Britain and European Union: the Broader Issues

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IN the endless rehearsals of our day-to-day economic difficulties few ever seem to have time to notice how different foreign attitudes to the UK are today. It is normal to notice only one's own misfortunes; one's blessings are seen by others. And others today are noticing that Britain has a lot to be thankful for and is altogether more sprightly as a result. Moreover, they are now queueing up to locate their factories here. Low tax, light regulation, and low labour costs are three powerful arguments working in favour of a British base for advance into the European market. Other candidates are Spain, Portugal, Greece and Ireland — with the UK, the 'periphery' of the EEC.

Yet for industries which benefit from a sophisticated infrastructure, ease of communications and political stability, Britain has its attractions even within this group, as the recent Japanese car industry's decisions show. We now have Nissan in Tyne and Wear, Toyota coming to Derbyshire and Deeside, and Honda-Rover expanding in Swindon. Japanese component factories are likely to follow in what looks increasingly like a renaissance in the British car industry.

Provided all goes well with the European effort and our place within it, the UK looks set for a long and massive investment boom, profiting from these advantages. The fact that Mr Nigel Lawson, ex-Chancellor of the Exchequer, had such trouble slowing the economy reflects this relatively new fact. With the government in surplus and investment pouring into the neglected 'North' — starting with South Wales, the M62 belt and the North East but spreading now into other spare pockets of land and labour — it is hard for people to believe that anything other than prolonged growth lies ahead. And why not, provided money is kept tight enough?

Some say that because inflation has been rising when unemployment was at 1.8 million this unemployment must be the minimum we can steadily achieve, so that labour scarcity is now a brake on growth. Not so. The inflation has come about through unintended monetary excess. Unemployment is only fleetingly reduced by monetary excess. Its long-term trend is set by other things such as union power, productivity and training, unemployment benefits and taxation: in short, those factors that condition the profitability of employing people at rewarding wages. Those factors have been looking better than for a long time before. According to our Liverpool calculations unemployment is headed below 1.5 million by 1992 because of their improvement; no brake on growth there. (The Greens, of course, reject growth because 'the land cannot support it'. Let them tell that to the unemployed and the ordinary working man at the next election.)

In the remaining two years or so up to the next election, therefore, Mrs Thatcher should be able to emphasise short-term economic success while the long-term reforms (education, the law, the National Health Service) on or about to be put on the statute book are set quietly in motion, to flower well into the next century.

Britain's European Dilemma

But all this crucially assumes we can solve our European Dilemma.

It has not gone unnoticed on the continent that the main gainers from 1992 will be the peripheral nations. M. Mitterrand, for example, is determined to use his period of EEC presidency to hobble those industrial rivals with social costs and regulation. The Germans have shown little enthusiasm for general 1992-style deregulation, not surprisingly given their social cost burden (80 per cent on top of gross wages). Much the same tune is heard from Italians, Belgians, Dutch and Danes.

Have the rest of our peripheral group formed an alliance with us to beat off this challenge to their prosperity from the 'Social Dimension'? Not a bit of it. Apparently they are convinced that their pockets will be lined with Regional Fund transfers in compensation for these social welfare provisions. As good socialists for the most part, they welcome the provisions, hope the others will pay, and are ignorant of the consequences in terms of unemployment and stagnation.

Perhaps the European Law will come to our aid? After all, the Single European Act lays down that competition and free trade are to be the order of the day; it and the Treaty of Rome give no explicit support to minimum wages, union powers, and worker participation for example, if you read the words. Alas, again. The European Court operates in the continental Napoleonic legal tradition, which gives great powers to officials of interpretation and extension, quite different from our Common Law tradition with its jealous protection of individual rights by the letter of the law and precedent. The Court invariably follows this tradition and upholds Commission executive decisions.

We can still try to obtain good Court judgements. We can comment on, obstruct, shame and threaten executive excess. Ultimately we have the political weapon, as revealed in Madrid for all the French bluster, that Europe without us is not what others want. We must try all these things.

Our dilemma is that our and indeed our neighbours' greater prosperity lies in the European free market; yet the majority of European governments want and have the power to qualify that freedom under a corporatist model, a price that would far exceed that greater prosperity.

Should our neighbours' governments force us on to the horns of this dilemma they may succeed in driving us out of the EEC. But contemplation of such a general disaster must surely breed political sense. That in turn will surely renew the spirit of Madrid, and pave the way to the competitive Europe that will truly benefit its voters and consumers.

The 'Bruges Vision' of Europe and the Corporatist Alternative

It was in order to call these voters and consumers to arms against the spirit of governmental corporatism that Mrs Thatcher made her famous speech on 20 September 1988 about the future of Europe in Bruges, pleading for the competitive Europe of sovereign states that the 1992 program was supposed to produce.

In February 1989 the Bruges Group was launched to promote discussion of the ideas our Prime Minister set out. This group of British academics, of which I am one, has since been joined by a parallel group in West Germany; further groups will be launched in France and Italy. However corporatist may be bureaucratic and political opinion, it is not necessarily shared by academics or by ordinary people who have a natural interest in economic freedom.

Like the Bruges speech, these groups may be seen as anti-Europe. But that is not so, any more than it was true of the speech itself. What concerns us is that, particularly under the leadership of the socialist M. Delors, the drift of EEC policy is towards a centralised federal Europe rather than an alliance of nations in economic matters; and towards corporatism, regulation and a Fortress Europe rather than an outward-looking competitive regime. If these issues are ignored now, they could lead to an explosion of popular resentment later, once the British people realise what has been allowed to creep up on them. Mrs Thatcher's Bruges speech was therefore a necessary warning designed to return the European enterprise to the original liberalising intention of '1992'. We must all hope that it will succeed; for otherwise Europe and Britain's participation in it will have to be severely rethought.

It is not to be expected that Britain can join in a centralised, corporatist, protectionist Community. Bad enough to have been saddled with the expensive idiocies of the Common Agricultural Policy, still vastly and unexpectedly expensive many years after our entry. But to sacrifice all the hard-won progress we have made towards free markets since 1979 would be intolerable.

The prospect would trigger a search for alternative structures; the advocates of a two-tier Europe would have got their way but at substantial cost, not least to themselves. This is what must be avoided by a proper and frank debate within the EEC: which the Bruges Group exists to stimulate.

On the face of it, the spectre of supra-nationalism raised by the recent rhetoric of pan-Europeans on the continent seems impossible to take seriously, given the history of national jealousies and conflict on the Continent. Yet perhaps it is that very history that now impels them to seek a bond preventing its repetition. Certainly I have heard this argument emotionally pressed by senior European officials and politicians. Others will be able to judge better than I the strength of this political urge to unite and cede large federal powers to Brussels. I can certainly think of few things more calculated to upset the British, the Danes and the Dutch, at the very least.

But it is on the economic side that I am particularly concerned. That the EEC is seriously protectionist in practice, whatever its technical excuses for anti-dumping, cannot by now be denied. The Commission has made no secret of its aim to strengthen Europe's industries before it allows foreign competitors free rein. With this policy goes an active fostering of intra-European mergers and a willingness to give 'technical aid' to these new European champions. This is our old friend, 'backing winners'. It never worked here and it would not work Europe-wide. True winners need no backing, other than a stable economic framework, low taxes, and an absence of political roadblocks. Losers want much and giving it to them prolongs their failures. The consumer meanwhile loses all along the line, denied access to the best world-wide products at their true cost. This is not to deny that 'selling Europe', like selling Britain, has a role, particularly when politics gets mixed up in the battles between major rival international companies. But that is far removed from the current policies of Fortress Europe towards outsiders and corporatist cosiness within.

Mutual Recognition vs Harmonisation

When one turns to the supposed internal deregulation of Europe, one encounters a paradox. On the one hand, the Commission has been forthright in explaining and attempting to measure the benefits of free competition in a single market with free movement of capital and enterprise across borders. The Commission's economists, headed by Michael Emerson, have recently estimated the benefits at up to 9 per cent of Community national income: a grand prize indeed. On the other hand, the Commission has become bogged down in demands for harmonisation; this was seen at its most trivial and comic in the affair of the Euro-sausage. But it is more seriously evident in the plan to bring VAT rates into a common range and in the Commission's wishes to frame common regulations for a whole list of activities, from stockbroking through company law to the infamous 'social dimension'. The latter threatens to reintroduce through the EEC back door union privileges cut back carefully and democratically in Britain by four trade union laws. The harmonising thrust is to be helped along by the moves to change the EMS into a federal monetary system, in which Brussels will have an additional monetary excuse for ensuring homogeneity.

The European Court operates in the continental Napoleonic legal tradition, which gives great powers to officials of interpretation and extension, quite different from our Common Law tradition with its jealous protection of individual rights by the letter of the law and precedent.

Yet genuine competition is likely to be prevented by setting tax rates and regulations at some high common level, sufficient to satisfy the average sentiment. This prevention is also what the vested interests in the Community, whether unions or firms, want to see; it is being suggested that the rigours of 1992 will be tolerable to these interests only if wrapped up in copious common regulation of this kind.

The alternative to harmonisation is mutual recognition of competing tax and regulatory systems. What this means is that activities taking place under one tax or regulatory jurisdiction can be participated in by nationals of another; a French resident for example could buy stock from a British stockbroker legally even though the broker conformed only with our regulations, and not the French. Hence firms would locate in the country with the most favourable system; jobs would be more plentiful, better paid and less highly taxed and so workers would migrate there. But their customers would be all over the community market.

So mutual recognition is the vehicle for real competition, not merely driving costs down to the lowest possible level compatible with workable tax-financed public services and regulatory standards, but also putting pressure on all parts of the community to be cost-effective in such services and standards. No wonder this vision is disquieting to socialist governments in Europe as well as their protected clients.

The Single European Act, which set Europe on the road to 1992, is full of ambiguities, designed to allay suspicion and bring signatories to the table. The trouble is that these ambiguities have now come to plague us. We point to the competitive interpretation; our corporatist partners point to the passages indicating harmonisation. As Europe tries to put the Act into practice, the confusion is all too apparent. The Commission lures us to competition with the vision of 9 per cent gains but tries to buy off opposition with harmonising concessions that can only vitiate that vision.

We must bring that vision — mutual recognition and competition — into focus and strengthen the forces within Britain and the Community that are attracted by it and will we must hope bring it to reality.

The Eastern European Dimension

Recent events in Eastern Europe may well strengthen the outward-looking and free market tendencies of the EEC. West Germany will want to do nothing that makes its integration with East Germany more difficult. For example, a common European currency in which a weak East Germany would be reluctant to share; or supranational ties with other EEC countries that would take precedence over or exclude stronger links with East Germans. Open trading relationships with the Eastern bloc are vigorously favoured by West Germany, whatever the competitive threat to EEC industries these may pose.

The probability now must be that West Germany will side more frequently with the UK in its campaign for an evolutionary Europe of cooperating nation states. This has already occurred at the Strasbourg summit over the proposed conference for discussing the Delors Committee plan for European Monetary Union; the conference has been delayed until December 1990 because of Anglo-German opposition. At the same time, France may cultivate a warmer relationship with the UK as an insurance against German reunification and as an important ally in a more uncertain international climate.

We may therefore see a return to more traditional nation-state relationships in Europe after a brief period of supranational enthusiasm. That would be good for the progress of liberal market ideas. We must certainly hope it will happen.

Conclusion

The theme of competition has run throughout this article, whether we have been discussing monetary matters or common markets in goods, labour and capital. That is no accident. In every area, however technical it may seem, the same choices are posed: between solutions imposed by central bureaucracies and those of the free market. Furthermore, a centralised solution in one area necessarily strengthens the forces of centralisation in others; similarly, a free market solution in one increases the odds on liberalisation elsewhere. The reason is partly political; give power in one area and you give means to acquire further power. Partly the reason is economic; one intervention strengthens the intellectual case for another to 'put right' the side-effects of the first, just as one free market will only give of its best if others are free.

It is quite reasonable for states to enter voluntary commitments to fix exchange rates, provided those states police one other through competition, resorting to no interference with people's freedom to move their money wherever they wish. Our criticisms of the EMS have been to do with its ambiguities (fixed or adjustable?) to mask which heavy control over financial freedom has been necessary. The reformed EMS as proposed at the Madrid summit would reassert financial freedom and create a competition between moneys within the EEC that would drive inflation down if not out of the Community altogether. It would also be an evolutionary route to European Monetary Union that avoided all the centralised paraphernalia of the Delors Report.

If this progress could be matched by moves to mutual recognition and competition between national regulations, instead of 'harmonisation' (highest common denominator regulations) as proposed in the original Social Charter; if Europe eschewed industrial intervention and subsidy in favour of policies to permit or if necessary to promote vigorous competition; and if the concept of Fortress Europe, operating self-damaging and indefensible 'anti-dumping' tariffs and quotas, gives way to an outward-looking market of 320 million committed to free trade possibly to be joined in time by an even larger grouping of states in Eastern and the rest of Western Europe; then indeed we will be part of the most exciting economic adventure of the 20th century. Old Europe with its skills and civilisation could overtake the nimblest of the Newly Industrialising Countries on the Asian Rim. That resurgence of growth would bring back the confidence of Europeans in so many areas — the arts, the environment, the charities — where economic prosperity permits the necessary open-handedness for their success. This is surely a many-dimensional vision that all Europeans could endorse. We must now go out and convince them that it is so and that the opportunity is there for the grasping.

Professor Minford is the author of 'Achieving Public Objectives with Less Money', in Michael James (ed.), ***Restraining Leviathan: Small Government in Practice****, CIS, 1987.* Policy