

Friend or Foe? What Americans should know about the European Union

*Founding Fathers Lecture of the Flint Hill Center for Public Policy
May 3, 2004*

By John Blundell, general director of the Institute for Economic Affairs

Well into the early hours of this morning there were parties going on in Dublin. As I speak there are probably as many hangovers per square mile in the Irish capital as there on St Patrick's Day. The reason for the celebrations, as you may have read in your newspaper, is that Ireland currently holds the rotating presidency of the European Union at a significant moment in European history.

On May 1st 2004 ten new countries with a combined population of 74 million became members of the European Union bringing the total EU population to 454 million. This means that the EU now has a population more than 50 per cent larger than that of the United States.

The European Union now stretches from the Latvian-Russian border in the east to Galway Bay on the west coast of Ireland, and from the Arctic wastes of Finland and Sweden in the north to Cyprus in the south.

Now, few people know how to celebrate better than the Irish - and I am in no doubt that the Government in Dublin kept its promise to organise the mother and father of all parties. But it is worth pointing out that this particular celebration was far from being a spontaneous expression of joy on the part of the Irish people. Like almost everything to do with the EU, the celebrations were a top-down affair having been planned and organised by politicians and civil servants in Dublin. And much of the Guinness - not to mention the champagne - was paid for by the taxpayer.

The question which I wish to pose is: should Americans be joining the party - or should EU enlargement be the occasion for a fundamental reappraisal of US policy towards the European Union?

Without US support it is doubtful whether the project of European political integration could have got off the ground or developed in the way that it has. But from the very beginning the US gave its unconditional backing. During the 1970s the success of the project was judged to be sufficiently important to US interests for the CIA to funnel millions of US dollars into the European Movement. For much the same reason the US has tolerated the European Common Agricultural Policy (CAP) - the most inefficient and inhumane system of agricultural support ever devised.

Why? Because American policy-makers believed that the process of European political integration would lead to the creation of a democratic, market-based Atlantic ally - an ally with whom a heavy burden of economic and security responsibilities might be shared. It was taken for granted that the emerging European Union would share America's core values.

The reality is quite different. As this hugely ambitious but flawed project has taken shape policy differences between Europe and the US have both multiplied and deepened. Current differences between the EU and the US include those over Iraq, Palestine, Iran, ballistic missile defence, the role of arms control, the International Criminal Court, genetically modified crops, the Kyoto accords, farm support, China, Taiwan, Cuba, the death penalty as well as a whole raft of trade issues. Indeed, while it is possible to name individual European political leaders who genuinely like and admire America, it is difficult to think of a single major issue on which the US and the EU hold identical views.

So one is bound to ask: If it is truly the case that Europe and America share common political values why do they disagree so often? The one statement that I predict you will not hear from a spokesman for the EU Commission in Brussels is: "We applaud American leadership, and we will

back the US all of the way." Indeed, we have now reach the point where EU policy gives every impression of having been defined in opposition to US policy and where it is abundantly clear that the European aspiration is to be a rival not a partner.

As I typed these speech notes I heard over the radio the news that the EU Commission has fined Microsoft the record sum of 497 million euros and ordered it to hand over its software secrets to its rivals – in the interests of "competition." The reality is that a US company which symbolizes American risk-taking and entrepreneurship is being punished for competing too well by those who fear competition and distrust the market order.

Indeed there is no escaping the truth that the differences to which I have alluded – including this latest act of blatant anti-Americanism - arise from the very nature of the European project and the ideas on which it is based

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. 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 occurred during the two costliest wars in human history. The irony is that while those at the forefront of further integration stress that the EU is an entirely new post-modernist construct, there are close similarities between the champions of "ever closer union" and the corporatist and fascist theorists of the 1920s and '30s which led to war. 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.

It is worth pausing to describe in concrete terms just how much progress has been achieved towards 'ever-closer union' – the goal established in the Treaty of Rome in 1957 which laid the foundations of the present European project.

The European Union now has its own parliament, executive, supreme court, currency, prosecutor, army (of a sort), anthem, and emblem. It is soon to have a constitution which will be the supreme source of legal and political authority throughout the EU and on which negotiations are now taking place. This will provide some further attributes of a modern state: among them, full legal personality (which will enable it to sign treaties), a president, and a foreign minister.

The Constitution will also enhance the powers of the EU Commission, the EU Council and the European Parliament while reducing the powers of member states by diminishing their powers of veto. In areas of so-called "shared competence" (or power) the nation state will be able to legislate only if the EU has decided not to do so – a formulae which embodies a very unusual concept of sharing! Where differences arise the matter will be left to the so-called 'independent' European Court whose duties include the promotion of European political integration – a formulae which embodies a very peculiar notion of independence!

Now all of this might strike of you as being Europe's purely affair. But let me remind you that the principle that US interests are most likely to be served by the extension of democracy wherever possible has been one of the foundations of US foreign policy. In the post-Second War era this policy was triumphantly vindicated in the case of Western Europe where war-shattered nations

were restored to democracy.

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. In the judgment of a former EU Commissioner, it is clear that if EU applied to itself the criteria that it recently applied to the new members it could not be admitted to the EU because it is insufficiently democratic!

The political nature of the EU – which was sold to the British public as a strictly limited commercial undertaking - 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.

In the list of EU attributes which I rehearsed a moment ago you may have noticed some deficiencies. In its top-down way Europe may have created many of the attributes of a state but there is, of course, no such thing as a European people or nation. There is consequently no such thing as a European public opinion or European public space, or European demos. Or indeed a common language (there are at least 19 different national languages). And if people do not feel common bonds of allegiance and obligation, and if this problem is compounded by the lack of a common language in which political discourse can take place, there is the ever present danger that they will not accept majority decisions.

If the US has been disappointed in its expectation that the EU would turn out to be a democracy in its own image, 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. It would also serve 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.

Nor should it 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. And, 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 urgently embarked.

Regulatory hyper-activism is one of the most obvious characteristics of the EU. Regulation has been the means by which the EU has been created and through which supra-national institutions have been established and strengthened. It is the means by which a self-serving, unelected and largely unaccountable salariat – I refer to the EU Commission in Brussels – buttresses its power and interests.

The fact is that 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 invariably take the form of increased regulation.

It is not clear how many EU regulations there are. 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. 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) running to some 75,000 pages of text.

Let me turn to the record of the Europe's single currency, the euro, whose primary aim was political rather than economic, as the Commission President Romano Prodi has acknowledged. It is perhaps too soon to make a final judgement about whether the introduction of the euro has failed in its central aim of creating political unity, or whether it has led to heightened tensions as members blame one another for the eurozone's dismal performance. The record to date, however, strongly suggests the latter..

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 European Central Bank, a view which is shared by among others Professor Milton Freedman.

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 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.

Unlike the UK, which enjoys an opt-out from the single currency, the new member states 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.

Not surprisingly, 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.

Europe's economic future is also likely to be blighted by some extremely adverse demographic factors. In 1900 Europe accounted for one quarter of mankind –falling to 22 per cent in 1950 and 17 per cent in 1975. But soon the population will start falling in absolute terms with the consequence that there will be fewer and fewer people of working age supporting more and more over-65s. Enlargement won't help. It extends the formal boundaries of the EU – but all of the new EU states are set to lose population by 2050 and at a faster rate than in Western Europe. During the same period the working population of the US is set to increase by more than 50 million, an amount almost equivalent to the population of France or the UK.

None of this augurs well for those who hope that Europe could create a counterweight to the US. Such are the huge disparities in economic, technological and military power that the ambition to create a unitary European state as a countervailing force to the United States is doomed to abject

failure. Nevertheless, its pursuit continues - to the detriment of the economic and security interests of both North Americans and Europeans.

But having endorsed the project for half a century, many Americans seem reluctant to withdraw their support or even to recognise the nature of the Europe which they have helped to create. Some evidently believe that 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. It also underestimates the enormous nuisance that the EU can cause to the US as the EU proceeds down an historic blind alley of its own choosing - without achieving any worthwhile benefits to members.

In my view, the attempt to bring about 'ever closer union' will ultimately 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. Better that this should happen sooner rather than later, and no reason at all why the US, having played midwife at the birth of this political infant, should not play a role in its demise.

While America begins to ponder 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 not only from its most powerful and most constant ally but also from self-government and the economic successes for which it is qualified by history and culture.