

# Editorial: Europe: single market or political union?

Colin Robinson

Since the early 1990s, under both Conservative and Labour governments, Britain's relationship with the rest of the European Union has been uneasy.

The question of whether or not to join economic and monetary union (EMU) has been the most obvious, though by no means the only divisive issue. Differences between Britain and other EU countries have, for example, emerged over tax harmonisation proposals, despite the expressed determination of New Labour to adopt a more 'pro-EU' stance.

Underlying many of the differences on specific matters is a fundamental divide over two related issues – first, the direction in which 'Europe' is heading, and second what that direction *should* be. Most British people now accept that EMU has political implications, as do other EU projects, though views differ sharply on whether or not political union is desirable and, indeed, on what 'political union' means. The time may be fast approaching when a British government has to decide how far it will proceed towards a 'United States of Europe' or some lesser degree of union.

The following symposium features five authors who have thought deeply about the direction in which the EU is moving.

In the opening paper, *Lord Howe*, former Chancellor of the Exchequer, Foreign Secretary and Deputy Prime Minister, argues that the choice implied by the title of this symposium is false. The single market was always intended to '... promote a degree of political unity.' The relevant question is how to strike a balance between economic objectives and '... the scale or nature of political union.'

The balancing approach, says Lord Howe, has been fundamental to the policies of British governments since the time of Harold Macmillan, including Lady Thatcher's administration. The words 'political union,' however, have obstructed effective European partnership because they have misled and frightened public opinion. 'We *are* all Europeans but we are *not* a European nation.'

A binary system has emerged in which majority decisions are taken about single market matters but unanimity must prevail on issues of 'high politics.' So, according to Lord Howe, far from being a threat to the British way of life, the EU is a '... natural setting within which to maximise our influence in the world.' The single currency will make Europe a more significant economic force. It is neither likely nor desirable that a European economic government will emerge under EMU: it is, for example, misleading to suggest that substantial new tax powers will be

transferred to European level. Lord Howe concludes that Britain should not stand aside from the euro, '... the Union's most important activity.'

*Lord Owen*, former Labour Foreign Secretary and former Leader of the Social Democrats, takes a different view. He points out that as far back as the Messina Conference (before the Treaty of Rome) some politicians thought that a United States of Europe would eventually emerge. But a 'calculated ambivalence' then evolved about '... whether the EU was creating a Union of independent European nation states or a United States of Europe.' This ambivalence, he argues, is not shared by the European Commission élite who act as if the eventual destination must inevitably be a 'single European state.'

According to Lord Owen, British politicians have made obfuscation about the future direction of Europe an art form because they know '... there are few votes in euro federalism.' He wants us to 'wait and see' what happens in Euroland before making any decision about joining. There are 'federalist implications' which could tip the EU '... across the existing threshold into a federal Europe, with Britain becoming a mere province in a United States of Europe.'

He sees enlargement as the EU's main priority, with the aim of developing a grouping of democratic states, some inside and some outside Euroland. Britain has much to gain from competing from within the EU but outside the euro.

The third prominent political figure to participate in our symposium is *Michael Portillo*, Defence Secretary and Employment Secretary in the last government. Mr Portillo would like the British economy to become more like the entrepreneurial United States than those continental European economies which failed to carry out British-style economic revolutions in the 1980s. In much of continental Europe, he says, taxation and public spending are too high, there is over-burdensome regulation and labour markets are inflexible. He does not want to move the British economy 'back in time' and sees serious threats of higher taxes (through 'harmonisation') and more regulation.

Mr Portillo is sceptical of the claimed disadvantages of being outside Euroland: Britain would be unlikely to lose currency trading business, its trade and inward investment would probably not suffer and he would not expect increased economic instability. He is wary of the 'one-size-fits-all' aspects of euro membership which will probably lead to 'economic miscalculations and economic mismanagement.'

British influence would most likely diminish if it joined the euro. Britain outside the single currency would be '... an example to Europe of how a country can adapt flexibly and quickly to changing global circumstances by being able to control its own currency and its own interest rates.' Centralisation, via euro membership or otherwise, also carries risks for democracy by creating tensions and increasing unemployment.

Professor *Roland Vaubel*, the eminent German economist and author of a Hobart Paper on Europe,<sup>1</sup> analyses three potential steps towards 'European statehood.'

First, there is next year's intergovernmental conference – the first time an '... overwhelming majority of socialist-led governments ... is trying to shape the European edifice ...' This group wants majority decisions to become the rule but Vaubel is strongly against: the '... only safe procedure for identifying collective improvements is unanimity.' Though unanimity imposes delays they do not matter if, instead of becoming involved in day-to-day policy-making, European institutions concentrate on maintaining '... a free and open market order, including international property rights.' The majority rule has allowed highly regulated countries to raise rivals' costs by increasing (through Union rules) regulation in the minority of less regulated countries. Vaubel wants to retain competition among governments to restrain taxation and regulation. Majority decisions '... contribute to the growth of government and endanger the freedom of the individual.'

He is concerned also about the proposed EU charter of fundamental rights. In his view, the EU is '... a less appropriate arbiter of individual and minority rights' than the 40 signatories of the European Human Rights Convention.

The possible 'disintegration of NATO,' as the EU claims a 'separable' military capacity, is another concern. Vaubel sees '... the beginnings of a European army, another building block for the European State.' NATO is more efficient than a 'Euro-corps' and should be expanded not segmented. There would be no system leader if Europe organised its own defences: the North Atlantic alliance would be split in the middle and might not survive.

Professor *Jean-Luc Migué*, a Canadian economist and Hobart Paper author,<sup>2</sup> also stresses the importance of competition among governments. He sees increasing competition, via 'globalisation' as desirable. Through international trade and investment, countries can

'... effortlessly harvest the benefits of their neighbours' innovations and investment in R&D.' To reap these benefits, governments have to make their tax and regulatory systems competitive.

But Migué would go further. Governments usually deny their citizens the benefits of '... competition between government suppliers across borders,' for example in health and education provision. The answer, he says, lies in 'parallel federalism.' In the EU, national governments would have equal, non-exclusive jurisdiction over all member states and would compete for the allegiance of the governed. Citizens could choose which 'club' supplying public services they wished to join. Governments would be forced to compete in the provision of services.

Migué sees virtues in decentralised, federal systems in which citizens have the power of exit. But he thinks Europe may '... repeat the history of national federations in evolving towards centralisation and growing duplication of functions.' The principal danger is 'vertical competition' between supranational and national governments with overlapping functions, leading to a wasteful expansion of government services. Pan-European authorities, more powerful than national governments, will tend to invade national jurisdictions, confirming the 'iron law of centralisation.'

In an IEA publication in 1996, Brian Hindley and Martin Howe pointed out that economic costs and benefits are only one aspect of EU membership – the '... real content of the debate lies elsewhere.'<sup>3</sup> This symposium is a contribution to that debate.

If there is to be constructive discussion about Britain's relationship with the rest of the EU, the two fundamental issues which underlie the papers in this symposium need to be aired. First, *in what direction is the EU moving already* – towards a United States of Europe or towards an essentially economic union in which some members participate, at their own choice, in 'political' activities? Then, once the existing direction is clearer, its *desirability* can more readily be assessed and it will be more straightforward to decide whether or not Britain should be an enthusiastic participant.

<sup>1</sup> Roland Vaubel (1995) *The Centralisation of Western Europe*, Hobart Paper 127, Institute of Economic Affairs.

<sup>2</sup> Jean-Luc Migué (1993) *Federalism and Free Trade*, Hobart Paper 122, Institute of Economic Affairs.

<sup>3</sup> Brian Hindley and Martin Howe (1996) *Better Off Out? The Benefits or Costs of EU Membership*, Occasional Paper 99, Third Impression February 1998, p. 68, Institute of Economic Affairs.