

# THE FEDERAL TRUST

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## European Newsletter

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This monthly Newsletter monitors and analyses institutional and political developments in the European Union. Regular features will focus on the rotating EU Presidencies, any developments relevant to the future of the European Constitutional Treaty and other news from the European Union's institutions. This Newsletter follows earlier series which have offered UK perspectives on the debate about the EU Constitutional Treaty. It is designed to offer contrasting views on a number of different policies and questions. Back issues are available at [www.fedtrust.co.uk/european\\_newsletter](http://www.fedtrust.co.uk/european_newsletter).

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### 1. Editorial

If Mr. Blair has sometimes seemed distracted from his role as leading the British Presidency of the European Union, he can fairly point out that over the past five months, he has had much to distract him. Terrorist attacks in London, growing unrest within the Labour Party and uncertainty about how long he will remain Prime Minister have all contributed to making the months since May's General Election, in which New Labour was reelected with a diminished majority, some of the most turbulent of Mr. Blair's premierships. To add insult to injury, a well-publicised book highly critical of Mr. Blair is now being serialised in the daily newspapers. In it the former British Ambassador in Washington accuses the Prime Minister of lacking any of the appetite for detailed political strategies that will make a reality of the political 'vision' which the former Ambassador readily concedes Mr. Blair possesses.

Although Sir Christopher Meyer's critique of the Prime Minister refers primarily to his handling of the Iraq question, those who have followed Mr. Blair's European policies since 1997 will find themselves on familiar territory in reading the Ambassadorial analysis. The hitherto disappointing British Presidency is not simply a question of other priorities having displaced it on the British government's agenda. Sadly, the lacklustre British Presidency is an all too powerful symbol of a government elected in 1997 partly to restore Britain's position in Europe, but which has struggled to produce a consistent and coherent set of policies over the past eight years which would put this restored position on secure foundations.

### The Federal Trust for Education and Research

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...is a think tank that studies the interactions between regional, national, European and global levels of government.

Founded in 1945 on the initiative of Sir William Beveridge, it has long made a powerful contribution to the study of federalism and federal systems.

Intuitively, Mr. Blair certainly understands that a fractious and self-pitying United Kingdom, always at odds with its partners in the European Union, is both undignified and damaging to the British national interest. This insight has not, however, been translated into the policies and rhetoric needed to entrench its implications among the political elite and the public.

This gap between insight and implementation has been particularly clear in the case of New Labour's most damaging European failure, that of the European single currency. Over the past eight years, a succession of visitors have left Downing Street entirely convinced of Mr. Blair's commitment to taking Britain into the Eurozone in the imminent future. A number of stirring speeches have been made by the Prime Minister that were widely taken to mark the beginning of a sustained campaign to win over a sceptical British public to seeing the merits of the euro. The campaigning organisation for the euro, Britain in Europe, spent most of its existence since its founding in 1999 in the imminent expectation of a referendum on the euro. The net result of all this excitement and anticipation has been a profound disappointment. Mr. Blair's 'vision' of Britain in the Eurozone has been resoundingly defeated. Mr. Brown's and the Treasury's caution. Nobody has ever accused Mr. Brown of lacking a grasp of economic detail.

In June, the British delegation were clearly surprised at the European Council meeting by the robustness with which Mr. Chirac and others attacked the British budgetary rebate. The bad feeling engendered at that meeting promised to get the British Presidency off to a bad start. In July, however, it seemed that Mr. Blair had steadied the ship of the British Presidency with an impressive speech to the European Parliament, well-received on all sides of the political spectrum. But in the past four months, a tide of criticism of the British Presidency has steadily mounted, prefiguring Sir Christopher Meyer's criticism of Mr. Blair that he 'does not do detail'. The short and inconclusive European Council meeting at Hampton

Court can only have reinforced this criticism. In recent weeks, Mr. Blair and other British ministers have let it be known that they will be making a renewed effort at December's European Council to bring about a resolution of the European budgetary controversy. The Prime Minister has said, courageously, that he would be ready, in the right circumstances, to accept a less favourable arrangement for the British rebate than that negotiated by Mrs. Thatcher twenty years ago. Mr. Brown may be expected to have a view on that subject. The stage is set for another clash in December between Mr. Blair's visionary approach to Europe and Mr. Brown's very different stance, which some regard as realistic and others as short-sighted. If an arrangement is to be concluded in December, Mr. Blair will need to break his losing run when he goes head to head with the Chancellor on European economic questions.

Brendan Donnelly  
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## 2. The question of 'Social Europe': the background of the debate

(How) can Europe stand up to the challenge of globalisation? Commentators of different political colours have joined the recent debate on the viability of the European economic system and the future of 'Social Europe'. Different scenarios are painted and a plethora of reform suggestions have been made to respond to the perceived challenge of globalisation. The resurgence of this topic can largely be attributed to impulses from the British EU Presidency and several high-level reports in the run-up to the informal EU summit in Hampton Court last month.

The United Kingdom has made comprehensive social and economic policy reform a key issue for its EU Presidency. Gordon Brown and the UK Treasury's report '*Global Europe: Full Employment*'<sup>1</sup> looks at the prospects for

the European economy in the light of global economic change, identifying the areas of low growth, inflexible labour markets and low levels of skills, innovation and enterprise as most problematic. In order to be able to compete on the world economic stage with countries like China or India, the paper suggests comprehensive budgetary, regulatory and trade policy reforms.

Most importantly, the report maintains that the European Social Model has failed in the face of 20 million unemployed. Social cohesion can only be achieved via full employment, which depends on a complete overhaul of the social system with a greater emphasis on flexibility, openness and on building a knowledge-based economy. Furthermore, the reports suggests that Europe is no longer the defining variable in a global world and therefore the EU needs to be more outward-looking and permeable. It proposes to speed up the completion of the Single European Market (including the liberalisation of services) and labour market reforms towards more flexibility and a general skills upgrade.

With its paper '*European Values in a Globalised World*'<sup>2</sup>, the European Commission has laid out its views and proposals for reform. The tenor of the paper is that the existing structure of the European Union no longer delivers the desired outcomes, exemplified by slow growth, high levels of structural unemployment and rising inequality. In the face of global competition, new technologies and unfavourable demographics, Europe must reform in order to preserve its values of social cohesion, environmental protection and its high levels of quality of life.

According to the Commission, the debate on responses to globalisation touches on the fundamental question of what kind of Europe (and thus what form of social model) is wanted by the member states. While the Commission acknowledges that there is no unified European social policy framework and that a diversity of different national traditions exists, there is however a 'specific European approach' to

economic and social policies which is worth preserving. This includes shared values of solidarity, social cohesion, equal opportunities, anti-discrimination, universal access to education and health care and sustainable development. In addition, most European economies are marked by a high degree of social transfers, with the public sector tending to play a big role (either through regulation or spending) in the economy. Furthermore, there is a strong preference for the social market economy model and a tradition of social dialogue and partnership in Europe.

In contrast to the Brown report, the Commission sees potential for a co-ordinating role on the part of the European Union even though authority for social policy lies mainly in the hands of nation-states. Suggested changes at the EU-level include the completion of the internal market, an improvement of the regulatory environment and the creation of an EU adjustment fund to absorb short-term disruptions arising from globalisation. The Commission's proposals depict a compromise between the essentially liberal view of more openness and flexibility and the promise to maintain European social values, which it sees as essential in order to guarantee public acceptance of the plans for change.

A further important background contribution to the debate is a paper by the renowned Belgian economist André Sapir who reported to the ECOFIN Council on *'Globalisation and the Reform of European Social Models'*<sup>3</sup>. In line with the other two reports, Sapir sees globalisation and the speed of global change as the main challenge for the European economic systems which have failed to deliver adequate growth. In his view, the EU needs economic and social reforms to become sufficiently flexible and to develop an innovation-based economy.

His analysis lends support to the Commission: While social models are a matter of national policies, there might be benefits in co-ordinating policies. However, this does not imply that there is one unified model of 'Social Europe'. Sapir maintains that the very notion of

'European model' or 'Social Europe' is misleading. He outlines four broad categories in which the individual national models fall: the Nordic model (including Scandinavian countries), the Anglo-Saxon model (such as the UK and some new member states), the Continental model (Germany and France among other) and the Mediterranean model all feature differently with respect to levels of social protection, cost efficiency, equity and poverty reduction. He suggests that both the Nordic and Anglo-Saxon models are sustainable in the long run, while the other two need to reform to reduce their in-built disincentives to work.

All reports agree that globalisation poses a serious challenge to European states and that comprehensive reform of both social and economic systems is essential. However, such a broad general consensus should not conceal the underlying divisions when it comes to assessing the potential role of the European Union in the reforms, concrete reform proposals and the question on the existence of a common 'Social Europe' worth preserving. The reports have started a discussion that is far from over.

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<sup>1</sup> HM Treasury, *Global Europe: Full Employment*, October 2005, [http://www.hm-treasury.gov.uk/media/093/BF/global\\_europe\\_131005.pdf](http://www.hm-treasury.gov.uk/media/093/BF/global_europe_131005.pdf)

<sup>2</sup> European Commission, *European values in the globalised world*, 20 October 2005, [http://europa.eu.int/growthandjobs/pdf/COM2005\\_525\\_en.pdf](http://europa.eu.int/growthandjobs/pdf/COM2005_525_en.pdf)

<sup>3</sup> André Sapir, *Globalisation and the Reform of European Social Models*, September 2005, [http://www.bruegel.org/Repositories/Documents/publications/working\\_papers/EN\\_SapirPaper080905.pdf](http://www.bruegel.org/Repositories/Documents/publications/working_papers/EN_SapirPaper080905.pdf)

### 3. The demands of globalisation on 'Social Europe' revisited

A spectre is haunting Europe. Globalisation's chill winds are forcing European societies to reconsider their old ways and to reform themselves. Most proposals leave little doubt about what needs to be done: structural reforms, deregulation of markets and curbing state involvement to increase economic flexibility will lead to increased competitiveness, and - ultimately - to much-needed economic growth in Europe. According to this view, labour markets and social policies create disincentives to work and protect a welfare-status quo that is unsustainable in the long-run. The times of 'Social Europe' - a Europe of comprehensive welfare regimes, high levels of social transfer and values of social protection and equality - seem to be over.

Yet globalisation also produces new demands on states that go in the opposite direction. Many observers quietly sidestep this by ignoring that the suggested reforms have a long-term pay-off structure - think, for example, of the time it takes for the benefits of a general upgrade in skills to work their way through to results. Any reforms, especially radical and far-reaching ones, require electoral backing. And more economic openness and institutional flexibility create losers - who will demand some form of compensation. Disregard for a moment the relative merits of current reform proposals; the political economy of reform leaves little doubt about the need for additional compensatory social policies. Therefore, some sort of 'Social Europe' has a vital role to play in Europe's response to globalisation.

This is not a new thought. In the 1970s and 1980s already, a group of scholars suggested this idea, but that debate limited itself to compensation policies in the form of more government expenditure. If you faced a social problem, your social policy was to spend your way around it. Increasingly, however, doubts are raised about existing social policies, especially passive ones such as early retirement

schemes, high unemployment benefits, or even a globalisation adjustment fund as suggested by the Commission. What is needed is a switch from passive to active social policies to help societies adjust to globalisation.

Think for example of skilled workers in the German manufacturing sector. As economies integrate, German companies are increasingly positioning themselves in high value-added markets in medium-technology engineering and chemicals. It is in those markets where they can reap the benefits of their comparative institutional advantage of patient capital with a long-term outlook, skilled workers with long-term career perspectives, and competent suppliers who understand the customers almost as well as these firms themselves do. But of course even these industries, successful as they still may be, have to reduce their workforce at some point in the face of global pressures, and for that they have traditionally relied on early retirement schemes. Such schemes had two advantages: companies could adjust their workforce in numbers and in profile, while workers received compensation for the skills they had acquired over time. However, as the actual retirement age falls – in countries such as France, the Netherlands and Germany, only a minority of men over 55 are still working – society pays an increasingly bigger price, both in early retirement expenses and in losses associated with this part of the workforce being idle. A switch from passive to active adjustment policies in the form of retraining might be instrumental in dealing with this problem. Swedish active labour market policies serve as a role model in this case.

In contrast, France has a system of high-level general education, which is excellent in supporting companies who need to adjust rapidly to new lines of products and services. In the 1980s, it allowed large firms to restructure their workforce so that this would match their new export strategies. But there is a dark side to this: those who fail to make it first into and then out of this educational system become increasingly marginalised, as they never enter the primary labour market. Imagine this

‘class cleavage’ to be superimposed on other social cleavages such as ethnic origin, and you may have a understanding of the rioting in November.

Or think of a single mother in the UK: because she has to take care of her child, she cannot receive training. Without training, she will not find a job that pays more than welfare benefits. If all goes well, she could get state support by receiving either welfare benefits, help with training, or childcare – but only in very few countries are these different welfare policies integrated and targeted well. A simple answer would be to offer childcare and training in the same place, and increase welfare benefits for the duration of the training as an incentive to adapt to the demands of the global economy.

All those examples suggest two things. One is the simple need for education and training in a globalising world – this may well turn out to be the best social policy for Europe. The second is that social policies have to be articulated with existing welfare arrangements, the broader supply-side institutional framework, and the different product market strategies that countries have adopted in the past, often reflecting their institutional heritage. A one-size-fits-all unified European social model, as the term ‘Social Europe’ implies, simply misses the point that the different Varieties of Capitalism in Europe may need a diversity of social welfare regimes.

The time has come, therefore, for the debate on globalisation and social policy to move on from ‘either/or’ to ‘both/and’. Globalisation and ‘Social Europe’ are not competing strategies in the modern world; instead social policies are a necessary part of any strategy to make Europe adapt to the challenges of globalisation.

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<sup>1</sup> An exception is André Sapir's recent paper which highlights the problem of time lag between the costs of flexibility and the long-term benefits deriving from more openness. See André Sapir, *Globalisation and the Reform of European Social Models*, reference above.

<sup>2</sup> The European Commission, *European values in the globalised world*, 20 October 2005, see reference above.

<sup>3</sup> See Peter Hall and David Soskice (eds.), *Varieties of Capitalism. The institutional foundations of competitiveness*, Oxford University Press, 2001

#### 4. News from the institutions

This month's European agenda was dominated by the informal meeting of the European Council on 27 October at Hampton Court Palace in Surrey in order to discuss, in the words of the UK Presidency, ‘how to maintain and strengthen social justice and competitiveness in the context of globalisation’. In the run-up to the summit, the Commission published its contribution to the debate entitled ‘European Values in a Globalised World’. This was supplemented by six discussion papers prepared by leading authors in each field on economic reform and welfare systems. These papers were not, however, discussed at the summit but were meant to stimulate further debate after the summit.

In a well-received speech the day before the summit, Prime Minister Tony Blair presented in the European Parliament six policy priorities for economic growth and competitiveness in Europe. These were: a common energy policy, including an integrated power grid; a globally competitive and business-oriented higher education sector; the creation of a European Research Council, the equivalent of the National Science Foundation in the US; controlled migration flows; improving work-life balance; and a Globalisation Fund as suggested by the Commission.

It is unclear to what extent Mr. Blair's suggestions were discussed at the summit, as no formal conclusions were issued after the meeting. Indeed, the main aim of the meeting seems to have

been to improve the atmosphere among European leaders and to avoid a repeat of the acrimonious debate of the June European Council. In his letter of invitation on 20 October, Mr. Blair stressed that he wanted the meeting to be 'convivial' and characterised by a 'spirit of collective endeavour'. The most reported news item from the summit in the UK was Mr. Blair's tough reaction at the press conference to the Iranian President's suggestion that Israel be 'wiped out'. Some political commentators suggested that Mr. Blair's strong words were meant to hide the fact that little concrete emerged from the meeting itself.

Nevertheless, it seems that German Chancellor Gerhard Schröder used his last European Council meeting to attack the European Commission and warn of severe inequalities of social provision in Europe. He argued that it was not acceptable to undermine environmental standards and encourage social dumping in the name of the opening of the services sector. He also rejected the Globalisation Fund championed by Mr. Blair and Commission president José Manuel Barroso.

In his letter of invitation, Mr. Blair had also addressed the issue of the budget: 'I hope we can avoid getting into detailed discussions of the future financing issue at Hampton Court. There are real challenges on globalisation that we must address.' From accounts of the summit, it seems that the UK Presidency was successful in this regard, as the discussions at the meeting do not seem to have focussed on the budget debate.

The budget was, however, discussed at the meeting of EU foreign ministers on 7 October, with no agreement in sight. There seems to have been no change in national positions, with the UK sticking to its demand that spending on agriculture decrease significantly and France arguing that the June compromise proposal was the 'ultimate limit'. While the UK is backed on the question of agricultural expenditure by the Netherlands and Sweden, France seems to have a larger support base in the EU. The 10 new member states are pressing for an early agreement on the

budget, as a delay could mean difficulties in applying for regional aid. According to the BBC, the UK Presidency has been criticised for pushing insufficiently the budget agenda so far and failing to propose concrete new compromise proposals.

Meanwhile, the EU may be facing serious problems in its aim to achieve progress on the Doha Round at the World Trade Organisation summit in December. France has threatened to veto a WTO deal if it deems that the Commission went beyond the mandate given to it by member states. In particular, France is worried about the concessions made by Trade Commissioner Mandelson on agricultural tariffs and subsidies. A high-level meeting on 8 October in Geneva left the strong impression that the gulf between the negotiating positions of the EU, the US and the G20 group of middle-income countries may be too large to bridge successfully by December. It seems that when it comes to issues of money, the EU's negotiations are always difficult and prolonged - no matter whether it is the EU budget or world trade that is at stake.

Markus Wagner  
The Federal Trust

[Discussion papers for the Hampton Court Summit](#)

[Tony Blair's speech to the European Parliament](#)

[Tony Blair's letter of invitation](#)

[BBC, 7 November, 'No progress for EU budget talks'](#)

## 5. The European debate in the UK

In the past weeks, the European Union has become a topic of debate in the Conservative leadership contest, with candidates apparently trying to out-do each other in terms of Euroscepticism. In the battle of the 'two Davids', the contenders have thus proposed distinct policies on Europe, although both have stopped short of advocating leaving the Union.

David Cameron, currently seen as the clear frontrunner, has said that he would take the Conservatives out of the European People's Party (EPP) in the European Parliament. He argues that the EP Group holds views that are inconsistent with Conservative Party policy and that removing the Conservatives from the EPP will allow the Party to 'espouse views in the European Parliament which are consistent with the views we espouse in the UK Parliament'.

In a surprise move, David Davis announced on 2 November that he would call two referendums on Britain's role in Europe if he becomes Prime Minister. The first would back his demand to return power to the UK on a variety of issues including fisheries policy, asylum and immigration and social affairs. Only the Single European Market would not be up to debate. The second referendum would then allow voters to judge whether 'he had delivered the goods'. Mr. Davis called this a 'double-lock' referendum that would increase the weight of British demands in the EU and make the government pursue resolutely its announced policies.

Mr. Davis added that he wanted a Union that would be more flexible: 'I want to see an 'open Europe' where all powers can be brought back from any country.' He added: 'People of Europe all have different expectations of Europe and we can't have a one-size-fits-all model anymore.' Davis also suggested the introduction of a new British Bill of Rights that would take precedence over European human rights legislation.

Kenneth Clarke, whose leadership bid ended in a defeat in the first round of voting among Conservative MPs, attacked Davis and Cameron's proposals, arguing that 'if the two Davids start competing on the Eurosceptic front, which there is a slight sign that they are, I hope it doesn't mean that the Tories are going back to the old 'let's whip up our core vote with right-wing issues' approach to elections.' He also suggested that Davis's comments were irresponsible and 'complete nonsense'.

Beyond the Conservative leadership, the informal meeting of the European Council at Hampton Court Palace on 27 October has dominated recent British reporting on EU issues. In the run-up to the summit, several commentators analysed the supposed clash between 'liberal' and 'social' Europe. The summit itself, however, ended with no significant results, beyond providing a number of good photo opportunities for European leaders.

On October 31, four days after the summit, the Minister for Europe Douglas Alexander gave a speech to the Conference of Chairman of European Foreign Affairs Committees in which he defended the UK Presidency of the EU. He argued that the debate on the future of Europe that inspired the Hampton Court summit was essential for the EU and that a decision on the budget can only come as a consequence of this discussion: 'First we have to agree the destination to which Europe is heading ... only then can we decide on a detailed budget to get us there.'

He also underlined the progress made on enlargement with the opening of accession talks with Turkey and Croatia, on the justice and home affairs agenda as a response to the London bombings and on the implementation of the Lisbon Agenda. He concluded by stressing that the UK Presidency 'has a strong vision for the future of Europe - a Europe which

is globally competitive, secure within its borders and a force for good in the world.' He added that he believed that the UK Presidency was not just talking about its vision but also showing that the European Union can 'deliver concrete results'.

The fact that Mr. Alexander felt the need to highlight the achievements of the Presidency so far sheds some light on the current evaluation of the British turn in the chair of the EU. The UK has been accused of favouring words over action, as evidenced by the short informal summit in October, which featured several background papers and high-minded discussion on globalisation and welfare states but had no significant results. Britain has also been seen to be avoiding debate on the budget and on the future of the Union's institutional structure. As a result, the UK has had to defend its record, but it seems likely that further negative assessments of the Presidency will follow as the UK nears the end of its term.

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[David Cameron's EU policy](#)

[The Guardian, 2 October, 'Davis pledges two EU referendums'](#)

[Full text of Douglas Alexander's speech](#)

## 6. News from the Federal Trust

### Recent publications

#### ***Policy Brief No. 16: Democracy and legitimacy in the European Union***

*By Dr Julie Smith, Senior Research Fellow, The Federal Trust*

This Policy Brief assesses the problem of the 'democratic deficit' in the EU. It argues that the emergence of a directly elected European Parliament has not led to resolve this problem and discusses how to improve the Unions' legitimacy.

Available for download at [www.fedtrust.co.uk/admin/uploads/PolicyBrief16.pdf](http://www.fedtrust.co.uk/admin/uploads/PolicyBrief16.pdf)

### Forthcoming events

#### **12 December 2005: The Austrian Presidency of the European Union**

An evening discussion organised in co-operation with Chatham House.

For further details please email [mark.spokes@fedtrust.co.uk](mailto:mark.spokes@fedtrust.co.uk).

To register please email [INewton@chathamhouse.org](mailto:INewton@chathamhouse.org).

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