider withdrawing completely from the Union since a halfway position cannot be anything other than disadvantageous.

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William Kenway was an official of the European Commission. He has also worked for the NATO Council and the Cabinet Office.

Ireland Grows More Eurocritical

by Anthony Coughlan

The vote in the 1972 referendum on the accession of the Republic of Ireland to the European Economic Community was 83% 'Yes', 17% 'No'. In the Republic's 1987 Single European Act referendum, the 'No' vote was 30%. In the 1992 Maastricht referendum it was 31%. In last May's referendum on the Treaty of Amsterdam, it rose to 38% 'No'. Over 40% of voters voted 'No' in the capital city, Dublin, and in the southern province of Munster. The Irish seem to be growing more Eurosceptical these days.

The principal reason why the Republic has been one of the most Europhile of EU States, apart perhaps from Italy and Belgium, is that when it first joined the EEC in 1973 there was not a single dissenting or rebellious voice on 'Europe' in either of its two main political parties, and none has emerged since. This meant that the internal divisions over the European project which occurred in parties of the centre-right and centre-left elsewhere, and which had the effect of releasing at least some voters from their traditional party allegiances, encouraging them to look critically at the European policy of their party leaderships, did not occur in Ireland. This is a comment on the sociology of the Republic's parties, who can squabble with one another fiercely on minor matters, but who like to present a common front on 'Europe'.

The principal economic attraction for the Republic of EEC membership was the dear-food regime of the Common Agricultural Policy. As a major agricultural producer and exporter, the Republic's farmers, especially its larger ones, have made much money from the CAP over the years. Since joining the EU the Republic has been the largest net recipient of Brussels funds per head of population. Irish popular opinion sees the EU as a source of easy money. Opinion polls show the Republic to be one of the most Europhile of Member States, but also show the Irish to be the most ignorant regarding how the EU works. Irish support for Eurofederalism is 'soft' and could vanish easily.

The paradox of the Irish boom and EMU

Joining the euro-currency bloc, which Dublin has committed itself to doing, could be a rude awakening for the Republic. The state does only one-third of its trade with the other ten members of the eurozone – 40% of its exports and 20% of its imports, to be exact. It does one-third of its trade with the UK and one-third with the rest of the world. Joining a currency union with countries with which one does only one-third of one's trade, does not make economic sense. It is why most Irish economists are critical of joining EMU without the UK.

Moreover, in contrast to Germany and France, the Irish economy is in boom at present. Since 1993 the Republic has had the highest economic growth rate in Europe, an average of 8% a year, compared to 2.3% for the EU as a whole and 2.8% for the OECD countries. The past five years have in fact been the only period since the Irish State was founded in 1921 in which it has followed an independent exchange rate policy, and this has benefited it enormously. Hence the paradox of committing itself to abolishing the national currency for ever, and the same people as opposed the 1993 devaluation are those most strongly supportive of joining EMU. From 1921 to 1979, the Irish pound was kept at par with sterling. From 1979 it tracked the Deutschmark, first in the so-called 'snake' and then the ERM. Then in 1993 the Republic's devaluation against sterling and the continental currencies, gave its economy a powerful competitive boost. Since then foreign and domestic demand for its products have expanded simultaneously, while inflation has stayed low. The 1993 devaluation is not the only factor responsible for the Irish boom, but it is the most important. The other significant factor has been a moderate pay policy based on 'social partnership' arrangements between the Government, employers and trade unions. These have delivered non-inflationary pay increases in return for income tax cuts. Employment has expanded markedly and more people are now coming to settle in the country than are emigrating. Brussels has said that it is time EU subsidies to the Republic were cut back, and there has been talk of Dublin becoming a net contributor rather than recipient of EU funds. That will help to change Irish attitudes rapidly.

This year the Republic's economy is expected to grow by over 10%. Coming on top of several years' economic boom, it is understandable that there is asset price inflation. Irish house prices are now soaring like British ones in the 1980s. Modest semi-detached houses in Dublin cost £100,000 plus, and sections of the labour market are getting tight. The Republic needs to raise interest rates to curb this boom. But joining EMU means that Irish interest rates will come down by 2% or so between now and the end of the year, to the lower levels of Germany and France inside the eurozone. This will be to pour fuel on the flames of the Irish boom and shows how inappropriate joining EMU is at this time. It does not make sense for such divergent economies as Germany and France on the one hand, and Ireland on the other, at different stages of their economic cycles, to have the same interest rate and exchange rate policy from January next, as they must necessarily have inside EMU. What happens if in two or three years time the Republic finds itself with an uncompetitive exchange rate inside the eurozone, especially *vis-à-vis* sterling, and the European Central Bank decides to raise interest rates in face of a continental recovery, just at the time when the Irish economy may need a stimulus? The Republic could then find themselves squeezed from two directions? But by surrendering power over interest rates and exchange rates to the EU, Irish policy-makers will be helpless to do anything about it.

Another aspect of the single-currency question affecting Ireland is that the Republic's joining the eurozone while Northern Ireland remains with sterling in the UK, will draw a new economic border between North and South of the country. That will be especially the case if, as is probable, the eurozone countries move towards harmonization of tax and public spending policies. The Republic's membership of EMU is happening just at a time when the recent Northern Ireland Peace Agreement, which promises to bring thirty years of political violence there to an end, aims at encouraging closer North-South co-operation within Ireland. Ulster Unionist leader David Trimble, who opposed Maastricht in the House of Commons along with with Bill Cash and others, has been the only senior Irish politician to point to the paradox of the Republic's politicians proclaiming a desire for closer links with

Northern Ireland, while at the same time joining the eurozone. His opposite numbers in the South have stayed silent on this matter.

The main reason why the Republic is adopting the euro-currency is because of the uncritical Europhilia of its party politicians. They have been carried on by the momentum of years of unthinking rhetoric about Ireland's European vocation, and follow the lead of the ardently Europhile *Irish Times,* which proclaims confidently that the UK will join EMU in a few years. But Euroscepticism grows in other sections of the Irish media. Lately several influential commentators have started to question the Eurofederalist project in a way which would have been unimaginable in the seventies or eighties. The near two-fifths 'No' vote in the Republic's Amsterdam Treaty referendum shows that ordinary citizens are also getting worried, as they become aware of the implications of surrendering to the EU one of the two classical essential features of being a State in the first place, namely, the monopoly of the issue of legal tender for a territory. The other classical feature of independent statehood is, of course, the monopoly of legal force in a standing army and policemen, a political monopoly which is needed to enforce the currency monopoly, but which the Amsterdam Treaty envisages as passing to the EU also in due time.

Defending democracy through the Courts

AN INTERESTING FEATURE of Ireland's relations with the EC/EU over the years has been how the Republic's Eurocritics have used the courts to counter the Eurofederalism of its political parties, all of which except the Greens, Sinn Fein and a few socialists support the surrender of national democracy and independence to 'Europe'. In 1987 it was a constitutional case before the Irish Supreme Court, taken by economist Raymond Crotty, which forced Ireland's politicians to put the Single European Act Treaty to referendum, rather than ratify it by simple majority vote in parliament, as they had first attempted. Crotty secured an injunction stopping the Irish State from depositing the instrument of ratification of the SEA in Rome, on the ground that this treaty had not been ratified validly. The Supreme Court decided that as a surrender of sovereignty was involved in the SEA, and as the people were the repositories of sovereignty under the Constitution, only the people themselves could take such a decision by referendum. This delayed by six months the coming into force of the SEA. It is why European treaties now all require a popular referendum in Ireland.

> … the Republic's politicians then spent large amounts of public money on advertisements urging a 'Yes' vote, without any money being given to the 'No' side

To ensure that the SEA would be adopted when put to referendum, the Republic's politicians then spent large amounts of public money on advertisements urging a 'Yes' vote, without any money being given to the 'No' side. The referendum on the 1992 Maastricht Treaty was pushed through in a similar way. The country was plastered with huge billboards carying the figure '£6,000 billion', the sum of money which people were told would come to Ireland from EU funds if they voted 'Yes'. For a time this wholly undemocratic abuse of taxpayers' money made the Republic's referendum procedures among the most unfair in the world. Then in 1995 the Irish Supreme Court decided in a case brought by Green MEP Patricia McKenna that it was unconstitutional of the Government to spend public money attempting to achieve a particular result in a referendum. It declared that this violated citizens' rights to equality and fairness in such occasions. There should either be no public funding at all, or else a 50/50 division between the 'Yes' and 'No' sides.

COMING UP TO THIS YEAR'S AMSTERDAM referendum, the Irish Government responded to the McKenna judgement by establishing a Referendum Commission charged with the job of drawing up two statements, one telling people what the referendum was about, and the other setting out the arguments for the 'Yes' side and 'No' side on the referendum proposition. This body was given several million pounds to spend on disseminating the content of these statements through radio and TV advertisements, booklets which were posted to households, organising debates etc. Another court case last April, which was brought by this writer in his personal capacity, established as a kind of coda to the McKenna case that the political parties could not dominate the broadcast media as they had done in previous referendums, but that broadcast coverage of these occasions should be on an equal basis between the 'Yes' and 'No' sides rather than in accordance with party strength. This is in line with the recommendation on the same point made in the report of the Commission on the Conduct of Referendums (1996), set up by the Electoral Reform Society and the Constitution Unit in Britain, and chaired by Sir Patrick Nairne, which was referred to in these legal proceedings.

These fairer procedures operated for the first time in the Amsterdam Treaty referendum in May. As a result the 'No' side got a better chance on this occasion to get its message across than in any previous European referendum. That certainly contributed to the near two-fifths Irish 'No' vote on Amsterdam. The sizeable 'No' vote was a great shock to the Republic's political parties, as all except four of the 166-member Irish Parliament belong to the parties advocating a 'Yes'.

THE IRISH EXPERIENCE demonstrates how the defence of basic democracy tends everywhere these days to go hand in hand with opposition to Eurofederalism. The leaders of Ireland's Europhile parties would like very much to roll back the effects of the McKenna and Coughlan judgements. Ireland's democrats will strongly oppose any such attempts, with the support of a public opinion that is becoming more and more conscious of the anti-democratic and anti-national character of the entire European integration project.

Anthony Coughlan is secretary of the National Platform, Dublin, a non-party body which is opposed to Euro-federalism on democratic and internationalist grounds. He is also Board Chairman (Co-ordinator) of the European Anti-Maastricht Movement (TEAM), which links together and acts as an information exchange between democratic organisations on the political Left and Right throughout Europe, in opposition to Euro-federalism and in defence of national democracy. He is Senior Lecturer in Social Policy at Trinity College Dublin and a member of the European Foundation International Advisory Board.

Can "Tax Competition" be harmful?

by Andrew Lilico

"Tax competition" has been discussed frequently at EU meetings in recent years. For example, the 1997 *Action Plan for the Single Market* proposed to establish *"a code of conduct designed to curtail harmful tax competition which constrains the tax-raising activities of Member States"*. Proposals to eliminate "distortions" in the taxation of capital income and to harmonize VAT and other taxes further are regular talking points at meetings.

In this paper I will argue that there is no such thing as "harmful tax competition", and hence no need for any tax harmonization on these grounds. To this end I shall present a simple model, which will not require mathematical or economic training to understand. This model is not intended to be a robust model of international trade. I present it to overcome an intuition, which some people have, that tax competition can be harmful when there is a Single Market, and to deliver the intuition as to why it will not be harmful.

Is "Tax Competition" special?

Countries differ. In some, workers are prepared to do longer hours. In others, workers are prepared to work for lower wages, or produce more for a given time. Some countries have better infrastructure, better mineral resources, or better access to trade routes. All these things are clearly elements of a country's 'comparative advantage', i.e. those matters which make one country relatively better than another at producing some goods or services.

Now consider: why might one country have more productive workers than another? One possibility is that that country has a better education system, or better public health. For countries to improve their competitiveness by having healthy well-educated workers seems entirely natural. No-one ever talks about "Unfair Education Competition", or suggests placing limits on how good state-funded hospitals should be permitted to be.

Why might workers in a country be prepared to work for lower wages than in others? Perhaps taxes are lower. How could this be different from the case of education? Why isn't having lower tax rates just a choice of the citizens of that country. The quality of the state education system surely bears *some* relation to the amount spent on it, and hence to the taxes paid. So perhaps in some countries citizens choose to have low taxes and less good education, while in others citizens choose high taxes and excellent education. Why isn't there just a trade-off?

In order to make the claim that tax competition is "unfair", advocates of tax harmonization need to display that there is something *special* about tax competition which would not apply to other forms of competition. And they believe that they *can* display this. In particular, the argument is often made that, in a Single Market, reducing tax *rates* leads to an increase in total tax *revenue*, and hence that countries always have an incentive to undercut one another. The argument is that citizens are not choosing between low taxes and good education. They can have their cake and eat it as well, as it were. Low tax *rates* lead to high tax *revenue* and enable high quality education as well.

How could lower tax rates lead to higher tax revenue?

How can this happen? How could lower tax rates lead to higher tax revenue? We shall see how this might work in a moment, but, crudely, the claim is that, in a Single Market, by reducing tax rates, the lower-tax country can poach tax revenue from higher-tax countries. This forces other countries to respond, until eventually, in the extreme case, no-one can charge any taxes at all. Readers should note that this is not the famous Laffer curve argument of the 1980s. It is not that lower taxes stimulate extra growth in the economy and thereby lead to higher revenues after economic growth. That would not be grounds for tax harmonization. The argument is specifically that by cutting tax rates one country poaches tax revenue from other countries in the Single Market. Hence, it is argued, a Single Market requires tax harmonization.

A model of two separate countries

Now we shall construct a model of taxes in a Single Market. Our model will contain lots of assumptions. These assumptions are there so that we can simplify matters and focus on the important issues. Some of them are important, as we shall discuss later, but most are just there to remove irrelevant complexities.

Suppose we have a world consisting of two countries, A and B, as in Figure 1.

Initially we shall assume that there is a tightly controlled border, so no trade is possible between the two countries. There is one economic activity, which we shall call "shopping". There are two types of economic agent in our countries: Retailers, marked "R"; and Consumers, marked "C". Consumers work for Retailers for wages (relationship α). Consumers then use these wages to pay Retailers for their goods (relationship β). Let us assume that the total output (GDP) of these two countries is the same. Let's call that number 100 (i.e. the GDP of each country is 100).

Each of these countries has a government. The government charges one tax, VAT on goods sold, and throws the tax revenue into the sea. The government likes throwing taxes into the sea, so if it has the opportunity to throw more into the sea, then it will. Suppose that initially the VAT rate is 10%. Thus, since GDP is 100, each government takes 10 in taxes. We shall assume that, in the case where there is no trade, consumers will not change their behaviour if the tax rate changes (e.g. they will not work less or more). We shall also assume that pre-tax prices do not change as the tax rate changes, and further, that pre-tax prices are fixed throughout our discussion. We shall also assume that there are no savings, so that without wages consumers perish.

A model of two countries which trade

Now consider Figure 2. Now our two countries remove all their trade barriers and trade freely. We shall assume that there are no transport costs, so that consumers are indifferent between goods purchased in country A and those purchased in country B. We shall also assume that goods produced in the two countries are identical. Next, we shall assume that although goods can be traded freely, there is no labour mobility, so citizens of A can buy goods in country B, but they cannot work in country B. When consumers of country A buy

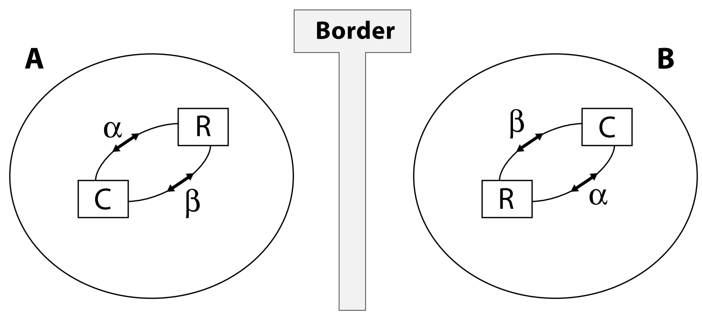

Figure 1 Two separate countries

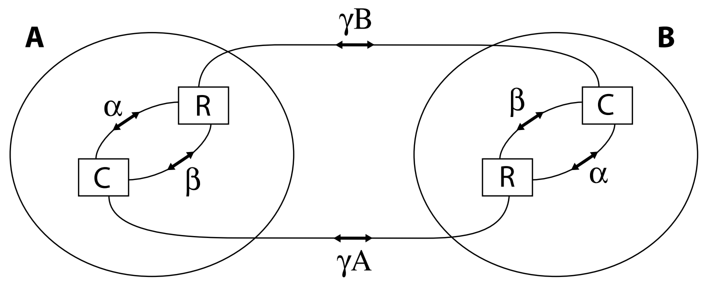

Figure 2 Two countries without trade barriers

goods from retailers in country B we denote this transaction by γA.

Now suppose that post-tax prices are higher in country A than in country B. From our setup it seems clear that there will be no shopping in country A. All the consumers from country A will go to country B to do their shopping. If this were to happen then, clearly, the government of country A will have no tax revenue.

An argument that there will be harmful tax competition

Consider the following argument: "Now suppose that, immediately after the removal of trade barriers, the VAT rate in both countries is 10%. Will it stay there? No! At the start GDP in each country is 100 so tax revenue is 10. Now suppose that the government of country A reduces its VAT rate to 9%. Then prices in A will be lower than those in B (since pre-tax prices are the same and the tax is now higher in B). This means that all the consumers from B will go to A to do their shopping. Now the government of country A gets 9% of its own GDP, plus 9% of the GDP of country B! 9 plus 9 equals 18, and 18 is greater than 10 (the total revenue at 10% VAT). That means that by reducing its tax *rate*, the government of A can take taxable economic activity and hence tax revenues from the government of B. By reducing its tax *rate* from 10% to 9% the government of A increases its tax *revenue* from 10 to 18. Since the governments like higher tax revenue, there is an incentive to undercut tax rates.

"But that is not all. Consider now the position of the government of B. After A reduces its VAT rate the government of B has no tax revenue at all. But suppose it reduces its rate to 8%. Then it will have a tax revenue of 8 plus 8 equals 16, which is a whole lot better than nothing. The government of A will respond by reducing its VAT rate to 7%, and so on and so on until each country has a VAT rate of 0%. At any rate above 0% each government has an incentive to undercut the other, stealing all its tax revenue.

"In order to avoid this undermining of the tax base it would be much better if both governments agreed at the start that neither was allowed to charge less than 10%, in which case the vicious spiral of competitive tax-cutting would never begin."

This is a classic argument for harmful tax competition. I shall now show that it is completely wrong.

Why there will not be harmful tax competition

Consider Figure 1 once again. Remember each the economic relationships, the αs and the βs. Consumers work for retailers, and the retailers pay them money. Suppose tax rates are 0%. How much money is spent on goods? We know the answer to that one: GDP is 100, and here GDP is just the amount of shopping done, so 100 is spent on goods. How much do retailers pay workers? Well, the workers must get their 100 to spend on shopping from somewhere, and their only source of income is wages, so wages must be 100. When taxes are 10% the only difference is that 10% of expenditure on shopping is taken as taxes *(Clearly we might have to explain how GDP could continue to be 100 next period, since available money to spend on wages is now only 90. We shall ignore this complication.)*

Thus, the moral of the story is: Consumers can only do shopping with the money they earn as workers. Now consider Figure 2 again, and the case in which A reduces its VAT rate to 9%. Since prices are now lower in A than in B, all the consumers from B go to A to do their shopping. But this means that there is no shopping in B, so workers in B earn no money, so Consumers in B do not have any money to *spend* in A! All shopping in B ceases, and all the consumers in B perish. Thus the only shopping in A is done by the Consumers in A. But this means that instead of having a tax revenue of 18 with a VAT rate of 9%, the government of A now has only its *own* GDP to tax. Thus cutting the VAT rate to 9% leads to a tax revenue of only 9, which is *less* than 10, not more!! Hence the government of A does *not* have an incentive to cuts its taxes in the first place and the vicious spiral of tax cutting never starts!

To re-iterate, the argument for the vicious spiral of tax-cutting relied on the assumption that the GDP of country B would not be changed when A changed its VAT rate. The argument focuses on only one role which Consumers play in the model, that of shoppers. It forgets that Consumers are also workers, and must earn the money they use to purchase. This is a common error in casual international economics. Sometimes it is imagined that it might be dangerous to trade too freely with productive, efficient, low-wage economies, since they may produce everything cheaper than us. People imagine that this would mean that the low-cost country would export everything to us and we would export nothing back. But this is not possible. We can only *buy* goods from foreign countries because we *produce* something ourselves which we *sell* them in exchange. Without producing anything ourselves we could not have any money to buy the goods they would export us, and the exporting would not take place.

Additional comments

Clearly our model contains a number of very strong assumptions. One of the most important is that there is no savings. If their were savings then the low-tax country could use its reduced tax rate to raid the savings of the neighbour. However, against this effect it is worth noting that since countries A and B are trading in Figure 2, GDP would be raised from the level in Figure 1, since Consumers from A would prefer certain goods from country B. When there is no shopping in B these gains from trade are lost. Another very strong assumption is that pre-tax prices are fixed. In general pre-tax prices would vary so as to maintain common post-tax prices, again reducing the incentive to cut taxes. Similarly inflationary issues are ignored. Also, if taxes are lower in A Consumers in A may not demand such high wages, since it is the purchasing power of their income that concerns them, and it is higher at lower taxes.

Finally, and probably most importantly, the same story as above could be told even when there is *not* a Single Market, or when transport costs between countries are greater than within countries. Suppose customs tariffs are 2% of prices. Then if we start at 10% VAT each, country A could gain by cutting its VAT rate to 7%, leading to a revenue of 14, which is greater than 10. There is no special reason why a Single Market should lead to tax harmonization any more than ordinary international trading at reasonably low tariff rates. All that removing tariffs does is to effectively reduce the transport costs between one country and another. It should be clear that reduced transport costs are unlikely to necessitate special tax arrangements.

Conclusion

In this paper I have addressed an argument that having a Single Market means we must have harmonized taxes. The argument was that when there is a Single Market governments have a special incentive to reduce tax rates, thereby increasing the tax take, and that this incentive will lead to an undermining of the tax base. I have argued that no such incentive exists, and that competition in taxes is no different from competition in worker productivity through education or health systems. The argument that there will be tax competition is rather like many casual arguments in international economics in that it is plausible only because it ignores half of the problem. Governments cannot poach each other's tax revenues, and have no incentive to try.

Andrew Lilico is a macro-economic consultant and a regular contributor to the Journal.

… news in brief

New pro-Libyan and pro-Iranian initiative in Italian diplomacy

The Italian Foreign Minister, Lamberto Dini, has signed a joint document with Colonel Ghadaffi in Libya, in which, among other thinks, Italy apologises for the colonial 'occupation' of the country from 1911 to 1943. This initiative, designed to improve relations between Rome and Tripoli, follows a similar visit to Iran by the prime minister, Romano Prodi, on 1st July. Prodi was the first European leader to visit President Khatami for several years. Indeed, Prodi also visited Algeria on 12th July. All three states are obviously Islamic – leading commentators to refer to the new policy as 'philo-Islamic' and 'philo-Arab' – and they also all, of course, have oil. This diplomatic initiative coincides with an attempt by the Prodi government to form an alliance with the hard-line communists, Rifondazione Communista. (The 'reformed' Communist party, PDS, has nine ministers in the present administration.)

German attitudes

A team of sociologists in Berlin has found that "13% of all Germans have extreme right-wing attitudes". The figures are 12% in West Germany and 17% in the East. They conclude that it is not possible to rule out one of the extreme right-wing parties in Germany from breaking through the 5% barrier and obtaining representation in the Bundestag in the September general election. The study also found that half of the East Germans and one third of West Germans are dissatisfied with the way the German political system works.

Listening to both sides

The parliamentary assembly of the Organisation for Security and Co-operation in Europe, meeting in Copenhagen, refused admission to the delegation from Belarus. Instead it admitted a group of opposition parliamentarians to its session. The old parliament was dissolved by a referendum in 1996 which the Communist led opposition hotly contested but which it also decisively lost, winning less than 10% of support from the Belarussian people. Nonetheless, all international bodies (including the IMF, which has refused any new loans to the country) brand Belarus a dictatorship. It is strange that they have never taken the same attitude to President Yeltsin, who in 1993 suppressed a parliamentary revolt similar to the one Lukashenko faced, not with a plebiscite but with tanks and mortars. The parliament building was shelled and several hundred people killed in the subsequent fighting in Moscow. But then that was a victory for reform.

German judges attack European Council's convention on bio-ethics

The Association of German Judges has written to the Federal German Justice Minister saying that he should not sign the European Council's convention on bio-ethics. The judges have expressed especial concern at the rules governing medical tests carried out on mentally ill people, genetic tests and embryo research.

The famous German reserve

The president of the European Central Bank, Wim Duisenberg, has announced that commercial banks in Euroland will have to deposit minimum reserves to the European Central Bank. This system already operates in Germany and in many other EU countries – it is a means by which the central bank can better control the operations and open positions of commercial banks – but it has usually been rejected as incompatible with the more free British system. Unlike the present French and German systems, interest will be paid on these deposits, which will be between 1.5% and 2.5% of the banks' assets.

Eastern Europe could be affected by Asian crisis

According to Michel Camdessus, the director-general of the IMF, Eastern Europe, especially, Russia, "need a consolidation of their financial sector; they need to give up using short term credit, and they should fight against corruption and illicit networking in order to avoid an Asian style crisis. The IMF considers that the same elements which caused that crisis are also present in Eastern Europe.

Blair's Failed Gamble

by David Davis, MP

If we believed the advance propaganda, the new Labour government should have arrived in Europe in triumph, sweeping all before then. They were going to win by charm and Europhilia what could not be achieved by tough negotiation – so they said.

Sadly, reality did not measure up to the advertisement. We need only to look at Labour's handling of the Amsterdam negotiations and the British presidency for proof.

The European negotiating strategy followed by the previous UK government was to strip away the Euro-waffle and expose the aims of the other countries involved in the negotiations. By establishing the priorities of each of the other governments, we determined the sort of price they would be willing to pay to achieve their objectives.

It was a tough but carefully calculated preparation for what would undoubtedly have been a fierce negotiation.

Instead, what we saw the new Labour government achieve at Amsterdam must qualify as one of the most careless negotiations of modern times. Labour had declared its willingness to give up something which was at the top of the negotiating wish list of nearly every other European country – namely the opt-out from the Social Chapter. This issue had been raised in virtually every Council of Ministers meeting, and in every other European negotiating meeting that I attended over the course of three or more years.

This attempt to gain control of our labour laws was not done out of any sense of altruism for the British worker on the part of the Belgian, French, Italian, Greek or other of the many foreign ministers that raised it. It was raised because it was seen to be an important concession by Britain that would be to the advantage of every other state in Europe. Nothing else explains the effort that they put into pressurising the British government on this issue. They saw it as an important step in minimising our competitive advantages.

Yet Labour got nothing in exchange for this concession. It would have been simply for Tony Blair to say to Helmut Kohl and Jacques Chirac that he needed a concession as a counterweight to what he could have represented as a major act of European good faith on his part. He could have argued that it was vital to help him establish a constructive climate of negotiation in Britain. But he did not.

Neither did he or Robin Cook win a decent return for the extraordinary number of other concessions that they made – concessions that were massively important to the other parties to the negotiation.

> … he sanctioned a complete fudge of the entry criteria agreed at Maastricht

Take, for example, the right of the French to keep the European Parliament meeting in Strasbourg. This money wasting piece of Gallic symbolism was written into the Amsterdam Treaty, and was regarded as hugely important by France. So much so that President Chirac was boasting about it to French journalists as soon as he left the negotiation. Robin Cook was so out of control of his own negotiating tactics that he did not even know he had made the concession, and promptly denied that he had – only to be shown it in the text of the Treaty itself.

He was similarly incompetent in handling the negotiation over border control at Amsterdam.

The incoming Labour government was handed the gift of a prefixed negotiation on this critical issue, as was demonstrated both by their public statements in March and the first treaty Labour dealt with on May 6th. Despite this they managed to destroy in detail what had already been won in principle. First they managed to misunderstand the treaty terms that allow Spain to veto any attempt to join the Schengen Group at any later stage. Worse, there was no mechanism to protect Britain or its citizens from the activities of the Schengen Group, if they act to caucus against our interest. Again, the continental countries achieved an enormous concession and Britain ended up losing, rather than gaining, from the trade.

On other institutional reform, the government threw away a series of bargaining counters without extracting the tiniest concessions. The Treaty adds 15 new areas to the scope of Qualified Majority Voting, 15 further areas where Britain can be forced to accept policies that are against our national interest. It also extended the powers of the European Parliament. 23 new policy areas will now fall under the co-decision procedure. This allows MEPs a power of veto over EU legislation. These new powers encompass such critical areas as transport and social policies. They also allow the Parliament to veto the member states' choice for President of the Commission.

The Social Chapter, the Schengen agreement, the flexibility clause, the Strasbourg European Parliament – every one of these concessions was vital to one, many or all of our negotiating partners. For each and every one, those same partners would have been willing to pay a price.

For all this, what has Labour won? A place on the Euro-X committee, to defend our interests when French protectionist instincts prevail as the Euro hits its first difficulties? No. A resolution of the problems of our fishing fleet, preventing the loss of quota to the Spanish? No. An effective agreement to drive deregulation in Europe and develop proper flexible labour markets? Certainly not, despite Tony Blair's fine words.

Labour began the European presidency promising to lead Europe forward. But the presidency was so disastrous that even the socialist dominated European Parliament refused to pass a motion congratulating Britain.

Labour failed in its intention to put human rights at the top of the foreign affairs agenda. This year, the government did not sign the annual UN resolution condemning China's human rights record following the Tianenmen Square massacre. The previous administration signed up to this resolution each year it was proposed.

The government claimed that Britain's presidency was providing leadership for Europe during the Iraq crisis. But they failed to co-ordinate a coherent Europe-wide strategy to bring Saddam under control.

The summit launching the European Central Bank was so poorly handled that Italian Prime Minister Romano Prodi said that Tony Blair was "ill prepared". Despite Blair's saying that Britain would be an "honest broker" for countries entering the first wave of EMU, he sanctioned a complete fudge of the entry criteria agreed at Maastricht.

Lifting the European ban on British beef exports should have been one of the key issues during the British presidency. The progress in Northern Ireland is welcome, but it comes very late and is extremely limited. We should have expected, at the very least, a timetable for lifting the beef ban to emerge from the United Kingdom's presidency. Instead, there is only continuing hardship for Britain's farmers.

Tony Blair talks of a modern Europe, founded on the British model of flexible labour markets, free trade and a large and vigorous private sector. To achieve that, the government has successfully to change the behaviour of most, if not all, European governments. They must win serious policy changes in exchange for all that they have conceded so far. There is absolutely no sign that this is happening.

The rhetoric of New Labour is to rid Europe of dysfunctional dirigisme. In reality they are succeeding only in sucking Britain in with it. The gamble that Labour took when it signed the Social Chapter, eliminated our veto in 15 new areas and gave the European Parliament power in 23 was that it would be able to lead Europe in a direction that would let us all compete in the modern world. That gamble has failed.

David Davis is Conservative MP for Haltemprice and Howden. He is a former Minister for Europe. He is a member of the European Foundation UK Advisory Board.

Convergence?

In October 1997, Chancellor Gordon Brown published:
UK Membership of the Single Currency – An assessment of the Five Economic Tests.

Table 1.2 of this document highlights the close correlation between the US and UK economies, and is reproduced below together with the commentary.

Table 1.2 **Correlation coefficients of US, UK, French and German growth rates**

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

The correlation coefficients reported in Table 1.2 show that the timing of the UK economic cycle has been closer to that in the US. For all periods, the US and UK record high correlation coefficients, consistent with relatively synchronised economic cycles, while in both the latest UK and international cycles there was little or no correlation between UK and German growth. Overall, the correlation of the cycles between the US and the UK tends to be higher than between the UK and Germany of the US and Germany. Similarly, higher correlation coefficients are normally recorded for France and Germany than France and the UK, although the difference is less marked.

… news in brief

Everything still to play for in Germany

Could we have Kohl for another four years yet? 76% of the Germans think that the election result is still open, and many of them make their minds up in the final weeks of the campaign.

"Europe needs a project"

The former Prime Minister of Spain, Felipe Gonzalez, has said, "To govern Europe, we need a project for Europe. I do not think that we have one right now." Apparently monetary union is not enough. He was addressing a conference of Europe social democrats, who are in power in 13 out of the 15 member states. At the same conference, Gerhard Schroder said, "Monetary union logically implies the creation of a political union".

Berisha threatened with prosecution

The deputy prime minister of Albania, Bakshim Fino, has said he wants to prosecute the former president of Albania and current leader of the opposition, Sali Berisha, for organising the armed uprising in 1997. Since Berisha was himself overthrown by this uprising, it is difficult to grasp Mr Fino's logic. Perhaps the thought of being able to put the leader of the opposition behind bars has something to do with it.

BOOK REVIEWS

Further Considerations on EMU
by Dr Walter Eltis, Centre for Policy Studies, £7.50
Will the Euro Work?
by David Currie, The Economist Intelligence Unit
Reviewed by Russell Lewis

Gordon Brown has said that the decision on a single currency must depend on a hard-headed assessment of Britain's economic interests. Wrong! It must be assessed above all on the fact that it would be the last crucial step taking us into a unitary European state and thereby destroying our democracy and our national independence. It should therefore be rejected for political and constitutional reasons, whatever the pluses or minuses on economic grounds. All the same, the economic objections to joining EMU need to be put and in this respect no one hits the nail on the head with more precision than Walter Eltis.

Joining the single European currency means of course changing the pound for the euro and handing over the powers of control over interest rates and the exchange rate to Frankfurt and Brussels. The theme of euro propaganda is that the independent directors of the European Central Bank will pursue a monetary and interest rate policy which will ensure low or zero inflation and economic stability and this will be good for growth and jobs.

However, as Eltis points out, this notion that all will be well because the wise bankers will ensure it has a serious practical flaw. The ECB does indeed control interest rates but it is Europe's politicians who will determine exchange rate policy for the euro through the Euro-X Committee of finance ministers of the EMU members, a body which the French insisted on installing, with the clear intention of limiting the independence of the bankers. Why should the politicians want this power? Because of the high unemployment in Euroland – 11% on average and around double that for the under-25s. This is according to the official figures but the real unemployment level is considerably higher. It is quite on the cards that, on the next downturn of the economic cycle, the dole queues will lengthen, the politicians will take fright and this committee will use its powers to devalue the euro. The ECB would then be obliged to lower interest rates to keep the euro exchange rate down to the level at which the committee wanted it kept, resulting in monetary expansion and rising prices. A parallel situation arose when Nigel Lawson was shadowing the D-mark. Due to strong foreign demand for sterling, the only way he could depress the pound to maintain its relationship with the D-mark was to depress interest rates. As a result the economy exploded. The unemployment in Euroland today is mainly structural, not cyclical, which means that there is little if any improvement in employment in the upward cycle – Europe's private sectors have created no jobs in the aggregate since 1970, the only job creation being in government. More jobs are likely to be lost when recession returns, the next recession perhaps coinciding with the launch of the euro. If that happens, the politicians will be tempted to override the bankers and adopt inflationary deficit financed so-called "full employment" policies. So there is no guarantee that the European Central Bank will conquer inflation. Ultimate political control of the euro may mean that it will prove to be a weak, inflationary currency.

The big pitch of the Europhiles for British popular support for EMU is that it will bring low interest rates. However, low interest rates are not good at all times and in all circumstances. Low interest rates in a roaring boom can blow the top off the economy, which is what happened in the Lawson era when interest rates were depressed to hold down the pound in relation to the D-mark. Within monetary union interest rate policy, long and short term, will reflect Franco-German requirements; in other words their needs would take precedence over ours. This would be disastrous for us because their economies are cyclically out of phase with ours. When France and Germany need economic stimulus, we shall need restraint and vice versa. Worse still, changes in interest rates made in Frankfurt would have a much bigger impact in Britain than in the rest of the EMU because most borrowers here are on variable interest rates, whereas on the continent long term fixed interest rates are more common. Variable interest rate liabilities of the UK personal sector total 64% of GDP against only 16% in France, 3% in Germany and 2% in Italy. London's loss of control over interest rates would force our government into trying to steer the economy by the hit-and-miss, disruptive, stop-go method abandoned in the early eighties of making budget changes once a year – like trying to drive a car by moving the steering wheel once every half hour.

Eltis also disposes of the claim that joining EMU will bring stability to the British economy in a very astute analysis. He quotes the conclusion of a high powered independent committee chaired by Rupert Pennant-Rae that, for the reasons indicated above, the impact of an interest rate change on home demand after two years would be four times that of the rest of the EU. As a result, "two fifths of the total EU-wide impact of aggregate spending of a change in the rate of interest would arise in the UK and three fifths in continental Europe. The UK would then become the EU's principal regulator of effective demand, with highly damaging consequences for its financial stability." Thus, for Britain, EMU, far from being stable, would be a ruinously volatile environment in which we would be the mugs bearing a disproportionate part of the burden of economic adjustments for the rest of EMU.

The most outrageous propaganda claim of EMU enthusiasts is that it would be good for jobs. Currently the EU, with the exception of Britain, is one of the world's unemployment blackspots with, as I reiterate, no net increase in jobs, except in government, since 1970, while the American economy has been creating hundreds of thousands of jobs almost every year. This unemployment, currently stuck at 11%, is mainly structural, not cyclical. It is the result of excessive regulation, labour rigidities, an ageing industrial pattern, with too many smokestack industries and too little capacity in high-tech and information technology and a huge dead-weight of taxation, averaging 50% of GDP compared with Britain's 40%. Overall, the record shows that no European jobs are created in the expansion phase of the cycle, while jobs are destroyed in the next recession. This is not the model for us. The more Britain is required to harmonise with the other EMU economies, the worse it will be for British business and jobs.

As for exchange rate stability, which we are supposed to be assured of if we join EMU, the fact is that the pound is tied more firmly to the dollar than to the D-mark. So stability in European currency would be offset by increased volatility in relation to outside currencies like the dollar and the yen. There is a good reason for this. For, though half Britain's trade is with the EU, among our exports to Europe products of research based, high-tech industries, like pharmaceuticals and computer software, are of key importance. For these the main rivals in European markets are American and Japanese producers. So, by the pound keeping closer to the dollar than it would be if it were tied to the D-mark, the competitive position of British producers is maintained. The exchange rates of the D-mark and the franc are by contrast very much affected by the competitiveness of their predominantly mid-tech industries like cars. Trapped inside the euro, Britain's export trades would be sacrificed to the interests of Franco-German industry.

Note that Eltis's pamphlet is entitled *Further Considerations on EMU*; further that is to his last pamphlet, which I reviewed in this *Journal*, which pointed to the danger of the euro being upset by speculators buying D-marks and selling lira on an enormous scale during the 3 year transition period when the national currencies of members would still be circulating. This danger has now been circumvented by the various national currencies being regarded as subdivisions of the euro, so the speculators would only end up with euros. However, speculators may still have a field day in betting on bonds and bills. Heavy sales of, say, lira bonds would result in a big rise in the interest rates at which the Italian government would have to borrow, putting a great strain on Italian public finances, which are already dodgy, with the national debt standing at 120% of GDP, and throw additional costs only employment in Italy. Such pressures could conceivably lead to EMU's collapse. This mere possibility casts further doubt on the vaunted stability of the EMU scheme. This prospect is not even discussed in the Economist Intelligence Unit report, *Will the Euro Work?*. It is not the only difficulty which this apparently comprehensive survey fails to face. On the unemployment issue it merely says that the EMU countries must adopt a supply-side approach, liberalise and be more flexible. To this end it recommends that action should be taken by national governments on the principle of subsidiarity. It then scampers off into drawing up a whole series of scenarios, favourable and unfavourable, in the great tradition of the two armed economist – on the one hand this and the other hand that. This really is not good enough. The whole thrust of EMU as it stands is towards intensified, centralised monetary disciplines and rules which, with the national governments deprived of control of interest rates and exchange rates, will increase the burden of adjustment to economic shocks borne by the real economy, that is to say by output and jobs. As Eltis points out, and British experience shows, supply-side reforms, like scrapping labour market regulations, can take a decade to produce effects. Thus, in the short run, greater flexibility can mean longer dole queues. This makes David Currie's final possible scenario – "Europe resurgent – dynamic and secure" – particularly fatuous. Of course he is free to make what assumptions he likes, but what is the point of assuming what is grossly unrealistic? It's like going into a pet shop to purchase a cat, but insisting that it must be a cat that barks. Currie's pamphlet is an example of the bland leading the bland and does not really illuminate the subject. If you want to get to grips with EMU, let Eltis be your guide.

Russell Lewis is a former Director of the European Foundation and a member of the UK Advisory Board.

European Monetary Unification Theory, Practice and Analysis

by Barry Eichengreen, John L. Simpson Professor of Economics at the University of California, Berkeley, Published by MIT Press, 1997, ISBN 0-262-0550554-4

Reviewed by Lynette Swift

There is no contention that the drive towards Economic and Monetary Union is politically motivated. Perhaps for this reason there has been insufficient debate about the economics of monetary union. As a branch of international economics, the subject is a relatively new one. Serious research has been conducted only in the last two decades and, of this, very little empirical analysis has been undertaken.

One economist who has studied monetary and customs unions is Barry Eichengreen. In his recent book, European Monetary Unification, Eichengreen provides an objective, non-political assessment of a single currency for Europe. He notes that a remarkable feature of the academic literature and the debate over EMU is how little empirical analysis has been devoted to identifying the incidence of demand and supply shocks, isolating their determinants and analysing market policy and responses.

Although there are no precedents for the European experiment of establishing a single currency before political and economic integration have been achieved, the US remains the best model for comparative analysis. From empirical data Eichengreen analyses how the federal US states have responded to asymmetric demand and supply shocks and how similar shocks are adjusted for across regions and states of the European Union.

The empirical evidence is examined according to the theory of Optimum Currency Areas (OCAs). An OCA is defined as an economic unit comprising regions affected symmetrically by disturbances and between which labour and other factors of production flow freely. We can see how this describes the USA. It also probably describes the former Yugoslavia though not, perhaps, the former USSR and not the present EU. Indeed, Europe proves not to be an Optimal Currency Area.

Among his conclusions, Eichengreen opines that the case for EMU must be advanced on grounds of political economy rather than on grounds of microeconomic efficiency because nearly every link in the causal chain between the creation of a single market and the creation of a single currency can be challenged on economic grounds. While the benefits of a single market are measurably large, the benefits of a single currency are less quantifiable. The argument for a single currency rests on eliminating exchange rate instability and so sustaining political support for the internal market. The only way of attaining this goal is by establishing monetary union. This explains why EMU is being pushed ahead in spite of economic evidence against it.

With references to the EMS and ERM, semi-fixed exchange rates are demonstrably fragile as they are susceptible to speculative attacks. Using two economic models, one developed by Krugman, which is based on fundamentals such as inflation, real exchange rates, current account and budget deficit. The other model, created by Flodd, Garber and Obstfeld, shows that attacks can occur in the absence of an imbalance in the fundamentals. Eichengreen favours the second model as the 1992 ERM crisis cannot be explained just in terms of economic fundamentals. It's true that Italy had excessive inflation which damaged its competitiveness. Other countries, including the UK, did not display especially marked imbalance yet speculative attacks became self-fulfilling, the dynamics worked to reinforce each other. An attack on the currency forced a rise in interest rates which aggravated inflation and employment fundamentals, leading to further pressure on the currency and so on, until the government ran out of reserves to defeat it. In theory, the strong currency members of the ERM were committed to support the weak currencies by intervention which was unlimited at the compulsory intervention rates. In practice, the market proved stronger than the political will of the supporting governments, especially where their own price stability seemed threatened. Where the markets perceived that political will to maintain the fixed exchange rates was weakening, and this was probably the case for sterling in the ERM crisis, speculative forces outweighed the rationale of economic fundamentals.

So, given that pegged exchange rates are indefensible for a sustained period, then the only alternative is to allow either more flexible exchange rates, or place restraints on capital mobility or, thirdly, to go straight to monetary union. Flexible exchange rates are not compatible with the EU's goal for a single market and exchange controls are not feasible in the modern international economy, so the EU has chosen to go straight to monetary union.

But Eichengreen's research shows that the EU is not an OCA. By means of empirical research and using the US for comparison, demand and supply disturbances, or shocks, are shown to be more asymmetric between EU states than between US regions. To maintain internal and external balance, therefore, movements in relative prices are required. These are adjusted by means of the exchange rate. If this mechanism did not exist, as it would not with a single currency, then real exchange rates could be adjusted by changes in relative price levels. This, though, would not be a smooth process and relative prices do not easily jump so this would be an imperfect substitute for exchange rates. Anyway, variable price levels are not compatible with the ideal of a single market. Yet if exchange rate adjustments are not possible, then asymmetric shocks will show up as larger regional unemployment differentials.

In the US there exists greater factor mobility than in the EU. Labour and capital both move between regions to an extent that balance is restored. Eichengreen's analysis shows that Europeans are less likely to migrate even between regions of their own country than labour migrates between regions and states in the US. How much less likely, therefore, is labour likely to move between European countries where strong language and cultural differences exist.

It is thus inferred that, in the absence of exchange rate adjustments, asymmetric demand and supply disturbances will lead to higher unemployment differentials which will not be adjusted by inter-regional migration.

Under monetary union, though, member states will not be able to use monetary policy as a tool for adjusting imbalances. Interest rates will be determined centrally by the European Central Bank (ECB). This leaves national governments with only fiscal policy to counter shocks.

Regions with higher levels of unemployment are more likely to run budget deficits as their tax intake will be lessened and their need to borrow will be increased. Under the terms of the Maastricht Agreement, EU member states are required to avoid excessive deficits so that their budget deficit should be no more than 3% of GDP and borrowing no more than 60% of GDP. Where these are exceeded, the Excessive Deficit Procedure (EDP) may be employed. This may impose a fine on the country concerned and/or require it to make non interest bearing deposits with the ECB. It is designed to contain the tendency of member governments to over borrow and remove pressure from the ECB to intervene.

Comparing Europe with USA states which have balanced budget requirements, Eichengreen observes that US restrictions do significantly limit the size of deficits but that, if rigorously enforced, restrictions can actually weaken the automatic stabilisation of national budgets.

The ability of governments to borrow by issuing their own debt instruments and to raise their own taxes provides a mechanism for spreading over time the adjustment to transitory shocks and the tax burden for public investment. If the governments of EU states are restricted in their borrowing, the need will be increased for the ECB to provide these services. Quite probably, some EU members would spend more than they take in taxes, in effect forcing the central EU authorities to borrow more on their behalf and to make fiscal transfers from surplus to deficit countries.

Eichengreen argues that the EDP, by enforcing tight budget requirements on member states, will actually encourage a move to greater fiscal federalism whereby Brussels collects taxes and makes transfers to the regions in amounts that increase with, say, unemployment.

Eichengreen tests his hypothesis by using a model for 45 countries and concludes that the more sub-central governments are dependent on financing by the central government, the more likely is a bailout in the event of a financial crisis and the greater is the incentive for sub-central governments to engage in excessive borrowing. If, however, national governments continue to control their own tax bases they can be required to raise their own taxes and borrowing to deal with debt crises. The debt exposure of the EU central government increases with the stringency of borrowing restrictions. Therefore, the EDP may actually destabilise the single currency and should be abandoned.

In employing the theory of OCAs, Eichengreen takes this a stage further and uses it as a predictive tool to see which countries are most ready to join the European Currency Union. He finds that countries divide into three clear groups: those that are prime candidates for EMU, those that are converging towards EMU and those that show little convergence.

In the first group are the core European countries of Germany, Austria, Benelux, Netherlands, Switzerland and Ireland. France falls into the third group which displays little or no convergence. Others in this group are Denmark, Norway, Finland and the UK. The UK is the least converged of all the European countries. The middle group comprises Spain, Portugal, Italy, Sweden and Greece. These countries are quite some way off convergence but at least are showing a tendency to converge.†

It is no surprise that these results show a core Germanic group of countries for which a common currency could well be appropriate. Ireland is the only seeming anomaly. Its economic cycles used to be closely correlated with those of the UK, with which it traditionally had close monetary ties. In recent years, however, Ireland has been a large beneficiary of EU investment and its trade with mainland Europe has increased commensurately. So its economic structure and cyclical position now corresponds to the convergence observed under the Maastricht criteria.

The second group, though showing little convergence over the time of the study (1987–1995) at least had OCA indices that were declining over time and therefore tending towards convergence. The closer the OCA index is to zero, the closer the convergence. An index of 0.1 shows no convergence. All the first group countries had indices of 0.025 in 1995, whereas the second group all had indices of over 0.05. In the least convergent group, the UK's OCA index was 0.089 and that for France was 0.075. This was over 2½ times the standard error of the regression model used and showed no tendency to decline over time. France, of course, is seen as a vital member of EMU if the single currency is to be a success. These results again emphasise the political rather than economic motive for France's keenness to join the single currency.

The level of the OCA index is influenced mainly by size, which does not change over time, and by the importance of bilateral trade. So, France is large but relatively closed in that its bilateral trade with the core European countries is not a relatively high proportion of GDP. The inference to be drawn here is that promoting more intra-European trade will tend to encourage monetary integration.

This article has summarised just some of the issues raised by Eichengreen and has avoided detailing the more technical analysis. In his own summing up, Eichengreen does not question whether EMU should go ahead. He assumes that it will, but that it must be advanced on grounds of political economy rather than on grounds of microeconomic efficiency; and that there will be problems in the early years because there exists an inconsistent quartet. That is the incompatibility of pegged exchange rates, free trade, monetary autonomy and international capital mobility.

The political economy argument rests on the importance of eliminating exchange rate instability in order to sustain political support for the EU's internal market. EMU delivers a degree of currency stability that an arrangement of pegged rates, such as the ERM, cannot because of its vulnerability to speculative attacks. EMU will also help to integrate monetary and fiscal policies, which are harder to harmonise before monetary unification because countries with higher deficits must pay an interest premium to counter the possibility of devaluation.

So, concludes Eichengreen, to achieve monetary union, Europe will have to take a leap directly to EMU before perfect convergence is reached.

However, Europe is not an Optimal Currency Area. Demand and supply disturbances are far from symmetric. Labour mobility and wage flexibility are low. So Europe will find it difficult to operate monetary union in the early years.

How quickly Europe can approach the ideal of an OCA will determine the success of EMU. This will require a network of immigrant labour flows, portable pensions and wage flexibility. One can envisage that these requirements may well meet resistance from, say, labour unions in France.

As monetary policy is harmonised then aggregate demand and supply shocks caused by erratic national monetary policies can be expected to become more symmetric, though asymmetric shocks may become larger if industry reorganises along regional lines. So industry specific shocks may become region specific shocks and demand and supply disturbances will diverge across Europe's regions.

Having given up macroeconomic independence, regional governments will be powerless to adjust to these shocks. However, the regions in which such indices are concentrated may not respect national borders so, it might be argued, there is little advantage in retaining national policy autonomy.

In his book, Eichengreen covers the economics of monetary union in great detail and raises more topics than have been mentioned here. His approach is impartial in that he attempts to argue neither for nor against a single currency for Europe.

For my part, I would prefer that Britain, as a non-converging European economy, remain on the outside. I would prefer to observe whether transition to an Optimal Currency Area is possible. I would prefer not to sacrifice economic policy autonomy and political sovereignty in an attempt to achieve it.

† *For the Government data on convergence, see the chart on page 26. Note that this shows convergence coefficients where 0 indicates no convergence and 1indicates total convergence, rather than OCA indices referred to above.*

Lynette Swift is the author of several books including World Money and Capital Markets *in 1981. This was revised in 1985.*

Une Etrange Défaite, le piège de Maastricht. Lettre ouverte d'un gaulliste à Jacques Chirac

by Jean-Paul Bled, published by François-Xavier de Guibert, Paris, 1998, 80 pp. 80 FF.

Reviewed by John Laughland

Jean-Paul Bled, the Sorbonne professor who directs the Centre for Germanic Studies at the University of Strasbourg, took some time settling on a title for this monograph, which is the fourth in a highly promising series of books on the European question published by François-Xavier de Guibert in Paris. The title he has chosen, "A Strange Defeat," alludes to the well-known book on the Fall of France by the great Sorbonne medieval historian and *résistant,* Marc Bloch, who was tortured and executed by the Germans in 1944.

Before choosing this, though, Professor Bled had another idea for his "Open Letter from a Gaullist to Jacques Chirac", the book's present subtitle. It was to be called *The Tunic of Nessus*, in reference to the tunic which Hercules put on and which poisoned him to death. For it is Bled's conviction that Jacques Chirac made a fatal mistake when donning the European mantle in 1995, and that this is what killed him as a president when the right-wing parties spectacularly lost the general election which Chirac called early when he suddenly dissolved the parliament in 1997, and which thereby brought back to power a Socialist party which had itself seemed in terminal collapse only a few years previously. Chirac thus made himself into a lame duck president for the remaining five years of his term.

For years, Chirac had been taking advice from Edouard Balladur, his old ally whom he had put forward to be prime minister in the last years of the Mitterrand presidency but who turned against him and ran for the presidency himself in 1995. Balladur had long been convinced that the French right could win the Elysée only if it hung on the support of the pro-European centrists. It was this very calculation which had caused Chirac to campaign weakly in favour of the Maastricht treaty during the seminal 1992 referendum. Chirac's reaction to the tiny majority in favour of a 'yes' vote – a majority he could certainly have turned into a 'no' if he had himself campaigned for it, and which may well have forced Mitterrand's resignation then – was to carry on as if nothing had happened. In reality, the referendum was a political earthquake which left an open fault-line across French politics and whose after-tremors continue to determine their course.

When Balladur announced he would stand for the presidency in 1995, Chirac's well-laid plans were thrown into disarray. However, he quickly pulled his chestnuts out of the fire because he was forced to campaign on the theme of radical change, precisely in order to differentiate himself from Prime Minister Balladur whose candidacy incarnated European continuity. Above all, Chirac insisted that reducing unemployment was the supreme challenge for the future and, although he did not say it explicitly, his campaign on the theme of 'a radical break' ineluctably implied breaking with the logic of Maastricht, the very cause of the high joblessness Chirac so pitilessly attacked.

Despite this, Chirac had in fact not divested himself of Nessus' tunic. Once elected in May 1995, he immediately appointed Alain Juppé as Prime Minister. Not only was Juppé one of France's most zealous pro-Europeans; not only was the choice intended to reassure the markets and the chancelleries of Europe that the Maastricht line would be adhered to; Juppé had even been instrumental in minimising Chirac's election campaign pledge to hold a referendum on Amsterdam. This was a rash promise, typical of the impulsive Chirac and just the kind of thing which terrifies the French nomenklatura of which Juppé was a brilliant representative.

The page had therefore been turned. Chirac had been president for barely a day or two before he arranged to meet Helmut Kohl for dinner in a famous Strasbourg wine cellar. In October he went to Bonn, where one can only assume that Kohl laid down the law. On his return, the sorry French president went on television to announce the complete abandonment of all his electoral promises. Budgetary rigour was to have priority over job creation, not the other way around as he had spent the whole of the spring campaign declaring. His fate was now sealed.

Meanwhile, the left was not dormant. Just as during the previous right-wing administrations (1986–88 and 1993–95) the unions protests, this time paralysing the country's transport system. The left managed to tar the right with an elitist and arrogant brush – not difficult when the likes of Juppé were at the tiller – and both president and prime minister could only stand by impotent as their popularity ratings continued to plummet.

Indeed, when Chirac announced the surprise dissolution of the National Assembly in the spring of 1997, a year early, the French rightly resented it as a usurpation of the proper constitutional procedures. Although the president does have the right to dissolve the parliament when he wants, it had only ever been done before at times of national crisis (in 1962, when a 'no confidence' motion was voted against the Pompidou government and in 1968 during the 'events') or just after a presidential election (in 1981 and 1988). Here, by contrast, was a dissolution for which there was no apparent cause other than presidential caprice.

In reality, the cause was Europe. Astonishingly Chirac had actually discussed the dissolution with Chancellor Kohl before deciding to go ahead. This was a hideous prostitution of sovereign powers. Chirac may been using (or abusing) his regalian powers as Head of State, but in reality he was doing so because France was now subjugated to external constraints, the Maastricht criteria. Chirac knew that the budgetary screws had to be tightened even further for the rest of 1997, and he feared that his party would suffer unduly in 1998 as a consequence.

Not only was Chirac now acting like Chancellor Kohl's vassal: he was also a prince imprisoned in an ivory tower and out of touch with the people. His advisers, the only people to whom he listened, told him that the right could not lose because its 400-seat majority was invincible. But why would the French people vote to give a new élan to a policy they hated, especially when Chirac made it clear he would reappoint the very same man, Alain Juppé, to head the "new" government after the expected victory?

He had not reckoned with the cynicism of the left, which flirted during the campaign with anti-EMU policies it had no intention of implementing, nor with the National Front. In the first round, the very anti-European and anti-elitist National Front came within a whisker of gaining more votes than the RPR, which would have made it the second largest party in France, in terms of votes. (It would probably enjoy that status now.) The National Front kept its candidates in 133 constituencies for the second round, causing the right-wing vote to be split two ways. The National Front did this specifically to destroy the centre-right and it succeeded.

The situation since then remains depressing. Faced with the inexorable rise of the National Front – whose appeal is precisely that it represents a true force of intransigent opposition to the established parties, and is not party of a cosy coterie of ENA-educated grandees as both the centre-right and centre-left parties are – the Gaullist RPR and the liberal UDF have decided to form a single party, called the Alliance. Philippe Séguin, who took over the leadership of the RPR from the hapless Juppé, seems not to have grasped that the one thing guaranteed to drive even more nails into the Gaullist coffin is an alliance with the viscerally pro-European Giscardian UDF!

Bled may quote de Gaulle – "Old France, overcome by history, lacerated by wars and revolutions, coming and going relentlessly between grandeur and decline but always able, from century to century, to pick herself up again with the genius of renewal!" – but the signs of renewal are currently very weak. Charles Pasqua has launched a campaign for a referendum on Amsterdam and it is possible (although unlikely) that Chirac will hold one. If he does not, he will go down in history as a latter-day Pétain: the first Gaullist president in a quarter of a century was voted near-plenipotentiary powers in 1995 only to give them away to the Germans in 1997 and 1998.

John Laughland is European Director of the European Foundation.

The Breakdown of Europe

by Sir Richard Body, MP, New European Publications, London, 1998, 102 pp., £ 9.95

Reviewed by John Laughland

This is a lovely little book, written with highly agreeable clarity and great conviction. Sir Richard Body's fundamental and oft-repeated conviction is that states should be small. He writes with fear and loathing of the alliance between "the heads of the great business corporations" and government ministers to create a European super-state. Indeed, he even claims that people who seek power in this way are psychologically damaged, a suggestion he backs up with an intriguing reference to an article entitled 'The Anal Character and Political Aggression' in *Journal of Abnormal Psychology*, 1955.

Sir Richard is good on the way in which market logic is leading Europe astray. It is certainly true that a large market can be useful for certain kinds of exporters, he allows, even though he has a healthy distaste for the excesses of consumerism and displays some fear about other negative effects of globalisation, However, his main concern is that "instead of the federation of European states becoming strong enough to resist transnational corporations it has become their instrument… Far from combining successfully to defend themselves against the over-mighty transnationals they will have devised the mechanism by which the transnationals were able to play a large part in bringing the nation-state to an end in Western Europe."

In addition to being a threat to peace (not, as Chancellor Kohl would have it, a guarantee for it) the headlong rush for size and power is also, Body contends, the direct cause of internal social breakdown. Body observes with acuity how large societies become anonymous, fertile breeding-grounds of alienation, disenchantment and crime. The cement of society is morality and a sense of duty, and these can be better fostered in small societies than big ones. Television has corroded the political process, as have lobbyists; but the key point is that, the larger the state, "the weaker people's sense that they are freely participating in their own self-government. All mega-states are diseased because their peoples cannot be at ease within them," he concludes.

Readers of this *Journal* will hardly need to be told whither the argument is heading. The EU already wields massive state powers in a thoroughly undemocratic way, and representation in mega-constituencies by the European Parliament can never bridge the accountability gap. The only result is an unstoppable burgeoning of corrupt and inefficient bureaucracy.

Body places hope in the new technology of communication to help us out of this mess. His predilection for small units makes him something of a "regionalist" and he predicts that new communication technologies will encourage more grass-roots and less centralised democracy at local and regional level. Body's ideal country is Switzerland, where self-governing communes systematically prove the whole centralist logic of European integration to be fundamentally wrong.

Body's regionalism leads him to make a pleasant suggestion that there should be more currencies in Europe, not fewer. Why not allow regions to issue their own currencies? Given that 80% of businesses operate within a 50-mile radius of their base, this suggestion is less unrealistic than it at first seems and it has the advantage of flying in the face of the inexorably centralist logic of the globalisation lobby.

However, Body's currency proposal does perhaps not go far enough. The challenge for monetary policy is abolish it: the very notion that there should be a "policy" for money, whether in the hands of central or regional government, is as incompatible with liberal values as is industrial policy. The challenge instead is to subject the money supply to the laws of supply and demand instead, and to institute a contractual relationship between the issuer of currency and the user. Body's suggestion that the Bank of England's monopoly over note issue should be abolished is right, but it is only a partial solution to give it to regional authorities. Instead, it should be granted to anybody. Paper fiat currencies, one of the scourges of the modern world, would disappear and be replaced by proper commodity currencies instead, preferably based on gold, which would bring the world back to the monetary order it enjoyed until the outbreak of the First World War.

John Laughland is European Director of the European Foundation.

EURODATA

Entrepreneurship

Entrepreneurs are the risk takers whose activities power economic growth. Britain is an entrepreneurial country. Napoleon described us as a nation of shopkeepers and we were the first country to go through the Industrial Revolution. This entrepreneurial spirit lives on today:

- 90% of businesses employ fewer than ten people;
- 80% of businesses do no overseas trading;
- 12% of the workforce is self employed (a third more than Germany or France).

This entrepreneurial spirit has been fostered by governments who have followed free trade and free market policies, but it could be destroyed by the bureaucratic regulations of the EU and the costs associated with EMU.

Unnecessary regulations act as a disincentive to entrepreneurs and encourage the growth of black markets. In Italy and Greece the black market accounts for 25–30% of GDP and as a result the high tax white market is unattractive to entrepreneurs.

- Asda recently gave away 100,000 small peaches because an EU ruling banned supermarkets from selling them after July 1 each year.
- Businesses in France have to fill in up to seven forms for every new employee they take on.

Regulation encourages firms not to employ new members of staff, therefore it is unsurprising that more jobs have been created in the last two months in America than have been created in the last twenty years in the EU.

Entrepreneurs take risks for their own advantage, so if the rewards of risk are taxed away there is little incentive to risk take. A recent study by the American Chamber of Commerce suggested that the US, Japanese and South Korean companies based in Germany were showing an increasing preference to transfer functions to London. One of the main reasons for this was the high corporate and personal tax rates. EMU would increase taxes in Britain because

- continental governments would use tax harmonisation to make Britain as uncompetitive as the continent, and
- the government would have to increase taxes by 20 billion pounds to offset the inflationary pressure from low interest rates.

British entrepreneurs enjoy the lowest income tax rates in Europe. Any move away from this situation would harm the historic British entrepreneurial spirit.

Quotes of the Month

"The euro is as German as the D-Mark"

This is the title of the 10th policy commitment in the paper on Europe recently agreed by the Bavarian CSU Christian Democrats at their party conference in Kloster Banz in Northern Bavaria (Franconia). The statement is in inverted commas in the text because – according to the CSU's press office – "It is a quote from Mr Waigel" (the German Finance Minister). "He says it all the time."

The CSU aroused displays of indignation from their FDP liberal allies because a separate paper on immigration policy said that immigrants living in Germany ought to learn German properly. The CSU says it wants foreigners to integrate, but Bavaria is also the Land in which obtaining German citizenship is the most difficult. Chancellor Kohl, a guest at the conference, said he welcomed the CSU's policy towards foreigners.

Finally, the CSU also wants to delay the implementation of the free circulation of persons from new EU member states in Eastern Europe (Poland, the Czech Republic and Hungary) until 2015 for fear of a new wave of immigrants from there.

"EMU is a highly political undertaking"

From a lengthy interview with the Vice President of the Bundesbank, Johann Wilhelm Gaddum. When it was put to him that Germany had given up the most in EMU, Gaddum replied, "I hold this argument to be completely wrong. Germany is the largest partner in the European power game… The Federal Republic will ultimately be the country which profits most from European unity, even if this is not immediately visible."

"World power political ambitions based on economics"

In an article resonant with the language of geopolitics, the respected pro-European academic and adviser to Chancellor Kohl on European policy, Werner Weidenfeld has written an opinion piece with the above subtitle. "The euro-space (*der Euro-Raum*) will catapult Europe into the status of a world power", he gushes. "A new world monetary system dominated by Europe and America will replace the old dollar-based arrangements. The Atlantic relationship will have to be re-evaluated. But what the Europeans still lack is the ability to think in world political categories." There is a "power political vacuum" in the world between Britain's pro-American stance, France's anti-Americanism, NATO enlargement and Russian "nervousness". The EU is not yet filling this, although it is becoming "a central field of gravity". Carried away by his imperialistic fantasy, Professor Weidenfeld delights in the fact that "soon every seventh state in the world will be a member of the EU". "The dreams of the war generation are about to be fulfilled." No doubt he meant to write "post-war generation" … or did he?

The European Foundation

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

Objectives

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

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

Activities

The Foundation pursues its objectives by:

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

The Foundation

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

It concerns itself with the following main topics:

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

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