

FRIEND OR FOE?

What Americans should know about the European Union

By John Blundell and Gerald Frost

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2 Lord North Street

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SW1P 3LB

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Abstract

The EU is often seen as a benign political construct designed to promote economic freedom, particularly free trade. The analysis in this paper demonstrates this view to be incorrect. Instead, from the very beginning, the EU has used economic integration to promote political ends. At first this economic integration may have promoted trade in the manufacturing sector. But in the last 30 years economic integration has been forged by increasing and making more uniform economic regulation. If this succeeds in creating political union, as is envisaged by the EU itself, this will be a Union that is damaging to European and global economic freedom and hostile to the US.

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INTRODUCTION

When the Emperor Maximilian of Mexico was sent to his dawn firing squad in 1867 at Cerro de las Campanas he was accompanied by his cook whose last words to him were: "You said it wouldn't come to this! You know now that you were wrong!" Recently, when regaled by indignant American friends with complaints about European behaviour over Iraq, British eurosceptics have felt rather like Maximilian's cook.

Such sceptics have known for a long time that the 'project' of European political integration would inevitably feed anti-Americanism and reinforce opposition to US interests, and they have tried repeatedly to tell this to Americans friends - but their advice has mostly gone unheeded.

Even now it is doubtful whether very many Americans grasp why the EU and the US are so often at variance on major issues. Current areas of difference include Iraq, Palestine, ballistic missile defence, the role of arms control, the International Criminal Court, genetically modified crops, the Kyoto accords, farm support, Iran, Cuba and the death penalty.

When such differences occur the US tends to treat them as isolated matters that can be satisfactorily resolved in the interests of both parties, although the growing list of differences and the intensity of feeling that each one arouses clearly suggest otherwise. The reality, still not widely appreciated by Americans, is that such clashes arise from the very nature of the European political project - a project that has been underwritten by the US for half a century.

From the beginning, the US gave unconditional support to the European project, accepting uncritically the claims made on its behalf and smoothing the path of its architects. Its success was judged to be sufficiently central to US interests for Americans to tolerate the European Common Agricultural Policy (CAP) - the most inefficient system of agricultural support ever devised - and for the Central Intelligence Agency (CIA) to funnel millions of US dollars into the European Movement during the 1970s.

It is certainly true that without US support during the early post-Second World War era, it would have been difficult for the European project to prosper. Outright opposition would have meant that it was still-born. In the event, support was readily and enthusiastically provided by successive US administrations in the belief that the project would lead to the creation of a democratic, market-based Atlantic ally with which a range of economic and security responsibilities might be shared.

Since the Iraq war, a reappraisal has been taking place, but it is still partial and incomplete. This paper - written by two long-standing British supporters of the North Atlantic relationship - is intended as a contribution to what we hope will be a more fundamental and comprehensive discussion of the issues.

However, it is not our view that American short-sightedness stands in contrast to British prescience. Among political elites in Britain euroscepticism has generally been a minority taste; the majority opinion throughout Westminster, Whitehall, academia, the BBC and big business (but not small/medium sized business) has strongly favoured top-down politically-driven European integration.

Moreover, if US endorsement of that goal has been largely a matter of myopia and wishful thinking, in Britain support for the European cause was only sustained by the wholesale and deliberate misleading of the public about the nature of what was involved, a process in which our EU partners have sometimes assisted. That this process is still under way is evident from the readiness of the former French President Giscard d'Estaing, the chairman of

the convention charged with producing a European constitution, to remove the word 'federal' from the text in order to give the quite false impression that he had made a significant concession to the British Prime Minister.

Indeed, the stage has now been reached when the major players in the European project accept the need to mislead the British public about the implications of 'ever closer' European Union and play their parts without prior consultation. The most blatant aspect of this deception has been the pretence that the process of political integration could occur without loss of national sovereignty. The retention of national sovereignty is obviously important to those who, like the authors, fear its loss will lead to the destruction of traditional freedoms and an end to the project of self-government. It should also be a matter of great concern for the United States.

If Britain's independent foreign and defence policy is to be subsumed by a common European Foreign and Security policy, Washington will not be able to count on the kind of military support rendered in Afghanistan and during the Gulf and Iraq wars. Similarly, if Britain's commitment to global trade liberalisation is undermined as a result of membership of a protectionist-mined European trade bloc, the US will lack an important ally in economic and trade negotiations.

The British Prime Minister currently enjoys a high reputation in Washington, but his American admirers should not overlook the fact that he is the most pro-EU British Prime Minister since Edward Heath (1970-74). It was Mr Blair who signed up to the St Malo declaration which paves the way for an autonomous European defence capability. It is Mr Blair who, despite strong and growing public opposition, wants passionately to take Britain into the euro and who wishes to continue a process that already means that half of the laws passed in the United Kingdom originate in Brussels or Strasbourg, rather than Westminster.

Mr Blair, who likes to give the impression that squaring political circles is his particular speciality, regularly assures his American friends that none of this

will damage relations with the US. There are many reasons for believing that he is profoundly mistaken.

A MATTER OF SOVERIGNTY

Among the most important of the myths that have sustained the drive to integrate Britain into a unitary European state has been the one that it could participate in the project without loss of sovereignty.

The historical record leaves absolutely no doubt that the European Economic Community (EEC) was sold to the British public as a limited commercial undertaking at a time when the United Kingdom was experiencing rapid relative economic decline. An important key to slowing that decline was held to be the competitive spur and freer access to the markets of continental Europe that membership of the EEC would provide.

The criticisms of those who suggested that Britain might also be taking a step with profound political and constitutional implications were treated with scant respect and those who advanced them labelled “Little Englanders”, xenophobes or even madmen. The tendency to treat criticism of the European project as irrational or insane persists: during the heated controversy over the Maastricht Treaty of 1995 John Major, the then Prime Minister, described backbench eurosceptic critics as being “one apple short of a picnic,” while a particularly well informed and persistent critic was said to be “followed by men in white coats”.

In any event, all that was being proposed, or so it was claimed during the 1960s and early 1970s, was that Britain should join a group of independent states that had come together to form a common market (i.e. a customs union providing for internal free trade and a single external tariff.) Membership of such an entity would leave British sovereignty intact and could have no impact at all on its external relations. The whole idea was clad in free-market rhetoric and, with only notable exceptions, was broadly welcomed by market liberals and opposed by socialists.¹

European economic and political integration had begun in 1951 with the creation of the European Coal and Steel Community comprising six founding members: France, Germany, Italy, Belgium, Netherlands and Luxembourg. In 1957 the 'Six' signed the Treaty of Rome formally establishing the EEC and committing members to the goal of 'ever closer union.' From the beginning the founding fathers of the European project – Jean Monet, Robert Schuman and Paul Henri Spaak - had no doubt that Europe must be run by supranational institutions if the project was to achieve its central and over-riding purpose: the avoidance of further European wars.

In this process economic integration would precede political integration. This approach has been consistently applied even in instances where it was plain that economic integration would have regrettable consequences. Bernard Connolly, a former senior EU official, has revealed that all of those working at the Commission prior to introduction of the euro on January 1st 2001 were aware that the plans for the new currency were deeply flawed and that the loss of national control over interest rates would create serious economic problems for some members.² The plans went ahead because of the supreme political importance attached to the establishment of a single monetary authority, the European Central Bank, and the supposedly "unifying" effect of a single currency.

EU President Romano Prodi explicitly acknowledged the supremacy of political factors when he declared in 1999: "The euro was not just a bankers' decision or a technical decision. It was a decision which completely changed the nature of nation states."³ Expressing similar sentiments, the German Chancellor Gerhard Schröder has said: "The introduction of the euro is probably the most important integrating step since the beginning of the unification process. It is certain that the times of individual national efforts regarding employment policies, social and tax policies are definitely over....National sovereignty in foreign and security policy will soon prove itself to be a product of the imagination."⁴

The EU's regulatory machine operates in constant overdrive for similar reason. Regulation - the so-called 'Monet method' - was one of the principal means by which the new European state was to be built. The liking for regulation is no doubt in part also the reflection of a risk-averse social democratic philosophy. But the underlying purpose of regulations governing, for example, the shape of cucumbers or the size of apples, is not to protect consumers from the hazards posed by misshapen fruit, but a political one: that of helping bind this new construct together through 'harmonisation' of rules and the development of supranational bodies.

However in the UK, it was decided, that the supranational ambitions which underlie the European project would not be publicly acceptable. The 1971 White Paper on British Membership, which was sent to every household in Britain, therefore emphasised that "there was no question of Britain losing essential sovereignty." The then Prime Minister Edward Heath told the nation on British television prior to Britain's entry to the European Communities in 1973: "There are some in this country who fear that in going into Europe we shall in some way sacrifice independence and sovereignty ... These fears, I hardly need say, are completely unjustified." Yet in 1990, when Heath was asked by the British television interviewer Peter Sissons whether, when he took Britain into the EEC, he really had in mind 'a united states of Europe with its own currency', he simply replied: 'Of course, yes.'⁵

On other occasions, some of the more enthusiastic advocates of British membership may have deceived themselves as well as the electorate about the nature of the European project, arguing that sovereignty would not be lost, but 'shared' or 'pooled.' But sovereignty, which is sometimes mistakenly confused with power, means constitutional independence or more precisely, the exercise of exclusive political authority in the context of a legal order. 'Pooling' sovereignty is therefore a nonsense; sovereignty is absolute and cannot be shared.

As the historian and journalist Noel Malcolm has written: "...what can it mean that power is 'pooled'? The weasel-significance of this word is that it suggests

that you can both keep your authority and give it away at the same time. But if authority itself is pooled a new kind of authority is created”.

He continues: “When the sovereign authority of the United Kingdom is ‘pooled’ in Europe, the sovereign authority of the United Kingdom will cease to exist, because the United Kingdom will have become subject to a higher authority.”⁶

However, despite the emphatic and often unqualified assurances given to the British public, it is clear that many of those at a high level within the British Foreign and Commonwealth Office and more broadly the government fully grasped the integrationist implications of the European project from the start. Indeed, papers released under a rule that allows confidential documents to be made public after 30 years show beyond any doubt that even in the early 1970s the mandarins of Whitehall - and their immediate political masters - were aware these would include the creation of a directly elected parliament; economic, fiscal and monetary union; plus “a fairly closely coordinated” common foreign and security policy.⁷

The papers also make plain that all of this was to be systematically concealed from the public and that special care was to be taken to avoid blaming “Europe” for bad economic or political news for fear of the impact on opinion. These suggest that it would take 30 years for the British public to realise what was happening - not a bad estimate given the present state of public opinion on the issue - but it is clear from the text that by that time the unnamed author believed it would be too late for the public to do anything about it.⁸

Official documents also reveal the existence of a ‘dirty tricks department’ with the aim of concealing the loss of sovereignty and of rebutting anti-Common Market arguments.⁹ This operated during the period prior to the 1975 referendum at which the British public voted in favour of remaining with the EEC on the basis of a ‘re-negotiation’ of entry terms. Known as the European Community Information Unit, this was staffed by officials from the Foreign

Office's Information and Research department whose primary task was to combat Soviet propaganda and dezinformatsia.

The 'achievements' of the Unit, which remained secret until June 2003, included the suppression of a fact sheet on sovereignty because this would have shown that Britain would have to accept regulations that conflicted with its own statutes, and an ingenious plan to prepare the public for rises in the price of butter resulting from membership by convincing housewives that butter consumption was bad for their health. Such methods were combined with attempts to 'noble' the media; these included the replacement of Jack De Manio, the then presenter of the flagship BBC radio programme Today, because of his 'anti-European views.' So cynical were some of the methods used that one long standing supporter of British membership - the Labour cabinet minister Roy Hattersley - has since revealed that, having been shocked by what was occurring, he decided to take no further part in them.¹⁰

In virtually all EU member countries there have been attempts to conceal aspects of the European project from the public. But Britain, a country which once prided itself on a political culture that placed a high premium on honesty and accountability, has arguably had the worst record in this regard. The situation has been aptly summarised by the political philosopher, Kenneth Minogue: "The worst thing of all, however, is the way in which the European process has distanced the government from the people, and induced rhetoric of deception which goes far beyond the ordinary equivocation of politics. However devious Conservative and Labour politicians have been in the past, there was no doubting their loyalty to the best interests of the country. The evidence is now accumulating that the political elite in Britain (and also other countries) is acquiring a supranational allegiance so remote from our national interest as to require a consistent policy of having to hoodwink the electors and disguise from them the clear consequences of our European commitments...this gap cannot widen much further before generating a quite explosive national resentment."¹¹

The road to Union

The engine of European political integration has been the Franco-German alliance formally established by means of the Elysée Treaty on January 22nd 1963. Signed by Charles De Gaulle, then French President and Konrad Adenauer, then German Chancellor, the agreement committed the heads of state and governments of both countries to coordinate their positions outside the EEC/EU framework on all matters of common interest including developments within the EEC/EU. Although the pervasive influence of the European Commission¹², the full-time civil service and 'government' of the EU, should not be ignored, in practise it has been the regular bi-lateral meetings which have taken place under the Elysée Treaty - rather than those of the European Council or the Council of Ministers - that have defined the nature of European integration and initiated major change. In the view of one former Brussels insider the Elysée treaty is far more significant in shaping the EU agenda than any EU treaty. It is the Franco-German relationship which Tony Blair has recently – but so far quite unsuccessfully – tried to replace with an Anglo-Italian-Spanish axis. That the Franco-German relationship remains intact can be seen in the recent deal struck between President Jacques Chirac and Chancellor Gerhard Schröder to preserve the CAP - despite huge international pressures for its radical reform - and in the continuing ability of the two men to form common positions on most of the prominent issues of the day, including the war in Iraq and the future development of the EU.

At a more formal and visible level the European project has proceeded by way of Inter- Governmental Conferences (IGCs). Conferences at Rome (1957), Maastricht (1992), Amsterdam (1999) and Nice (2002) have carried forward the goal of 'ever closer union' by means of treaties between member states. The inclusion of this phrase in all of the treaty documents and in the present constitutional draft has, of course, made nonsense of the claim that British sovereignty would not be threatened, but this was attributed to the florid style of political rhetoric favoured in continental Europe, or explained away as a matter of empty symbolism.

Progress along this path of integration was delayed during the presidency of Charles De Gaulle who favoured a Europe des patries, that is a Europe of independent states collaborating in areas of common concern - a concept into which Margaret Thatcher tried, wholly unsuccessfully, to breathe new life in her famous Bruges speech of 1988. Blocking the first of two unsuccessful British applications to join the EEC, De Gaulle in 1963 explained, perfectly correctly, that Britain was fundamentally different from the other countries building the European Communities: "England is...insular, maritime, linked through its trade, markets and food supply to very diverse and often very distant countries. Its activities are essentially industrial and commercial, and only slightly agricultural. In short, the nature, structure and economic context of England differ profoundly from those of the other States of the Continent...It is foreseeable that the cohesion of all of its members who would be very numerous and very diverse, would not hold for long and in the end there would appear a colossal Atlantic community under American dependence and leadership which would soon completely swallow up the European community."

Progress in the construction of a unitary European state resumed after De Gaulle's retirement and the admission of Britain, Denmark and Ireland on 1st January 1973. But the pace of change remained gradual until the collapse of the Soviet Union and the reduced dependence of Europeans on the US for their security. In 1992 the then British Prime Minister, John Major, believed that he had at least slowed the ratchet of integration when a 'subsidiarity' clause was inserted in the Treaty of Maastricht, which also gave Britain an opt out from the euro. Its aim was to return powers to the national level whenever a case could be made for doing so on grounds of efficiency. Mr Major was sufficiently impressed by his 'triumph' to claim that as much as 25 per cent of EU legislation would be withdrawn. In fact, not a single revision has been made under this provision for the simple reason that its thrust was entirely negated by other passages in the treaty.

The Blair record

The Blair governments have been no more candid and no more open about the impact of 'ever closer union' on Britain's freedom of action, than most of their Conservative predecessors. According to his biographer, John Rentoul, Tony Blair has been keen on Britain "playing a larger part in Europe" - which he takes to be synonymous with playing a larger part in the EU - ever since first entering politics, believing that a pro-EU stance would make the British Labour Party appear more 'modern.'¹³ However, in 1983, when Labour was still committed to withdrawal from the EU Blair was far more ready to conceal his own beliefs than other pro-Europeans in the party. His election address to his constituents at Beaconsfield promised "withdrawal from the EEC which has drained our natural resources and destroyed jobs." In a famous article in the British tabloid newspaper *The Sun*, immediately prior to the 1997 British General Election which swept his party into power, Blair declared: "New Labour will have no truck with a European superstate. We will fight for our independence every inch of the way." His words were echoed in the party's manifesto which promised the retention of the national veto "over key issues of national interest." Mr Blair now says that membership of the euro - to which his government is committed in principle - is part of 'Britain's destiny.' In the most Federalist speech made by a British Prime Minister to date he has called for the strengthening of all major EU institutions, including the EU Parliament, the EU Commission and the EU Presidency, steps which can only result in a further diminution of Britain's independence.¹⁴ However, he continues to deny that the ultimate destination is a European superstate; rather the outcome will be a wholly unique political entity: "a superpower not a superstate." He has not, however, explained how this new Europe could acquire the influence and status of a "superpower" without also acquiring the attributes of a superstate.

In contemporary British debate much of the controversy about the European Union has revolved around the Convention on the Future of Europe and its Draft Treaty Establishing a Constitution for Europe. Based superficially on the Philadelphia Convention of 1787 the Convention was set up under the chairmanship of the former French President Giscard d'Estaing following the Laeken Declaration of 2001 which called for a more democratic Europe. The

Declaration had merely suggested that 'this might lead in the long run lead to adoption of a constitutional text.' The federalist ambitions of the Commission, combined with Franco-German agreement on the way forward, however, were sufficient to ensure that it was the latter ambition that was pursued with vigour while the aim of making Europe more democratic was wholly neglected.

At the time of writing inter-governmental talks to approve the text are stalled, the Italian presidency having failed to achieve agreement on a final version by its December 13th 2003 deadline. The reasons for the failure reflect differences over the voting rights of smaller nations and have little directly to do with the fundamental character of the emergent European state; all of the governments of the EU '15' as well as those of the 10 accession states remain firmly committed to the goal of a European Constitution. While there still is disagreement over a relatively small number of clauses in a very long text (160 pages), there can be no question about the status or main implications of the document. This is intended to replace all existing EU treaties and has, as its central purpose, the supplanting of existing national constitutions as the supreme source of legal and political authority.¹⁵ The constitution will give the EU full legal personality (thus enabling it to sign treaties), increase the number of areas in which decisions are reached by qualified majority voting (thus restricting the use of the national veto), confirm primacy of EU law over national law; and provide for the coordination of economic and employment policies. In the case of external policy - a key issue for those in America who would like to see Europeans play a more supportive role in international affairs - Giscard's draft proposes the appointment of a European foreign minister. The draft states: "The Union's competence in matters of common foreign and security policy shall cover all areas of foreign policy and all questions relating to the Union's security, including the progressive framing of a common defence policy, which might lead to a common defence."¹⁶ It continues: "Member states shall actively and unreservedly support the Union's common foreign and security policy in a spirit of loyalty and mutual solidarity and shall comply with acts adopted in this area. They shall refrain from action contrary to the Union's interest or likely to impair its effectiveness."

Moreover, if the US expects Britain to use its position on the UN Security Council to form common positions, as we did so often in the past, it will be disappointed. The draft Constitution makes it perfectly clear what is expected of Her Majesty's representative to the UN: "When the Union has defined a position on a subject which is on the United Nations Security Council agenda, those Member States which sit on the Security Council [Britain and France] shall request that the [European] minister for Foreign Affairs be asked to present the Union's position."¹⁷

The Government's repeated assertions that the draft of the constitutional treaty is basically "a tidying-up exercise" therefore greatly underestimates the scale of what is proposed. Even before Giscard's Convention began its task, the European Union bore little resemblance to the strictly commercial undertaking which the British people believed they had voted for in 1975. However, until his text is ratified by member states and Europe acquires a constitution, it will remain just possible to argue that the European Union is a matter of treaty relations between independent states. After that date – probably some time in 2004 – the European state will have arrived and such claims will lack all credibility; indeed, one of the few virtues of the constitutional text is that it provides an authoritative source against which the claims of ministers may be measured¹⁸.

The Importance of a Referendum

Even though there was no reference to the proposed European constitution in Labour's 2001 manifesto and that he consequently cannot claim to have a popular mandate in this matter, Mr Blair is adamant that there should be no referendum.

Public opinion polls show that between eighty and ninety per cent of voters believe that a referendum should take place to determine whether Britain ratifies a constitutional treaty, with roughly two thirds indicating that they would vote against. Ninety per cent of the members of the Convention

believe that there should be referenda throughout the EU if the document is to have legitimacy, and some have expressed fears about the potentially explosive implications of moving ahead without democratic sanction. At the time of writing, it seems likely that at least seven EU countries will hold national plebiscites on this issue, probably on the same day and in the UK both main opposition parties have joined the growing chorus of demands for a British referendum. In rejecting this chorus ministers have cited precedent and “constitutional reasons”, the latter being the most cynical of all possible justifications since the fundamental purpose of the EU constitution is to supplant the existing constitution of Britain and of other member states. Moreover, the government’s own record belies its claim that matters are “not settled this way in the UK.” Thirty four referenda have been held in the UK since Mr Blair became Prime Minister in 1997, including one to determine whether the North eastern city of Hartlepool should have a mayor. The Government also remains committed in principle to holding a referendum on entry to the euro.

The European Union already has its own parliament, executive, supreme court, currency, prosecutor, army, anthem, and emblem; it is soon to have a constitution which will provide other attributes of a modern state: among them, full legal personality, a president, and a foreign minister. But although construction of the European Union proceeds at a remarkable pace, it is still a work in progress and this will continue to be the case once the constitution is in place. During the present rounds of negotiations some concessions may be made to national leaders such as Tony Blair who face strong domestic opposition to the constitution (although every concession won will have to be paid for by matching concessions in other areas.) But whatever the outcome of the present round of negotiations the integrationist process is likely to continue in accordance with the long-standing objective of ‘ever-closer union’ and the European ideology which informs it.

THE EUROPEAN IDEA

Like most Americans (who expect to be liked and are deeply perplexed when they find that they are not), Europe's foremost Atlanticist, the former British Prime Minister Margaret Thatcher, was slow to grasp the inevitability of the EU's anti-Americanism and to understand the ideology from which it springs. Having done so, she described the first of these phenomena with customary vigour at a conference, whose purpose, ironically, was to prevent Europe and America drifting further apart, as follows: "Were it [a European state] to come about, another great power would have been born - equal or nearly equal in economic strength to the United States. Does anyone suppose that such a power would not soon become a rival to America? That it would not gradually discover different interests from those of the United States. That it would not by degrees move toward a different public philosophy - one less liberal, more statist? And that it would not eventually seek to establish its own military forces, separate from those of the United States?"

"If this Europe were not to follow the path to separate great power status, it would be the first such power in history to renounce its independent role. It would have pioneered a new course in self-abnegation. It would have chosen moral influence over political power. The history of Europe - bloodstained, as well as idealistic - should not encourage us in these fantasies."¹⁹

Lady Thatcher offered only a brief description of the public philosophy to which she believed the New Europe would move. Her choice of adjectives was apt: the New Europe is quite obviously more statist (even if some like Tony Blair insist that it is a 'power' rather than a 'state') and it is less liberal than the United States in the classical sense of that word. However, in one respect she got matters the wrong way around. The EU has been shaped by a set of ideas: those ideas are not the consequence of political integration but the foundation on which it has been constructed. In addition to hostility to the nation state, those ideas are characterised by a desire to manage economic and political life in such a way as to create consensus and to exclude or marginalise those whose behaviour or views are judged to be out of step (in this respect the architects of New Labour and the architects of the New Europe have a good deal in common). They are also characterised by a

preference for group rights over individual rights and an innate dislike and fear of robust or 'unmanaged' competition in both the political and economic spheres.

Hostility to the nation state is often attributed to the understandable desire of the post-war generation of European political leaders to avoid a repetition of the blood-letting which engulfed the European continent twice during the first half of the last century. But, while those at the forefront of further integration stress that the EU is an entirely new post-modernist construct, several authors have pointed to the close similarities between the champions of "ever closer union" and corporatist and fascist theorists of the 1920s and '30s. The latter also argued that an international order based on nation states was inherently unstable and that larger regional groupings were inevitable as the result of the improvements in communications and transport. They also argued that unity required a single European currency zone and that, while markets and entrepreneurs had a role they 'lacked a social conscience' and must consequently be managed in the common good. In common with the architects of the EU, they sought the harmonisation of labour markets and social welfare.

As John Laughland has shown, contrary to widespread belief, the Nazis were not rabid nationalists, but generally hated the nation-state, having been convinced that it did not provide a viable economic and political model.²⁰ Hitler told the Reichstag on 7th March 1936:

"... The European people represent a family in this world...It is not very intelligent to imagine that in such a cramped house like that of Europe, a community of peoples can maintain different legal systems and different concepts of law for very long."

Like the present architects of the EU, Nazi theoreticians even argued that the best way to avoid war was by means of European political integration, that is by destroying the sovereign power of nations. According to one of them, the aims of the Second World War were "to bring about and guarantee lasting peace for European countries... removal of causes of European wars,

especially 'the balance of power' system... overcoming European particularism by free peaceful cooperation among European peoples... The only requirement is that European states must be honestly loyal to Europe, of which they are members."²¹

Even during the post-Second World War period Fascist writers, such as Oswald Moseley, the former leader of the Union of British Fascists, continued to put the case for European economic and political integration, arguing that without unity the independent states of Europe would be doomed to economic decline. In a book entitled *Europe Faith and Plan - A Way Out from the Coming Crisis and an Introduction to Thinking as a European*, published in 1958, he concluded: "We require a closed system to the extent of being independent of the world cost system, but within the necessary area it can be a free economy."

Such ambivalence towards the market order typifies attitudes that are common in the economic councils of Europe (even if they sometimes have to be disguised) as the following comments by recent French Prime Minister, Edouard Balladur, make clear:

"Can we [Western Europeans] take it for granted that we will remain sufficient leaders in a sufficient number of sectors to survive – in the face of countries with populations infinitely larger than ours and with levels of social protection infinitely smaller. I say we should leave this to the market, but only up to a certain point. What is the market? It is the law of the jungle, the law of nature. And what is civilisation. It is the struggle against nature."²²

None of this is to suggest that the ideas underlying the project of European Union are identical to those of the Nazis. The contemporary advocate of European Union rejects violence as a means of solving disputes and does not preach theories of racial superiority. But it is to deny that the concepts and aims underlying modern-day European integration are entirely new, to point to their antecedence and to draw attention to some disturbing parallels.

But if the modern European conception of political society makes clashes with the US inevitable so, too, does its conception of power. For while the former

(i.e. the conception of political society) rejects the use of force, seeking to enter what Robert Kagan²³ described as “a post-historical paradise of peace and relative prosperity” the United States necessarily remains in the more familiar Hobbesian world of struggle and conflict. One of the many ironies of the present situation is, as Kagan also points out, that if the European “paradise” is at all reachable, this can only be because the United States remains outside on guard in order to protect its erstwhile allies. It also presupposes that while serving on guard duty the United States is prepared not only to overlook the chorus of scathing criticism coming from those within, but also the numerous attempts to frustrate it in the international arena. The reasons for these are not difficult to discern. Successful regime change in Iraq, like the creation of a system capable of defeating missiles fired by ‘rogue’ states, represents the triumph of “hard power” over “soft power” while enhancing US influence. This is bound to irritate those who wish to establish a rule-based international order founded on compromise and trans-national cooperation via the UN. In the case of France such attitudes are combined with elements of traditional approaches to foreign policy questions. Were it in the realm of economic possibility, France would dearly love to lead a modern well-equipped defence force under unified command.²⁴ Realising the impossibility of such a course, it consequently sees some advantage in a race in which the US is not competing namely that of moral exhortation.

THE BETRAYAL OF DEMOCRACY

The principle that US interests are most likely to be served by the extension of democracy has been one of the foundations of post-Second World War US foreign policy. This policy was triumphantly vindicated in the case of Western Europe where its war-shattered nations were restored to political pluralism. This achievement made possible the creation of institutions of Atlantic cooperation which helped lay the foundation of peace and growing prosperity for more than half a century despite the ideological threat posed by the Soviet Union.

But US policymakers have been remarkably slow to grasp that the supranational institutions of the new top-down Europe (to which the once independent European states have ceded sovereignty) are remarkably undemocratic. Their nature raises important questions about the long term stability of this new political entity, as well as about the future relations between the EU and the US. Such doubts are reinforced by the history of other multi-lingual political federations which have been imposed top down by unrepresentative political elites, as in for example the Soviet Union and Yugoslavia.

As we have shown, the means by which the EU has been created was itself profoundly undemocratic since the nature of what was proposed was in many instances systematically concealed from the electorate. Indeed they were lied to and almost certainly it could not have been created in any other way. A political democracy assumes the existence of a demos, and this condition stands no chance of being met in the EU. There is no 'European people' and no such thing as European public opinion, or a European 'public space'. And if people do not feel common bonds of allegiance and obligation there is the ever present possibility that some will not accept majority decisions which they believe discriminate against them or unfairly favour others. Such bonds can only be achieved through the process of shared historical experience.

In order to respond to criticism the Commission has devised a number of cultural and political strategies - some hilarious, some sinister - with the aim of creating a sense of European consciousness and of weakening national identities. It has also sought to create a civil society which is sympathetic to the goal of European political integration, but European Man has resolutely refused to be born. Indeed, the Commission's own polling data suggests that the more people know about the European Union, the less they like it and the less European they feel themselves to be.²⁵ According to its findings more than 50 per cent of Britons, Greeks, Swedes and Finns, and almost equal number of Irish, Dutch and Portuguese, say that they feel no sense of European identity whatsoever. The findings showed that a sense of such identity was most common in the Accession countries of Central and Eastern

Europe, where, on the Commission's own admission, the electorate is basically ignorant about how the EU's political structures work.

The so-called 'democratic deficit' is widely acknowledged as a source of political embarrassment. According to Ralf Dahrendorf, a former EU Commissioner and ex-Director of the London School of Economics, the EU's decision-making processes are an "insult to democracy."²⁶ He added: "It is no joke to say that if the EU applied for accession to the EU it would not be admitted because it is insufficiently democratic... This is all the more important at a time when the Union is trying to venture out of the constraints of the single market into all kinds of new areas, notably in the foreign and security policy area and in the justice and home affairs field... Far from being a successful step in the direction of applying democracy beyond the nation state, Europe proves that this is all but impossible to achieve."

Dahrendorf's comments accurately echo sentiments of many of those who have built the European Union or are still engaged in its construction. But, most significantly, his comments show that those who hold them do not believe that the undemocratic nature of the present structures is sufficient cause for rethinking the European project ab initio. If it "is all but impossible" to achieve democracy in the kind of Europe favoured by the political elites in Paris, Berlin and Brussels the casualty will be democracy, not the pursuit of ever-closer union.

In autumn 1991 a group of European "wise men" including Roy Jenkins, the former British Chancellor of the Exchequer and former President of the European Commission, and several former European Prime Ministers declared that the 'democratic deficit' meant that the EU was in "a major crisis" but, like Dahrendorf they were unwilling to make the fundamental shifts in thinking that would have enabled them to repair the deficit; they consequently restricted themselves to a series of vapid generalities.

The admission that a dangerous gulf was emerging between European institutions and the European electorates was implicit in the Laeken

Declaration which followed the meeting of the European Council in the Belgian city of that name in December 2001 and which set up the Convention on the Future of Europe. The European Union was “a success story,” it declared. But it continued: “Fifty years on, the Union stands at a cross-roads, a defining moment in its existence.” The EU was “behaving too bureaucratically” and its citizens wanted its institutions to be “less unwieldy and rigid, and above all, more efficient and open...they feel that deals are all too often cut out of their sight and they want better democratic scrutiny.” The Declaration also acknowledged that many wanted to see national parliaments play a greater role so as to bridge the widening gulf between the EU and the people.

That the gulf would however grow wider and the workings of EU institutions become even more bureaucratic was apparent from the way in which the Convention on the Future of Europe, headed by Valerie Giscard D`Estaing, went about its task. According to one of its members:

“The Convention rapidly became less a deliberative body and more of an institutional bargaining forum. In this process the national parliamentary members were at a disadvantage despite being in a majority (56 out of 105). Coming from many different parliaments and political cultures, they were the tourists of the Convention, and repeatedly failed to act or speak as a coherent body of opinion.”

“By contrast the European Parliament and the European Commission were both playing at home. The EP, though politically diverse, has its own institutional ambitions, particularly to take more powers from the Council of Ministers and prevent any repatriation of powers to member states or national parliaments. The most focussed institution of all was the Commission. As the self-proclaimed repository of the European ideal, the Commission worked full time on stage and behind the scenes, to consolidate existing powers and obtain new ones.”²⁷

More recently still, the British Labour MP Gisela Stuart, a member of the 13-member inner drafting Praesidium, has complained about the profoundly anti-democratic way in which the Convention fulfilled its task:

“Not once in 16th months I spent on the Convention did representatives question whether deeper integration is what the people of Europe want, whether it serves their best interests or whether it provides the best basis for a sustainable structure for an expanding Union. The debate focussed solely on where we could do more at a European level. None of the existing policies were questioned.”²⁸

A Problem of Language

The absence of a common language poses particular problems in a democracy: in the new enlarged Europe of 2004 there will be no less than 19 languages, but not the remotest possibility that English, the most widely spoken of them, will ever be designated as the official language. The problems include not merely the practical ones flowing from the need to shuttle hundreds of translators and millions of pages of documents between the parliament buildings in Brussels and Strasbourg, but the more fundamental ones arising from lack of a common medium through which political discourse may occur; these are compounded by widely divergent national mores, legal traditions, prejudices, and preoccupations

John Laughland has expressed the matter extremely well:

“...a common language is an important element of statehood and democracy. Without one, the commonality which is essential to judgement, evaluation and purpose in human life is impossible. It is very difficult to exaggerate the importance of a common language as the constituent element of politics and law. States and nations grow and persist as commonalties sharing a common tongue. Peoples arise out of languages, not languages out of peoples. A language is the means by which men make sense of the world and of

themselves. Language is indispensable to commonality, intelligence, politics and freedom.”²⁹

The EU maintains the outward forms of democracy - elections, parliamentary debate, referenda - but the entire system is designed in such a way as to exclude or circumvent genuine democracy in favour of what are purported to be purely technical or managerial forms of cooperation. Such forms are expressed by means of a jargon that is incomprehensible to the average voter, or in which the meaning of words such as “competencies,” “pillars,” “subsidiarity” and so on differs from customary usage.

The absence of a genuine demos and an authentic European ‘public space,’ the lack of common goals and values among national contingents, together with the language problem, all ensure that the democratic deficit cannot be filled by the European Parliament. To date it has remained a talking-shop with no real ability or even ambition, except on rare occasions, to constrain the executive, even though its formal powers have grown.

This situation helps explain why the turn-out in EU elections has steadily fallen - from 63 per cent in 1979 to 49 per cent in 1999, despite the fact that voting is compulsory in three EU countries. In Britain (where few voters can name any of the MEPs who represent them) it has fallen from 31.6 per cent in 1979 to 24 per cent in 1999, with a turn-out of less than 10 per cent in some areas (compared to the turn-outs in the British General Elections of 70.9 in 1997 and 59.4 per cent in 2001).

Democratic participation can scarcely have been encouraged by the determination to ignore popular sentiment when it runs counter to EU ambitions. In 2000, the Danes rejected the membership of the euro in a referendum, but the Danish government seems set on staging another referendum as soon as the polling data indicates that there is a hope of success. In 2001 the Irish voted against the Nice Treaty but were told, in effect, that they had given the wrong answer. After millions of euros were poured into a pro-Treaty campaign, and subtle changes were made to the

question under consideration, the decision was reversed the following year at a second referendum.

If the Convention on the Future of Europe headed by Valerie Giscard d'Estaing was to fulfil the obligation placed upon it in the Laeken Declaration to repair the 'democratic deficit' this could only have been by strengthening the role of national governments and parliaments. But this it has demonstrably failed to do this. The Prime Minister, and Peter Hain, the British Government's representative on the Convention, have claimed that henceforth national parliaments will be treated with 'new respect.' It is true that under the terms of the treaty, members of national parliaments will be sent draft proposals. Their only power, however, will be to submit "a reasoned opinion" if they believe that such proposals would breach the principle of subsidiarity. But even if a third of national parliaments do not like a proposal, the only obligation placed upon the Commission is to review it, after which it may withdraw, amend or simply maintain the proposal in its existing form.

A culture of corruption

Lack of democratic accountability has produced a veritable culture of corruption and nepotism which led in 1999 to enforced resignation of the entire College of EU Commissioners after one of its number, Edith Cresson, was found to have made "health consultancy" payments to the unqualified dentist with whom she was living.³⁰ Following the departure of President Santer and his colleagues, the task of rooting out corruption was given to Neil Kinnock, a former leader of the British Labour Party, who was made vice-president of the Commission in charge of administrative reform. To date, despite a new wave of allegations, Mr Kinnock has the unenviable record of having dismissed more whistle blowers than criminals. Those who have tried to draw attention to specific cases of wrongdoing have complained of being intimidated by their bosses, and even of having been followed.

The scale of the problem is difficult to estimate, partly because Eurostat, which is the guardian of the EU's financial statistics, has itself been at the

centre of fraud allegations and cannot be relied upon to produce honest figures. In May 2002 Britain's National Audit Office (NAO) reported that, during 2000, member states uncovered fraud and irregularities in the spending of £723 million of EU funds, an increase on the previous year. Britain reported 968 cases of fraud involving £237 million. But such figures relate only to matters which national governments know about and are prepared to divulge. A senior partner at Ernst and Young has calculated that around five per cent of the Commission's budget - or almost £4 billion - goes missing every year, but even this may well underestimate the scale of the problem. This is so deeply ingrained that the Court of Auditors has been unwilling to approve the accounts for a decade.³¹

What is clear is that the problem of corruption goes to the heart of the European project and cannot be solved in the absence of democratic accountability and a proper separation between political and investigative functions.

DOES EUROPE HAVE AN ECONOMIC FUTURE?

If the US has been disappointed in its expectation that the EU would provide a reliable and stable partner in the international arena, it also has ample grounds for disappointment with EU policies on the economy and trade. An outward looking Europe that embraced open markets and free trade would serve US interests, as well as those of European consumers. The reality is an economy characterised by low growth, rigid labour markets, increasingly intrusive regulation, high and rising taxes, and a high level of trade protection in some sectors, all of which explain the high unemployment which Europe has experienced for more than a decade.

Also it should not be overlooked that the two most prosperous European states - Norway, which enjoys a higher GDP per capita than the US, and Switzerland, which is only fractionally behind – are not EU members. As in the countries within the EU, support for EU membership in Norway and Switzerland is strong among political elites and the opinion-forming classes, but has been very firmly rejected by the electorate. The Norwegians turned

down EU membership in referenda in 1972 and 1994. In March 1971 a referendum proposal to begin entry negotiations with the EU was turned down by 77 per cent of Swiss voters. Moreover, those EU economies which have recently performed relatively well are those which are the least well integrated economically i.e. those that remain stubbornly outside the eurozone: Britain, Sweden, and Denmark. These facts scarcely provide the basis for arguments in favour of further economic integration of the kind upon which the EU is presently embarked.

The burden of regulation

As noted earlier, regulation has been the means by which the EU was to be created and through which supra-national institutions were to be established and strengthened. In Britain, as in America, regulation has many more pejorative than positive connotations, but this not the case in most parts of the EU where the growing body of regulations is regarded with pride. The EU's institutions are averse to any differences they perceive among member states and are not prepared to let these differences be evened out over time by the normal processes of competition: instead the EU has a strong desire to 'harmonise' and to impose 'solutions'. Attempts at harmonisation usually take the form of increased regulation. "Thanks to regulation, Europe is taking some tremendous steps forward," the then French Prime Minister Lionel Jospin, declared on 30th January 2002.

The cumulative impact of regulation would take a multi-disciplinary team years to quantify;³² it is not even clear how many regulations have emerged from the Brussels machine. When pressed on the matter, a British minister said that "as far as the Government has been able to verify" the number of sets of regulations enacted between 1973 and 2002 as a result of EU membership was 101,811. But Britain, like other applicants, was obliged to adopt the *acquis communautaire* - the existing body of EU regulations and directives existence - on entry.³³ The total number of sets of regulations to which British citizens are subject as the result of EU membership may be in excess of 200,000, with an average 2,500 new sets of regulations being added each

year. However, following negotiations with the Commission, the 10 new members joining in 2004 will be required to transpose into national law only a mere 26,000 items of legislation (although what proportion of these will actually be observed is another matter).

In addition to furthering important political goals, regulation also serves to protect markets from more competitive newcomers. In Poland, for example, the cost of conforming with EU environmental standards is estimated at around 40 billion euros - a sum equal to the Polish Government's total annual budget - over a transitional period ending in 2015. But the adoption of the *acquis* by the accession states will have unintended as well as intended consequences. As Patrick Minford has pointed out: "The regulation of new entrants will also damage us, as they have so far been a source of competition through their free trade agreements with the EU."³⁴

The Common Agricultural Policy and Trade Liberalisation

Indeed, the tendency of EU economic measures to damage the fundamental interests of members is one of their most striking characteristics. Consider the impact of the Common Agricultural Policy (CAP). The trade-distorting consequences of the CAP are well known, as is its impact on the world's poorest states which are denied access to European markets and find themselves up against heavily subsidised European competitors.

Nevertheless, it is taken for granted that the French do well out of the CAP (receiving \$27.1 billion out of a total EU agricultural subsidy of \$117bn during 2002) even if consumers throughout the EU end up paying 40 per cent extra for their food as a result. However, it tends to be overlooked that even judged by the original aims of the CAP, that of slowing down the drift of population from rural areas to the cities and of arresting the decline in farm wages (aims set by the French architects of the policy), it has been a monumental failure. As the distinguished Chicago economist Gale Johnson has noted: "...despite the immense costs borne by consumers and taxpayers it has failed to achieve a fundamental purpose, that of preventing the decline in farm employment; it [the CAP] may even have been unsuccessful in moderating the rate of

decline...The CAP has succeeded in increasing the price of land, but it is impossible to identify any worthwhile social objective which has been achieved as a consequence....Trying to keep the workers down on the farm was a vastly expensive and impractical endeavour.”³⁵ Moreover, it is already clear that the recent “reforms” - more accurately a Franco-German deal intended to stave off genuine change - will not result in falling food prices or a reduction in the cost of the CAP, or to the opening up of the EU market to agricultural products from the Third World.

Even where genuine liberalisation occurs - for example, as the result of the Single Market - the EU, handicapped by regulation and inflexible markets, has not been able to take advantage. According to figures from Eurostat, the EU’s own statistical agency, between 1992 and 2000 US exports to the Single Market grew over twice as fast as those of France and Germany – even though the US does not have a free trade agreement with the EU and consequently its exports, unlike those of France and Germany, have to surmount the barrier of the EU’s common external tariff. The US performance was closely followed by Britain, which is not constrained by the straightjacket imposed by membership of the Single Currency and whose exports to the Single Market grew about twice as fast as those of France and Germany. Even Japanese exports to the Single Market grew 27 per cent faster than those of France and Germany although, like the US, Japan does not have a free trade agreement with the EU and was in recession for much of this period.³⁶

The Euro

It is perhaps too soon to make a definitive judgement about whether the introduction of the euro has failed in its central purpose of creating political unity, or whether it has led to heightened tensions as members blame one another for the eurozone’s dismal performance.³⁷ The record to date, however, strongly suggests that the latter view is likely to prevail as tensions rise. For example, articles blaming Germany for holding back any economic recovery are a staple ingredient of the newspapers in all of the 12 eurozone

members, while German economic commentators customarily attribute their country's prolonged economic stagnation to loss of control over interest rates to the ECB, a view which is shared by among others Professor Milton Friedman³⁸ and Sir Eddie George³⁹, the recently retired Governor of the independent Bank of England. So far the record not only suggests that there is no one interest rate that suits all in an economy where labour mobility is low, where there is no common language, and where there are no inter-state transfers of the kind which exist in the US, but also that it is difficult in practice to find a rate that suits anyone. For while rates have been too high for France and Germany - with some analysts arguing that zero rates would slash the German unemployment figure by 600,000 - they have been too low for Spain, Italy, Greece and Ireland. In the last, dissatisfaction with the consequences of the ECB interest rate policy has coloured attitudes towards the EU in general terms leading to the creation of a robust euro-sceptic movement in a country which once proudly proclaimed its EU credentials, a pattern which is likely to be repeated elsewhere.

In August 2003, the Swiss banking group UBS calculated the 'correct interest rate' for each eurozone country - and found that not one of them matched the prevailing 2 per cent rate of the ECB. Among EU members, the only country with rates that reflected economic conditions was Britain which, of course, remains outside the eurozone. Nor have some of the other supposed benefits of euro membership materialised. Members of the UK government have often made extravagant claims about the trade effect of currency union. This, it is claimed, could come either because of the elimination of exchange rate volatility or because of the absence of transaction costs and greater price transparency - with the Treasury pointing to studies purporting to demonstrate that the boost to trade resulting from this might be as great as 60 per cent. But having posed the question "Has EMU raised euro area trade?" the UK Treasury states in its 2003 Assessment of the Chancellor's Five Tests: "Simple analysis of recent trends provides some evidence of increased trade as a percentage of GDP within the euro area. This may be a short term phenomenon and cannot be firmly ascribed to the euro... Intra-euro trade as a proportion of total trade has in fact fallen for all euro countries

except Luxembourg since 1999.” In other words, there is no evidence that neither the elimination of currency volatility nor the ‘trade effect’ has any impact on the volume of trade, and no evidence that intra-euro trade has increased since the inception of the single currency in 1999.

As enthusiasts for British entry have run out of credible reasons for joining the euro they have placed increasing emphasis on the advantages of exchange rate stability, arguing that recent instability had resulted in job destruction on a major scale. While joining the euro would obviously eliminate instability in the case of intra-eurozone transactions, it would not eliminate instability in the case of transactions with the wider world, most of which are carried out in US dollars. As a currency of invoicing the dollar usage by British exporters is at least 1.6 times that of the euro, which remains a regional currency. Despite prevailing uncertainties, following its departure from the Exchange Rate Mechanism in 1992, sterling continues to be the least volatile freely floating major currency when measured against the dollar, the world’s dominant currency. If exchange rate stability were to be adopted as the central aim of UK policy the lesson is clear. It is to keep the pound.

Unlike the UK, which enjoys an opt-out from the single currency, accession states⁴⁰ will not possess the right to retain their national currencies and will be expected to adopt measures which achieve early economic convergence with the eurozone. Whatever the impact on the economies of the new members, the inclusion of states with widely divergent economic conditions is bound to increase the volatility of the currency.

Europe’s declining prosperity

The depressant effect of eurozone membership is clearly reflected in significant changes to the EU’s prosperity rankings: the weighted average GDP per capita of those outside the eurozone is now 19 per cent higher than that of eurozone members. The UK’s prosperity ranking has improved from tenth in 1998 (the year prior to the introduction of the euro) to fourth in 2001,

while the two biggest eurozone countries, Germany and France, rank tenth and eleventh out of 15 (see Table 1).

Table 1: EU Prosperity Rankings 2002

Country	GDP ¹ \$ billion	Population millions	GDP ¹ per capita \$	Rank 2002	Rank 2001
Luxembourg	21.0	0.44	47,727	1	1
Denmark ²	172.1	5.36	32,108	2	2
Ireland	119.9	3.84	31,224	3	3
Sweden ²	240.3	8.90	27,000	4	6
Netherlands	417.9	15.97	26,168	5	5
UK ²	1563.6	59.76	26,165	6	4

Finland	131.5	5.20	25,288	7	8
Austria	204.1	8.13	25,105	8	7
France	1431.3	59.19	24,181	9	11
Germany	1984.1	82.31	24,105	10	10
Belgium	245.4	10.23	23,988	11	9
Italy	1184.3	57.35	20,650	12	12
Spain	653.1	40.27	16,218	13	13
Greece	132.8	10.54	12,600	14	14
Portugal	121.7	10.06	12,097	15	15
EU 15	8623.1	377.55	22,840		
Eurozone 12	6647.1	303.53	21,899		
<u>Outs</u>	<u>1976.0</u>	<u>74.02</u>	<u>26,695</u>		

1 Gross Domestic Product at Current Prices and Exchange Rate

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2 Countries outside the euro

Comparison between the EU and NAFTA is even more striking. During the three years 1998-2001 GDP at current prices and exchange rates in NAFTA rose by 17.5 per cent, compared to a fall of 9.1 per cent for the eurozone (see Table 2).

Table 2: GDP @ Current Prices & Exchange Rates: Change 1998-2001

NAFTA (USA, Canada, Mexico)	+17.5%
Of which USA	+16.3%
Eurozone	-9.1%
Of which Germany & France	-12.2%
Of which other 10 Eurozone members	-5.5%
UK	No change
Japan	+5.1%
Switzerland	-5.7%

Source: eurofacts, 29th November 2002

The figures demonstrate just how unrealisable the goal of economic parity with the US has become and the speed at which wealth gap is widening: in 1998 the US economy was a mere 30 per cent bigger than that of the EU and it was possible for europhiles to imagine that Europe might catch up; three years later American GDP was 66 per cent bigger and any such hopes lay in the realm of fantasy.

The pattern of spending levels on R&D and demographic factors suggest that these trends are set to continue. The EU currently spends 1.03 per cent of GDP on R&D compared to 2.69 per cent in the US. While there is no correlation between the level of R&D spending and the rate of economic growth – success, of course, depends on how well R&D funds are used, not on the total spent – there is considerable evidence that privately spent R&D produces more identifiable economic benefits than are achieved through such investment by the state. Figures published by the EU Commission in December 2002 show that private investment accounts for 56.3 per cent of the European R&D total compared to 68.2 per cent in the US – all of which suggests that the US is not only spending more, but spending better. This belief is strengthened by a recent report from the European Round Table of Industrialists (ERTI) which shows that disincentives to R&D investment by the

European private sector are growing and include a lack of regularity and certainty, poor co-ordination of R&D assets, a diminishing skills-base in high technology, barriers which prevent researchers crossing borders, poorly paid and motivated research staff and badly equipped university laboratories.

Curiously, such reports receive scant attention in the debate about Europe's economic and political future. There is no doubt, however, that Germany's dismal economic performance (along with French and German arrogance in ignoring the terms of the EU's Growth and Stability Pact, and combined with widespread concerns about the 'democratic deficit') were major factors behind Sweden's emphatic rejection of the euro on 14th September, 2003. Such considerations are also likely to play a part when the electorates of the 10 accession states come to express a view on membership of the euro, assuming of course that they are given the opportunity to do so.

While the US economy has recently been dragging the world economy out of recession, the eurozone has been tugging in the other direction. There is no doubt that without the stimulus provided by US recovery the EU's performance would be still more lacklustre. September 2003 IMF figures suggested that the US economy was growing over six times more quickly than the eurozone where growth for 2003 was projected at 0.5 per cent compared to 3.2 per cent for the US. Announcing another downward adjustment in the IMF growth forecast for the EU, Ken Rogoff the IMF's chief economic spokesman said that for the moment "most Europeans who want to see an economic recovery will have to watch it on TV." But, for reasons explained in the earlier section, the IMF's appeal for major structural reforms are likely to fall on deaf ears.

On present projections Britain is set to overtake Germany, once the engine and pacemaker of European economic growth as Europe's largest economy some time between 2010 and 2020. Although it sometimes seems that the Government does not know whether to be pleased or embarrassed by the fact, the UK also remains Europe's favourite investment location, out-performing all of its eurozone partners in attracting foreign direct investment.

Ministers have repeatedly suggested that this situation would not long continue if Britain remained outside the euro, while Ford and some other major manufacturers have forecast calamitous economic consequences if Britain was foolish to fail to join. In fact, the latest figures from Invest-UK, the government agency with responsibility for collating statistics on investment, show the opposite: 2002 was the second best year ever for inward investment since the agency took over responsibility for collating the statistics, despite a 20 per cent decrease in global flows of foreign direct investment. The figures also show that the US remains by far the largest investor in the UK, with 40 percent of new projects and 50 per cent of new jobs resulting from FDI attributable to investment from the US. Figures for average salaries demonstrate that Britain is attracting high quality investment⁴¹.

The demographic time bomb

Britain is also likely to be spared the consequences of exceptionally adverse demographic factors. During the last century Europe's population grew in absolute terms, but declined relative to the global population. In 1900 Europe accounted for one quarter of mankind - falling to 22 per cent in 1950 and to 17 per cent in 1975.⁴² But soon, starting in 2004, its population will fall in absolute terms. UN figures show that, in the absence of immigration, countries such as Italy, Spain and Germany will lose up to a third of their populations by 2050. Moreover, the European population is ageing as well as shrinking with fewer and fewer people of working age supporting more and more over-65s. UN figures⁴³ suggest that in order to keep the present support ratio (the number of workers to dependants) Europe would need to take in 159 million immigrants by 2025, and 700 million - almost as many as the present population of Europe - by 2050.

Apart from Luxembourg only two of the EU 15 are projected to experience population growth during this period, namely Britain and Ireland, the two English speaking off-shore islands. Although the inclusion of 10 new members will enlarge the formal boundaries of the EU, it will also have the effect of worsening this demographic problems described above: roughly speaking the

further east one travels, the worse the demographics become. All the accession states and possible EU candidate countries are projected to experience losses in working population by 2050. In the case of Hungary, this will amount to a fall of 40 per cent, in the case of Poland 34 per cent. Bulgaria 50 per cent, Estonia 65 per cent, and Latvia 59 per cent face the biggest drops in working populations. The working population of Russia, which has ambitions to become part of the EU and which has recently forged a Moscow-Paris-Berlin axis, is similarly set to shrink from 129.3m to 69.2m, a fall of 46 per cent. During the same period the working population of the USA is projected to increase by 54.3 million, an amount almost equal to the current population of France or the UK.

Such vastly differing demographic profiles are bound to have profound implications for political power as well as economic prospects. It is a measure of the unreality of much of the debate about the future of Europe that the deliberations of the Convention on the Future of Europe did not include discussion of the problems described above or indeed of their profound and wide-reaching implications. Until recently EU spokesmen and most commentators have tended to ignore Europe's economic decline, or to deny it. The Lisbon agenda promised structural change and "the most competitive and dynamic economy by 2050", a promise of which we have heard little since, perhaps because it is even less credible than when it was made. Recently, however there has been a greater readiness to admit to Europe's economic problems if not to acknowledge their extent. The European Commission's own report for 2002 (The EU Economy: 2002 Review) acknowledges that Europe's future may be one of deepening gloom:

"The choice now facing Europe is how it should address the effects of a significant structural determinant of its long run growth trend, namely ageing. If policies do not change, and especially if labour market reforms are not systematically introduced, then the EU will experience a very sharp downturn in the growth of living standards and its underlying potential growth rate."

But while a few EU officials and independent analysts are now prepared to stare into the abyss, a much smaller number is prepared to contemplate radical change. That there is no real desire to recast the European project in order to achieve the kind of flexibility that would allow change to occur with least possible pain is due to two closely connected factors: the continued adherence to the ideas described earlier, and flawed political structures which allow bureaucrats, politicians, and judges to pursue their own interests. The same tendencies exist in any state, but they are much more acute in a political setting in which political leaders and public servants are remote and unaccountable, in which decisions are not transparent, and in which there is no such thing as public opinion. All those within the Commission were aware that the plans for the introduction of the single currency in 1999 were deeply flawed, but no one regarded this as a sufficient reason not to push ahead. The underlying purpose was, of course, political as Romano Prodi frankly acknowledged: "It [the introduction of the euro] is not economic at all. It is a completely political step...The historical significance of the euro is to construct a bipolar economy in the world. The two poles are the dollar and the euro. This is the political meaning of the single European currency. It is a step beyond which there will be others. The euro is just an antipasto."⁴⁴

The determination to persist with policies which centralise economic decision-making and which the Commission knows to be flawed is a deeply ingrained trait which reflects the interests of the EU salariat. As Roland Vaubel has observed: "In the European Union, centralisation enhances the power and usually the prestige of the Union Institutions proper - the European Commission, the European Parliament and the European Court of Justice."⁴⁵ Decentralisation would not only interfere with the grand strategic role of creating a rival to the US by means of 'ever closer union,' but would impact on the careers, influence and prospects of thousands of articulate, highly paid and well-placed officials (including a significant number of ex-politicians who have been rejected at the ballot box in national elections at home). Tullock and Buchanan's public choice school of economics consequently provides an indispensable guide to the workings of EU institutions.

One of the frankest acknowledgements of Europe's economic problems is contained in a report from Institut Francais des Relations Internationales (IFRI) which forecasts a drop in Europe's share of world trade to only 12 per cent from its present level of 22 per cent by 2050 and suggests by that time the euro will be regarded as a second class currency. It concludes: "The enlargement of the European Union won't suffice to guarantee parity with the United States. The EU will weigh less heavily on the process of globalisation and a slow but inexorable movement onto history's exit ramp is foreseeable."⁴⁶ According to IFRI, by 2050 an EU of some 30 states will have a growth rate of 1.1 per cent, a North American trade grouping 2.3 per cent and Greater China 2.6 per cent. The fall in Europe's share of trade is inevitable no matter what policies are adopted to deal with the EU's problems which IFRI attributes to demographic change and America's "technological hegemony." IFRI's preferred scenario involves a programme of "integrated development" that includes Russia and the Arab countries of North Africa. Its aim would be create local scientific and technical elites and to "fix" these in their place of origin - i.e. prevent them from leaving to seek better wages in the US. In other words, the plan is typically French: dirigiste, highly sophisticated, hugely ambitious, highly centralised, and obviously unworkable. What is proposed is not some entirely new political prototype that uniquely meets the challenge of the 21st century, as Tony Blair likes to claim, but rather a backward-looking system of autarchy under Franco-German leadership supported by Russian military strength. If Britain's participation in this project is judged desirable by its EU partners it must surely be because they recognise that, were Britain to remain outside, then its relative prosperity and superior system of government would serve as a permanent reproach to its European neighbours. Future generations may be puzzled and perplexed about why Britain should have chosen to pass up that option in order to lock into economic failure.

CONCLUSION

Such are the huge disparities in economic, technological and military power and the prevailing trends that the ambition to create a unitary European state

as a countervailing force to the United States is doomed, but its pursuit continues to the detriment of the economic and security interests of both North Americans and Europeans. Nevertheless, having endorsed the project for half a century, many Americans seem reluctant to withdraw their support. Some evidently believe that while their original expectations have been disappointed, the process of European integration is so well established that any reappraisal of US policy towards the EU would produce more problems than it would solve.

That approach fails to take into account both the influence that the US could still bring to bear and the fragility of the political project now approaching fruition. In our view, the attempt to bring about 'ever closer union' will ultimately have to be abandoned, either as the mounting economic and political price of integration becomes more widely grasped, or because Europe's supra-national institutions break down.

Rather than wait for either to happen, the interests of the US would better served by a policy which sought to strengthen the position of those within Europe who recognise that the continent is proceeding down an historic blind-alley and wish to pursue other possibilities. It is surely time that American policymakers were more candid about the inevitable implications of particular EU measures.

In the security field this would mean making it clear that, however finessed, current plans for an autonomous European defence capability are not compatible with US interests and that the EU should not expect to make use of NATO assets as of right. It should also make plain that, however finessed, a common European foreign and security policy would mean the end to the sharing of intelligence with its UK ally because this entails too high a risk that such information will be passed to the enemy; we have long passed the stage at which behind-the-scenes warnings on these matters can be expected to produce results. If, as the British Prime Minister suggests, international terrorism and weapons of mass destruction are the greatest present threats to British interests then Britain cannot lightly put at risk a relationship which is

essential to dealing with both these problems. As a result of the Prime Minister's current high standing in the US, the risk of a breach between Washington and London would seem presently appear slight. In the long run, however, hard-headed calculations about America's national interests are likely to prevail.

A new US approach would also make clear that states that chose not to join the EU, or which came to have doubts about its value, would not be pushed into membership or discouraged from leaving. Moreover, there is surely something to be said for encouraging those with political values and outlook which are threatened by the European political project just as, during the Cold War, US foundations once backed private publications and organisations in Europe supporting democracy and the market economy. One obvious candidate for support is the "Anglosphere project" championed by the US entrepreneur and writer, James Bennett.⁴⁷ Bennett's central proposition is that the Anglosphere is defined neither by race or language but adherence to customs and values that form the core of the English-speaking nation's culture: individualism, the rule of law, respect for contracts, and the elevation of liberty to the first rank of political values. As Bennett has demonstrated, these societies provide the most favourable conditions for the creation of cooperative institutions in trade, defence, science, and technology, and, by virtue of their flexibility, are the best placed to exploit new economic and political challenges and to cope with external shock. The task of policy makers is to provide a sympathetic framework of law that allow such societies to flourish and to desist from the kind of interference that prevents them from doing so.

Lacking the flexibility of Anglosphere, it is difficult to be sanguine about how well the rigidly top-down EU will cope with the political pressures that will inevitably come when the public discovers that it has been deceived into placing its trust in an economic and political order that offers little in the way of prosperity and political accountability.

While America ponders such matters, the choices facing Britain are more urgent and acute. For decades it was possible for many to believe that, as long as the country positioned itself more or less mid-way between Europe and America in terms of public philosophy and economic outlook, minor adjustments could be made according to circumstance and all would be well. It is now obvious that the innately anti-American and anti-democratic character of the EU mean that, in as far as it was ever viable, that option is no longer available. For Britain therefore, the lesson ought to be clear. The more it is absorbed into the European project the more it will distance itself from self-government and the more it will be excluded from the huge economic and technological successes for which it is qualified by history and culture.

¹ A more measured assessment was provided by W R Lewis in *Rome or Brussels?* Hobart Paperback, Institute for Economic Affairs, London 1971 which displayed a shrewd awareness of the anti-liberal bias of the EU Commission.

² Bernard Connolly, *The Rotten Heart of Europe: The Dirty War for Europe's Money*, Faber and Faber, London, 1996, p 252-5.

³ *Financial Times*, 9th April, 1999.

⁴ Speech at The Hague, 19th January 1999.

⁵ Quoted in Christopher Booker and Richard North, *The Castle of Lies: Why Britain Must Get out of Europe*, Duckworth, London, 1996.

⁶ Noel Malcolm, *Sense on Sovereignty*, Centre for Policy Studies, London, 1991, p 25.

⁷ FCO 30/1048.

⁸ *Ibid.*

⁹ *The Daily Telegraph*, 23rd June 2003.

¹⁰ "Document: A Letter to *The Times*," BBC Radio 4, 3rd February, 2000.

¹¹ Kenneth Minogue, "Limits to Integration," in *Hubris: The Tempting of Modern Conservatives*, ed. D. Anderson and G. Frost, Centre for Policy Studies, London, 1992.

¹² The Commission initiates proposals for legislation, carries out policy, administers the budget and guards the treaties.

¹³ John Rentoul, *Tony Blair*, Little Brown, London 1995.

¹⁴ Speech given in Cardiff, 20th December 2002.

¹⁵ For a perceptive US perspective on the centralising tendencies inherent in an EU constitution see Clint Bolick, *European Federalism: Lessons from America*, IEA Occasional Paper 93, 1994.

¹⁶ The Draft Treaty Establishing a Constitution for Europe as submitted by the Chairman of the European Convention V Giscard d'Estaing to the President of the European Council in Rome on 18th July 2003, Article I-15, p.8.

¹⁷ *Ibid.* Article III-206, p.79.

¹⁸ The debate on the proposed EU constitution is covered in detail in *Economic Affairs* Vol 24 No 1 March 2004.

¹⁹ Quoted in *The Congress of Prague*, ed. Gerald Frost and William E. Odom, AEI, 1997.

²⁰ For an incisive and comprehensive account of the antecedence of the European idea, see John Laughland, *The Tainted Source*, Warner Books, London 1997.

²¹ Note for the Reich Foreign minister, probably September 1939; quoted in Laughland.

²² *Financial Times*, 31st December, 1993.

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- ²³ Robert Kagan, *Paradise and Power: America and Europe in the New World Order*, Atlantic Books, New York and London, 2003.
- ²⁴ President Chirac told a press conference in Paris on 29th May 1999, "European Union cannot fully exist until it possesses autonomous capacity for action in the area of defence"; more than half a century earlier General Charles De Gaulle declared: "Europe requires a common defence for which France has the responsibility of determining the guidelines and determining the leader" (press conference, Paris, 17th August 1950).
- ²⁵ *eurofacts*, 1st August 2003.
- ²⁶ Ralf Dahrendorf, "Can Democracy Survive Globalisation?" *The National Interest*, Fall 2001.
- ²⁷ David Heathcoat-Amory, *The European Constitution and what it means for Britain*, Centre for Policy Studies, London, June 2003.
- ²⁸ Gisela Stuart, *The Making of Europe's Constitution*, Fabian Society, 2003.
- ²⁹ *The Tainted Source*, p. 196.
- ³⁰ *The Guardian*, 17th March 1999.
- ³¹ For a comprehensive account of EU corruption and its causes, see *eurofacts* for 10th October, 2003.
- ³² For an assessment of their impact on labour markets, see John T Addison and W. Stanley Sibert, *Regulating European Labour Markets: More Costs than Benefits?* IEA Hobart Paper 138.
- ³³ House of Lords *Hansard*, 13th January 2003.
- ³⁴ *The Daily Telegraph*, 30th December 2002.
- ³⁵ D. Gale Johnson, *Less than Meets the Eye: The modest impact of CAP reform*, Centre for Policy Studies, London 1995; see also R.W.M. Johnson, *Reforming EU Farm Policy: Lessons from New Zealand*, IEA, Occasional Paper 112.
- ³⁶ Global Britain Briefing Note No 27, June 2003.
- ³⁷ See Patrick Minford, *Should Britain Join the Euro? The Chancellor's Five Tests Examined*, IEA Occasional Paper 126, 2002.
- ³⁸ Interview in the November 2002 issue of the German magazine DM Euro.
- ³⁹ Speaking to the House of Commons Treasury Select Committee on November 27th 2002.
- ⁴⁰ The 10 states set to join the EU on 1st May 2004 are Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania and Slovakia.
- ⁴¹ *Financial Times*, 10th July 2003.
- ⁴² Global Britain Briefing Note.
- ⁴³ UN Population Division: *World Population Prospects: Medium Variant*, 27th February, 2003.
- ⁴⁴ Interview on CNN, 1st January 2002.
- ⁴⁵ Roland Vaubel, *The Centralisation of Western Europe*, IEA Hobart Paper 127, 1995.
- ⁴⁶ *eurofacts*, 30th May 2003.
- ⁴⁷ "The Anglosphere Primer" can be viewed on-line at www.pattern.com/bennettj.anglosphere.html.