

Answers to common Euromyths

By Richard Corbett MEP

Knocking the EU is second nature to many people, raising a smile or causing apoplexy with the latest plan of the barmy Brussels bureaucrats. And some of the “Euromyths” that appear in our press are benign or even funny: the yarn that the European Commission intended to harmonise the size of condoms across Europe, and that the size in question was not suitable for British assets, no doubt produced many a chuckle. But the bulk of “Euromyths” are pure inventions or gross exaggerations, deliberately spread to denigrate the EU by making it appear silly or sinister, or both.

Rebutting them is, of course, an uphill struggle at times. The balance is not the same as in debates in national politics where, if a government is accused of misbehaviour or ridicule, there will be a government spokesman accorded equal media time making the case for the defence. There is no such balance in media coverage of the EU.

On the contrary, there is a permanent anti-EU bias in our press, two-thirds of which is owned by virulent anti-Europeans. This in turn ensures that anyone who dislikes an EU proposal knows that they will get supportive press coverage, not by engaging with the issues (as in national politics) but by attacking it as “EU interference”, “Brussels bureaucracy” or “burdensome red tape”.

On top of that, Europhobia is one of the main outlets for the extreme right now that legislation prevents them from printing overtly racist material. Snide comments about the European institutions can serve as a shorthand for xenophobia, and to raise the spectre of ‘foreigners taking over the nooks and crannies of British life’. And it was, of course, Hitler who said that people “will more easily fall victim to a big lie than to a small one”. The lesson has not been lost on modern day nationalists and xenophobes.

It is therefore incumbent upon us to counter Euromyths vigorously whenever they appear. We must not succumb to the temptation to play along with a Euro myth for short term gain. Too often, the response to a story such as the one that the EU requires all bananas to be straight is not to knock it on the head as a piece of media mythology, but to play along and say “yes, indeed, I’ll fight this nonsense, I’ll raise this in Parliament, I’ll be at the forefront of having it repealed”.

This is all the more tempting when it comes to the really big European lies. These are the myths that the European Union is on its way to becoming a centralised super-state, or that it is fundamentally undemocratic, or that joining the single currency would remove all economic sovereignty, or that the new EU constitution represents the end of a thousand years of British history. But it is precisely these myths that are the most dangerous.

On the EU in general

“The EU is becoming a centralised super-state”

The EU can only deal with the subjects laid down in the Treaties. These can only be extended with the unanimous consent of each and every national parliament, including our own.

Even within these limited areas, any EU legislation must be approved by the Council of Ministers. This is composed of members of all national governments, accountable to national parliaments. As an additional safeguard, EU legislation is also scrutinised and amended by the European Parliament, whose members are directly elected.

The system is not centralised, nor is there any danger of that happening. The key gut issues of politics (the health service, education, social security, pensions, housing, income tax, local government, most aspects of crime and punishment, devolution, and so on) will remain national issues, settled in national elections and subject to legislation by our national parliament.

The facts prove it. The EU budget is a mere 2% of public expenditure – the remaining 98% is national or local. The central administration – the EU Commission – is tiny, with fewer employees than Leeds City Council. Some superstate!

“But continental politicians sometimes talk of federalism”

If “federalism” means what many British newspapers say, i.e. a centralised system, then no-one supports it. But, to many continentals, federalism simply means having different levels of governance to deal with problems of varying scale (local government to deal with housing, the international level to deal with global warming), with the whole system as decentralised as possible and with each level democratically accountable.

“The EU always telling us what to do”

It doesn't – unless it's something we agreed to do in the first place! The EU is simply a place where we meet with our neighbouring countries to thrash out common solutions to common problems. This includes jointly managing – and setting the rules for – the single European market. It also includes trying to agree to speak with one voice towards the rest of the world to maximise our influence. But nothing the EU ‘tells us to do’ is anything other than what we've already agreed.

“The EU is run by bureaucrats”

No, the European Commission only has the power to propose, and to carry out what has been agreed. All decisions on policy and European legislation are taken by the Council – composed of the elected governments of the Member States – and the European Parliament – composed of directly elected MEPs.

And as we said above, the European Commission is small – despite dealing with the whole of Europe, it has fewer employees than Leeds City Council!

“The EU is a new Soviet Union forcing countries together”

The European Union is based on voluntary participation. No country is forced to join. All have chosen to do so freely. The Soviet Union was an oppressive dictatorship whereas the EU brings together democracies – the comparison is as ludicrous as it is offensive.

The EU (originally the European Community) was set up after the war to create a structure which would enable the countries of Europe to work together for peace and prosperity. Every generation from the fall of the Roman Empire to the Second World War fought each other on the battle fields of Europe: the time had come to find a better way. In the words of Nobel Peace Prize winner John Hume, “the European Union is the world's most successful peace process.”

Besides this idealistic reason, there is the sheer necessity of working together to deal with a growing economic, environmental and political interdependence of European countries.

“The EU is drowning us in red tape by adopting too much legislation”

Common legislation for the common market can be an exercise in simplification, cutting red tape. In the words of Tony Blair, “replacing 15 sets of disparate and often conflicting national rules with

one common European-wide approach has been a huge exercise not in complication but in simplification”.

The rules for the single market give us – the customers and consumers – power. They increase competition, lowering prices, and they protect us from abuse. They do not stifle business but strengthen commerce.

And remember that when, for instance, new laws make a company clean up its pollution and they don't like it, they are unlikely to say that it's because they don't want to clean up their act. Rather, they will say “red tape from Brussels is costing us a fortune”. Sadly, gullible journalists and others often fall for this version.

“We don't need to be part of Europe”

Half a century of building the European Union has been vital for peace and prosperity in Europe. In bringing together former enemies into a common co-operative structure, it has brought an end to bloody conflict. In eliminating obstacles to trade and commerce it has brought unprecedented economic development to our continent.

An integrated economy needs common management. A market that is a simple free-for-all is neither fair nor efficient. To work well, it needs to be given fair rules and high standards. With a common market we need common rules and standards in areas such as:

- Social standards, to avoid “social dumping” whereby companies shift to the country with the lowest social protection and weakest workplace rights
- The environment, where we all have a common interest in high standards
- Consumer protection, with goods and services flowing freely across frontiers, a common approach is essential
- Assistance to less prosperous regions and groups, so that all can benefit from the prosperity generated, and where a common approach will be more effective than competing subsidies
- Public services, which are vital to the cohesion of our societies as well as to participative citizenship, and which need support and sometimes protection within the market
- Competition policy, to ensure that our common market is not dominated by monopolies or a few multinational companies
- Trade, where negotiating as a single unit gives us a strong voice in the WTO and in building partnership with developing countries
- Citizens' rights, as the freedom of movement within Europe must not be seen only in economic terms: people are not commodities
- A commitment to democracy and fundamental rights, to guarantee that Member States participating in our Union respect these fundamental criteria

The EU is also a means for us to contribute to a more stable and peaceful world. Whether through economic aid, trade, contributing militarily to peacekeeping operations, or fighting terrorism and transnational crime, it is by acting jointly that our countries can be more effective.

And we should never lose sight of what it means in overall terms in creating an area of peace and stability in Europe. Almost every generation from the fall of the Roman Empire until 1945 fought each other on the battlefields of Europe. Replacing that with arguments around the negotiating table is no mean feat. We take it for granted at our peril.

“We were told we were only joining a free trade zone”

Not true. British governments never hid the significance of joining the EU. The Wilson government, in setting out its reasons for applying in 1967, stressed that “the Government’s purpose derives above all from our conviction that Europe is now faced with the opportunity of a great move forward in political unity and that we can - and indeed we must - play our full part in it...”

The Wilson Government White Paper pointed out that membership involved “Community law having direct internal effect is designed to take precedence over the domestic law of the Member States”.

The Heath Government’s 1971 White Paper on joining spoke of the aims of “an ever closer union among European peoples” and not just of trade but “social progress”, “approximating the economic policies of member states”, “stability”, and “closer relations of the member states” - all “objectives to which this country can wholeheartedly subscribe”.

The White Paper went on to say: “ If the political implications of joining Europe are at present clearest in the economic field, it is because the Community is primarily concerned with economic policy. But it is inevitable that the scope of the Community’s external policies should broaden as member countries interests become harmonised. That is the Community’s clear intention. As regards the co-ordination of foreign policy, the practical obligations which the UK will assume if we join now will involve no more than we have already assumed in WEU. But we shall be joining at a moment when we will be able to influence the process of development. This will also be true of progress towards economic and monetary union”.

It underlined that “what is proposed is a sharing and an enlargement of individual national sovereignties in the general interest,” and “a Europe united would have the means of recovering the position in the world which Europe divided has lost”.

More specifically on EMU, this was fixed as a target for “completion not later than December 31st 1980” at the Hague Summit in 1972 - before we joined, but with the then UK Government participating in the summit and agreeing to it. Of course, it took somewhat longer than anticipated, which shows that moves to monetary union were not a headlong rush but gradual, careful and considered.

Finally, it is worth looking at the statements *sent to every household* prior to the referendum on membership in 1975. The Government’s statement explained that this was “probably the most important choice that the British people have ever been asked to make”. No small trading matter, then! The main thrust of the “No” campaign statement was that this was about “the right to rule ourselves”.

“We could just leave the EU and deal by ourselves with the wider world, or even join NAFTA”

Nearly 60% of Britain’s exports are to our EU partners. We export more to Holland alone than to the whole of the Commonwealth. We sell four times more to the EU than to the USA.

It is essential that we take part in the EU in order to fight our corner and defend our interests in the making of the rules that shape the single European market. To leave the EU would mean loss of influence over crucial decisions taken at European level, decisions that affect us whether we like it or not.

“Switzerland and Norway survive perfectly well outside the EU”

Switzerland and Norway are both small countries with specialised “niche” economies: Switzerland with its oft-criticised banking system and pharmaceutical multinationals, and Norway with its massive oil reserves.

But even Norway is beginning to re-think. Its industry has to adapt to EU norms and standards, as that is their main market. Yet, as non-members, they have no say over the adoption of those EU rules. They cannot defend their interests. They call it “fax democracy”: the new laws arrive by fax from Brussels. They have, effectively, lost sovereignty through their isolation.

Nor does staying out save money – the Norwegian contribution to the European institutions is roughly similar, per capita, to that of the UK. For the Norwegians it is taxation without representation: no wonder polls in Norway now show a substantial majority in favour of joining the EU!

“The European Court imposes laws on us”

No, it doesn't. European Court judges are appointed by the governments of the Member States (not by the Commission). They rule on disputes concerning the interpretation of European law, but they have no law-making powers. As one former (British) President of the Court said: “the judges do not take political decisions, but they must sometimes remind politicians of what they have agreed”.

In fact, the Court is essential for ensuring that everybody abides by what they have signed up to. If a country fails to stick to its agreements, like France did over British beef, it can be taken to court – something that does not exist in most international organisations and makes the EU special.

It is indeed this legal system that has ensured that EU countries now accept British beef whereas, for instance, the overwhelming majority of Commonwealth countries do not – but in the latter case there is nothing whatsoever we can do about it.

“Britain is a low tax country. The EU is going to force us to raise taxes”

Each member state fixes its own system and levels of taxation. The EU Treaty only provides for harmonisation of *indirect* taxation, and even then only if every single country agrees to do so. Even joining the single European currency contains no obligation whatsoever to modify our tax rates or change our system.

That being said, there are areas where it might be advantageous to Britain to have a harmonised system: how many thousands of jobs and millions of pounds have been lost to Britain's by people loading their vans in Calais with French beer because their VAT and excise duty on alcohol is lower? Different rates of indirect taxation in a single market can cause distortions and this should be looked at on a case-by-case basis – but under the Treaty it would need everyone to agree to do anything about it. So, as always, there's no danger of anything being smuggled in through the back door, or 'imposed by Brussels'.

“The EU is forcing us to set up regional assemblies in order to ‘divide and rule’”

A letter-writing campaign to newspapers by UKIP/BNP has caused many to believe this particular myth, but in fact devolution to Scotland, Wales and possibly the English regions is entirely an internal matter for the UK.

The EU has no power to decide on the internal structure of individual governments - even if it had, why would it want to?

In any case, this particular conspiracy theory is downright bizarre. It seems that some people will happily insist one minute that the EU is becoming a centralised, domineering super-state, yet in the very next breath they will also complain that Brussels secretly wants to decentralise political power to the regions, a perfect example of *decentralisation*. They can't have it both ways!

“The British are simply different”

Yes – and so is every other country. All have their different languages, cultures, histories and laws. No one has gone into the EU in order to lose their identity. The EU contains no majority language group or culture; we're all minorities. In fact, the EU's motto is “United in Diversity”.

It was Margaret Thatcher who said that being in Europe hadn't made the French any less French and on this she was right – being in Europe hasn't made us any less British either.

There is no threat to these identities in the loose system that is the EU – after all, Scotland and Wales have kept their identities for centuries, even in what was the highly centralised UK system, and there's no danger of the EU ever getting as centralised as the UK was.

Some people do feel that they are European, but this is usually as an addition to their national identities. It is perfectly possible to support England (or Scotland, Wales or Northern Ireland) in football, Britain in athletics and the European Ryder Cup team in golf.

“The EU is fundamentally undemocratic”

EU legislation must be approved by the elected national governments meeting in the Council and, in most cases, by the directly elected European Parliament as well. This double scrutiny means that draft legislation must pass two hurdles to become law. These are two safeguards as to the quality of European legislation.

At the same time, national parliaments receive all EU proposals in time to debate them before their Minister goes to the Council meeting to discuss them.

The EU's administration is headed by ‘Commissioners’, who are politicians appointed by Prime Ministers and subject to the approval of the European Parliament. The Parliament can also dismiss the Commission.

The EU therefore has a higher level of parliamentary scrutiny and other checks and balances than any other international structure in the world, from the WTO to the IMF, the World Bank, the OECD or WHO.

Where there is room for improvement is in the few areas where Council alone can adopt legislation without it also requiring approval by the European Parliament. This is an anomaly which will be corrected by the new constitution.

“But the European Parliament is elected on a pathetically low turnout”

The level of the participation (turnout) in European Parliament elections fell by 13 percentage points between 1979 and 1999 (from 62% in 1979 to 49.5% in 1999, with some variation above and below that average in different countries). But turnout in *national parliament* elections fell, over the same period, by a similar order of magnitude in several EU countries:

- 16.6 points in the UK between the 1979 and 2001 general elections,
- 16.5 points in Portugal between the 1979 and 1999 elections,

- 14.8 points in the Netherlands between 1977 and the 1998 elections,
- 13.3 points in France between the 1973 and 1997 elections,
- 12.9 points in west Germany between the 1976 and 1990 elections,
- 11.8 points in Austria between 1986 and 1999
- 10.2 points in Ireland between 1977 and 1997
- 10 points in Finland between 1979 and 1999

(figures as a percentage of registered voters, supplied by IDEA, Institute for Democracy, Stockholm)

Turnout has also been low in recent local and parliamentary by-elections in Britain. Indeed, on the same day as the last European elections, there was a turnout of 19% in a parliamentary by-election for Westminster - lower than the turnout in the European elections the very same day.

In the USA, mid-term congressional elections also have a very low turnout. In 1998, this was 36.2 per cent of voting age population (according to the Federal Election Commission), falling as low as 23.1% in Tennessee and 26% in Texas. The 2002 statistics were even lower!

The decline in electoral participation is therefore not a specific problem for the European Parliament, but is a more general problem. It is too simplistic to blame Europe. It is, in fact, a challenge for democracy at all levels.

It is, of course, natural that there should be a generally lower level of turnout for European elections as compared to national elections, as European elections are less visibly important and no government is at stake, which is what most people think about when voting in their national elections.

This has been accentuated in Britain by the fact that, until now, European elections have always been held just a few weeks after local elections, with everyone from campaigners to the media and ultimately the voter suffering from "electoral fatigue". This time, they are due to be held the same day.

"MEPs are grossly overpaid"

MEPs are paid exactly the same salary as a backbench member of their own national parliament, and are paid from their own national treasury. They obtain their expenses from the European Parliament. These are quite similar to expenses received by MPs at Westminster.

The European Parliament works all year round with a recess of a month in August and two weeks at Christmas (compared to the nearly three month recess of the House of Commons).

On the detail:

- Salaries: MEPs get precisely the same salary as a backbench member of his/her national parliament (in our case The House of Commons) and pay national taxation at the same rates. There is a proposal to change this and pay all Members the same rates (with ongoing arguments and numerous suggestions as to what this should be set at) and pay a common EU tax, but with the British tax

authorities able to top that up if it comes to a lower amount than the British rate. However, this proposal has not been adopted.

- **Travel:** MEP's are paid a flat rate for travel between the constituency and the Parliament set at the level of a "YY economy fare" (not "First-class") return airfare to Brussels. Until a few years ago, travel expenses were reimbursed without due verification that a journey had actually been made. This was rectified and proof of travel must now be supplied. However, this remains the controversial part of MEP's expenses, and Labour MEPs have pushed for to change replace the flat rate with a cost based system.
- **Accommodation:** Like MPs, MEPs receive an allowance to cover the cost of accommodation when attending Parliament. Whereas MPs have a flat-rate "London living allowance" irrespective of actual levels of attendance, MEPs have an allowance dependant upon days actually attended. Members have to sign an attendance register every day and, if votes are held that day, to have participated in votes.
- **Staff Allowances and Office Expenses:** These are of similar magnitude to what Members of the House of Commons have, but slightly higher reflecting the need to pay the higher Belgium tax and social security rates for parliamentary assistants in Brussels and their travel to Strasbourg. All staff contracts and social security contributions have to be verified by the Parliament.
- **Other allowances:** MEPs do not get some of the allowances that Westminster MPs get, such as first class tickets for spouse and children to come to the seat of Parliament up to thirty times per year, two return tickets per year to any other parliament in Europe, an extra allowance for travel around their constituencies (despite MEPs' constituencies being much larger) or unlimited travel expenses around the UK on parliamentary business.
- **Auditing:** the European Parliament has a system of 'spot check auditing'. But, since Labour MEPs felt that this wasn't enough, **all Labour MEPs have had their annual accounts independently certified by an external auditor every year**, putting them beyond reproach.
- **Member's interests:** the European Parliament publishes Members' Declarations of Interests on the internet, unlike most national parliaments.
- **Labour has been at the forefront of pressing for reforms, some of which we have obtained. Further reforms are necessary – it should be obligatory for all MEPs to follow Labour's example and have their accounts audited and the travel expenses needs tightening as indicated above. But some of the more lurid allegations put about in the press are unfounded.**

"The overall cost of the European Parliament is prohibitively expensive"

Covering a larger geographical area and working in many languages, the European Parliament has costs that no other Parliament has to bear (travel, translation, etc).

Despite this, the cost per citizen is *lower* than for most national parliaments. The House of Commons costs £ 5.54 per citizen (excluding the costs of buildings, such as the new Port Cullis building which cost over £230 million!). The equivalent for the European Parliament is £1.41.

“Why don’t MEPs stay in Brussels instead of going to Strasbourg for 4 days per month?”

MEPs are obliged by law to have one session per month in Strasbourg. The national governments, not the EP, have the power to decide on the seats of the institutions. They agreed this ridiculous system at the Edinburgh Summit, chaired by John Major!

On the proposed new constitution

“The word ‘constitution’ implies that the EU is to become a state”

The term “constitution” does not imply that the EU is a state. Britain is a member of other international organisations that have a “constitution” (e.g. the International Labour Organisation, a UN agency). Even sports clubs have “constitutions”, as does the Labour Party!

The new EU constitution is intended to replace its current constitution, namely the various overlapping and sometimes confusing treaties that set out the EU’s field of competence, powers and procedures. This simpler, clearer, single document should be welcomed.

“It is unacceptable that EU law overrides national law”

This has been the case since well before we joined the EU. What it means is that governments should carry out what they agree in the EU. This is the very principle we relied on to win our case against France on their refusal to accept British beef.

But also remember who makes EU law in the first place: not the European Commission, but our own government, meeting with its counterparts and subject to parliamentary scrutiny by the House of Commons and the European Parliament.

Besides, all international law overrides national law. If a number of countries agree to a particular measure, this *has* to be binding on them – or else what would be the point? If a country could agree one thing at international level and then do something else at domestic level, we may as well not bother with the international agreement in the first place. It is simply illogical to complain that EU law supersedes national law.

And remember, anyway, that EU law can only be adopted in the limited areas specified in the Treaties – areas which can only be adjusted with the unanimous agreement of everyone.

“A new powerful ‘President of Europe’ will be created”

Not at all. The proposal is simply to replace the rotation system for the chairing of meetings of the European Council (the Prime Ministers of the Member States). Currently, Prime Ministers take it in turn to chair for 6 months at a time. It is proposed instead that they choose someone for a 2 ½ year period to prepare and chair their meetings.

That person will have no autonomous decision-taking power.

“There will be a massive transfer of powers to the EU”

The new constitution does not increase the field of responsibilities of the EU at all. No new subject matters are added to the EU’s current competences. On the contrary, as numerous studies have

pointed out (including a report from our own House of Lords), the balance is actually shifted the other way, to give national parliaments and the European Parliament *more* influence.

“Our foreign policy will be in the hands of an EU Foreign Minister”

Policy decisions will remain in the hands of national ministers representing their countries in the EU Council. Where they agree a common position, then this will be presented to the rest of the world as a common EU position, strengthening our voice. Currently, external presentation of such common positions is confusingly spread across the Commissioner for External Relations (currently Chris Patten) and the High Representative for Foreign Policy (currently Xavier Solana). The new constitution would merge these two jobs into a single “foreign minister”, ending duplication and confusion.

On the euro

There are many powerful reasons why virtually all the European Union countries have decided that, ultimately, a single market needs a single currency. They all concern the major economic advantages that it could bring:

Elimination of hedging costs

Selling to a client using a different currency involves contracts that are vulnerable to changes in exchange rates. It is like asking them to work with metres that could change in length or kilos that could change in weight from one week to the next! Companies therefore have to “hedge” (insure) against exchange rate fluctuations. This costs firms billions of pounds a year and is growing every year as more and more trade is conducted across internal European Union borders. A single currency eliminates such costs within our principle market.

Elimination of conversion costs

Simply converting from one currency to another involves a cost of anything up to 5% every time you change. Again, this is a burden on companies, especially SMEs, (about £3bn a year) but also on individual citizens as tourists (before the introduction of the euro, if you had toured the 15 Member States with £100 and changed into the local currency each time but didn't spend a penny, you'd have returned with only £45!).

Releasing money tied up in currency reserves

Before the euro, participating states each had to maintain separate currency reserves to defend their own currencies, partly against each other. With the euro, a common reserve is enough to defend just one single currency vis a vis the rest of the world. Smaller amounts are needed, releasing money for more productive purposes.

A share of the world's main currency

As Europe's share of world trade is greater than America's, the euro will in due course replace the dollar as the main denomination for world trade. At present, many of our production costs rise and fall with the value of the dollar, as commodity prices are fixed in world markets in dollars. Our costs therefore fluctuate according to events in the American economy that have nothing to do with our suppliers nor with our own economy. If this is eliminated an advantage that the Americans currently enjoy will be transferred to Europe.

Transparency of competition

Using the same currency throughout the single market will allow consumers to compare prices more easily (and everyone to compare benefits, wages, pensions etc.).

Stability

Over the years we have suffered from currency fluctuations. Exchange markets tend to “overshoot” when adjustments are made causing currencies to be overvalued or undervalued accordingly. Having the same currency within the European market eliminates that problem within that area – which is where the bulk of EU countries’ trade is.

Less scope for speculators

A single market with free circulation of capital, but with fifteen different currencies changing in value, is a speculator’s paradise. They cause changes in exchange rates to “overshoot” creating instability. The attempt by governments to counter them through the halfway house of the Exchange Rate Mechanism proved costly and ineffective.

Even if the euro can’t eliminate all speculation, it will make it less destabilising – by increasing the size of the “domestic” currency area and eliminating exchange rate risks for most of our exporters.

To these main reasons for giving the single European market a single currency can be added the reasons which now arise for the UK as a result of being outside the single currency now that it has been set up by our partners. In staying out, the UK loses out, not just as regards the above but:

- In terms of sovereignty: outside, we have no influence over decisions which are in any case going to impact on us. Inside, we have a powerful voice.
- In terms of our competitive position: UK companies are alone within the EU in having to bear hedging and conversion costs, so Dutch, Irish, French, German etc. companies now have a competitive edge over our exporters within the euro area. Nearly 60% of our exports go to the EU and over 3 million jobs depend on them.
- Fluctuations: caught between the dollar and the euro, the pound is particularly vulnerable to international exchange markets. Joining the currency used by our largest market would give us absolute stability vis a vis that market. Problems such as the high level of the pound against the euro between 1999 and 2002 would disappear.
- Lower interest rates: UK interest rates will at last be able to fall to the European average, stimulating investment and providing cheaper mortgages.
- Inward investment: there are already signs of a sustained fall in the share of inward investment coming to Britain from America, Japan, Korea and so on – it fell from 28% of EU inward investment before the euro was established to just 6% in 2002. On top of that, companies already here are thinking of moving to a euro-zone country (see recent statements by Mathmos, Vauxhall, Toyota, Mitsubishi, Peugeot, Renault, Ford and others).

Arguments against?

There are, of course, arguments against joining the single currency. Most of them do not stand up to scrutiny:

“We would lose our traditional currency”

The pounds and new pence of the 1990s bear no resemblance to our traditional pounds, shillings and pence which we dumped in the early 1970s. There is nothing “traditional” about our currency other than the name pound. Even the Queen’s head on our notes is a recent addition, dating from the early 1960s, and not used in Scotland or Northern Ireland. Even so, euro coins have national symbols on one side, such as the Queen’s head.

“A single currency implies a political union and a single country”

The UK and Ireland shared a single currency until the late 1970s without this meaning that they were a single country. Belgium and Luxembourg also, as do other groupings around the world. Sharing a currency does not mean you lose your national identity.

“We lose control of our currency to Germany”

In fact the opposite is true! With separate currencies, the strongest one dominated. All had to adapt to decisions taken by the German Bundesbank in the German interest. With the euro, all its member states have a say in decisions about a jointly owned currency.

“The single currency is run by bankers”

The European Central Bank is a publicly owned bank, not a private one. Its Governors and Board are appointed by elected governments and must report back to them and to the elected European Parliament. It is an independent bank in the same sense that judges are independent of politicians in their day to day decisions, but must nevertheless apply the decisions in light of the legislation and economic policy laid down. It is, indeed, the same system as the one we have in Britain with the independent Bank of England.

“A one-size-fits-all interest rate is not suitable for diverse economies”

We already have this problem within the UK, where interest rates often reflect developments in the South East and the City of London rather than the needs of the manufacturing North. The problem would be no worse at EU level - it might even be better with interest rate decisions less bound to the interests of a single financial centre. In any case, the convergence of economic cycles and of inflation rates achieved within the EU have considerably lessened this problem.

“Our economy is doing well outside the euro”

Our economic performance has improved dramatically under the Labour government, with the lowest unemployment and the lowest inflation for nearly 30 years. However, we are still losing out to the eurozone in terms of productivity (fourth lowest in EU 15), trade (Germany, France and Italy all trade a higher percentage of their economy), balance of payments (the eurozone has a trade surplus while we have a trade deficit), interest rates (the eurozone’s is lower) and investment.

“Joining means we would have to cut public spending”

There is nothing whatsoever in the Treaty provisions on monetary union that impose any limits on public expenditure. Member States are free to choose their own levels of public spending. Indeed, most have far higher levels (and often better public services) than Britain.

What the Treaty does limit is public deficits (i.e. financing expenditure by borrowing instead of taxing), where governments should not run “excessive deficits”. What is excessive? The treaty provides for an evaluation of the situation in any country where the deficit is more than 3% of GDP – significantly above the current level in Britain. Even then, allowance must be made where it is for investment or is deliberate counter-cyclical spending. This flexibility is adequate, bearing in mind that excessive deficits over a long period are not a good idea: look at what happened in

Belgium, where the government now has to spend some 20% of its tax revenues on paying back debt and interest instead of on public services!

It is true that EU countries have agreed a current policy called the “stability pact” that is tighter than the Treaty requirements, but this was found to be too rigid and it is widely accepted that it now needs to be made more flexible, as Britain has been advocating.

“Joining means we would have to harmonise tax rates”

It is not true that the single currency requires harmonised taxation. Some people argued that, but they lost the argument when all EU countries agreed that the Treaty provisions on monetary union should make no change to the existing system that taxation can be harmonised only with the agreement of each and every Member State (and even then, not direct taxation like income tax).

General issues on fraud and mismanagement in the EU

- 80% of the Budget is spent by the Member States on behalf of the EU, but the Commission is held officially responsible for it.
- In relative terms, there is very little fraud on the *expenditure* side of the EU budget. Most irregularities are due to organisations or individuals failing to comply with the necessary procedures.
- Most of the fraud that is committed against the EU budget is on the *revenue* side. For example, the money that is due to the EU from taxation or money collected from import duties. Billions of euros are lost every year from cigarette smuggling. They are lost to Member States exchequers, not just to the EU.
- Member States are responsible for policing this and not the Commission.
- It is true that the Court of Auditors refused to sign off the EU expenditure in 2002 for the 9th year running. This is because they cannot account for every euro that has been spent, as 80% of the budget is spent by Member States. However, the CoA did say: “Taking into account the results of its audits, the Court is of the opinion that the transactions underlying the consolidated annual accounts of the European Communities, taken as a whole, are legal and regular as regards revenues, commitments, administrative expenditure and pre-accession aid, although, in the latter case, the supervisory systems and controls, in particular, should be reinforced”.

Accounting problems

The Commission has been harshly criticised by the European Parliament for not having an accounting system which meets international accounting standards. In response, the Commission has committed itself to completing their accounting reforms by 2005, introducing an “accrual” system. Both the Court of Auditors and an external consultant have recognised that these reforms are on track. It should be noted that only 2 out of the 15 Member States have accrual accounting systems. The UK is one.

Eurostat

The problems at Eurostat were serious and the Commission was too slow to in acting upon them. The systems which allowed for these problems to occur, have now been corrected and control systems have been tightened.

Reform of the Commission

In 1999, when Commissioner Kinnock became the Vice President of the Commission, he set out a comprehensive package of reform to address shortcomings in the EU's bureaucracy. 96 out of the 98 recommendations have now been enacted.