

Freedom and Competition: The Future of Europe

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1. Introduction

At first glance, the battle lines over the European Union (EU) seem to be clearly drawn. Some groups believe too much authority has already been transferred to the European level, while others would welcome even greater integration and centralisation in all areas. Some favour rapid expansion and new members, while others oppose expansion on principle. These arguments are oversimplifications that do not do justice to the questions about the future of Europe.

It is much more critical to identify not only the causes of the EU's tremendous success, but also the negative developments that pose a long-term threat to the freedom and prosperity of its citizens. Today, the EU can look back on a level of success unparalleled in the history of the continent. In the latter half of the 20th century, the EU has not only helped maintain peace in Europe, but has also fostered dynamic economic growth in the member states, which in turn has boosted standards of living. Furthermore, the people enjoy considerable freedom of movement and wide-ranging individual and democratic rights. Not even in their wildest dreams could most Europeans have imagined this, living as they were on a continent ravaged by the second world war. Ever since the Treaties of Rome in 1957, cooperation across member states has been growing and European integration has been extended to include a growing number of sectors. Step by step, a common economic area has developed into a political community.

The EU continues to attract many other countries and regions, as manifested in the desire for membership expressed by many European countries. The accession of 10 countries on 1 May 2004 does not, however, mark the end of the accession process; Bulgaria and Romania will join in the near future and other countries have also expressed interest. Furthermore, the EU serves as a role model for diverse regional cooperation projects across the world.

However, the Union is not without its flaws. In the eyes of many – and they are not wrong – it does not only stand for freedom and prosperity but also for centralisation, regulation and bureaucratisation. Former Czech president Vaclav Havel was referring to the burgeoning complexity of European institutions and their alienation from the citizens when he demanded that Europe should no longer be divided into „a small group of EU specialists and a large mass of EU-Europe illiterates“.¹

¹ See: Václav Havel und Jaques Delors im Gespräch: Gebt Europa eine Verfassung, DIE ZEIT June 2001.

In liberal terms, this demand can only be partly met through attempts to enhance awareness about existing institutions and mechanisms. Priority should instead be given to rendering European institutions more transparent and less complex. This is not easy, as the 'EU specialists' mentioned above are naturally reluctant to forfeit their knowledge advantage. Simple, transparent institutions can go a long way in rectifying the flaws of democracy which, needless to say, still exist at the European level. Moreover, subsidy systems—the cause of uneconomic and unjust redistribution and stunted competition—are a threat to our common future in Europe.

Many proponents of European integration and many diehard Europeans do Europe a disservice by repeatedly underplaying these problems and keeping them out of the public domain. Their arguments are based on unfounded fears that critical discussions would toughen the stance of a fundamentally 'anti-Europe' population. The concept of Europe is now an integral part of the lives of most of its people and few would want to go back to a system of tightly sealed borders, or to surrender the enormous economic advantages offered by the open European markets.

However, many citizens are justifiably sceptical when they discover that several problems are simply swept under the carpet or at least not openly discussed. If Europe is to be viable in the future, we must not fight shy of tackling these problems. It is a mistake to strive towards increased centralisation in decision-making processes because this achieves exactly the opposite of what its proponents want or claim they want. Centralisation and greater integration do not foster stability and growth, but indeed suppress the creativity inherent in individuals, regions and countries. Decisions should be taken at the centre if—and only if—centralisation is indispensable for the functioning of the common market and for the rights of freedom and security of EU citizens. In all other political fields, we must remember that the best solutions are arrived at through competition, not by central authorities.

Several liberal principles have been incorporated into the EU Constitutional Treaty signed by heads of member states on 29 October 2004, but subsequently rejected in public referendums held in France and the Netherlands. While liberals agree that the document marks considerable progress, they also believe it is flawed. Nevertheless, its shortcomings should give us a good insight into the current problems hampering the development of Europe, among them the monetary policy and the weakness of the subsidiarity principle. We could sum up by saying that it is still far too easy for central institutions to exert influence and assume responsibility. Even though the sections on social justice and the ban on discrimination strike the right notes, they open the door to greater centralisation and could jeopardise some of the principles of the rule of law, particularly the vital freedom of contract.

Finally, the EU has a special responsibility towards the countries striving for membership, who are also expected to meet the rigid Copenhagen criteria and are entitled to the same assistance offered to all new members who have had to fulfil the criteria to date. It is also important that the EU lends a helping hand in resolving existing conflicts across Europe besides opening up prospects of fruitful cooperation in countries currently not candidates for EU accession.

2. Unity in diversity: competition, the secret of success

For centuries, Europe's uniqueness has lain in its tremendous diversity. During the Industrial Revolution, precisely this aspect was the secret of the continent's success and subsequent economic development that overshadowed the rest of the world. British economic historian Eric Lionel Jones² also recognised the importance of this factor, which may come as a surprise to many who have always considered larger, centralised units to be a worthy goal. The reason is clear: decentralisation fosters competition. Locational competition, the subject of much discussion today, is not new to Europe where it has been practised for hundreds of years.

Many European regions have always competed with each other to attract trade and investment to raise their standards of living. Similarly, institutions and political systems must also compete with each other because testing alternative concepts provides the knowledge required for long-term decisions. Socialism and planned economies failed primarily because those in power assumed such knowledge about the future that they could not possibly have possessed. It is therefore vital that all fields of politics, if possible, are subject to competition. Tax systems must compete with each other as must institutions of social policy; it does not follow that a 'downward spiral' is the inevitable consequence. When tracing the development of taxation over the twentieth century, we realise how completely absurd it is to speak of downward competition. In those days, even dyed-in-the-wool socialists would have considered today's tax rates shameless. More than anything else, a competitive system makes it easier for individuals and companies to see what they get in return for their taxes, thus compelling countries, local governments and municipalities to optimise efficiency without wasting their financial resources.

In the course of history, the division of Europe into many different countries with frequently shifting borders has of course not been only beneficial. The continent was ravaged by war for centuries and its fragmentation resulted in customs

2 See: Eric Lionel Jones: *The European Miracle: Environments, Economies and Geopolitics in the History of Europe and Asia*, Cambridge 1981.

duties and other barriers that hampered trade and held back prosperity. The EU and its precursor organisations are therefore a tremendous step forward for the people of Europe. In a historical comparison, the second half of the 20th century heralded an extended period of peace where individual rights and the rule of law assumed precedence. Similarly, the transition from dictatorship to democracy in Spain, Portugal and Greece is barely conceivable without the examples and influences of European democracies. European structures that guarantee freedom of the individual, democracy, rule of law and free trade must therefore be fine-tuned and must themselves fulfil the criteria laid down for a functioning democracy in an individual country. One must clearly distinguish between fields that require standardised political structures and those where decision-making powers lie with the member countries or with legislative bodies in the countries themselves.

In this context, the principle of subsidiarity is a good guide for liberal policy. It can also be applied when deciding whether a problem should be handled at the political level at all or is better left to the individual. Currently, some areas tend to look to the EU to regulate matters which, at least from the liberal point of view, do not (or hardly) warrant state regulation. The planned EU advertising directives may serve as an example.

In many cases 'Brussels' does not, however, simply assume authority by practically wresting it away from individual countries. National governments also tend to delegate several tasks to Brussels and absolve themselves of their responsibilities by passing the buck to the EU. They would much rather act as distributors of 'allowances' from the countless and increasingly obscure subsidy pots in Brussels.

3. Clearly-defined competencies versus centralisation

The principle of subsidiarity is the liberal guideline underpinning the distribution of competencies among individual political levels, but is not confined to this sphere alone. Building on the basic premise of individual responsibility and accountability, we can conclude that subsidiarity begins with the individual. Before asking whether the community, the country or the EU is responsible, one must ask whether the citizens themselves can shoulder the responsibility by taking matters into their own hands. Many difficult questions about the allocation of responsibility to individual political levels sort themselves out when priority is accorded to the private sphere, without ifs or buts. With regard to social or labour market policy, for example, where there is always a strong tendency to let Europe decide, the liberal position is clear: people must first be in a position to take care of themselves. Only then is targeted and efficient state intervention permissible in some cases.

Competition is especially important in areas with excessive redistribution, as it is the only incentive for politicians to be frugal with funds and turn a deaf ear to the demands of stakeholders. „In these fields, harmonisation from above must be replaced by a pro-competition policy, which, *inter alia*, advocates the 'country of origin' principle instead of central standardisation.“³

Decisions must be taken at the European level in areas like the common market and freedom of movement for EU citizens where the secrets of the EU's success (discussed above) must be guaranteed. To these core competencies that must unequivocally be assigned to the EU, we can add the following competencies formulated by the federalism commission of the Friedrich Naumann Foundation under the chairmanship of Otto Count Lambsdorff:

- Guarantee of freedoms agreed in the Treaties of Rome (1957) (free movement of persons, goods, services and capital), which should indeed form the essence of all European orders
- Financial and monetary policy
- The Community's foreign trade policy
- European competition policy to secure basic freedoms in the domestic market and free competition with regard to trade between countries.⁴

Of course, mixed competencies and parallel legislations cannot be completely avoided in the future; they are, in fact, essential in respect of asylum and immigration and environmental policies. In the case of environmental policy, it is vital to ensure that the EU regulates only those areas that could have cross-border, even global, implications. The asylum and immigration policy must be better coordinated because pertinent political decisions taken by one country could automatically affect others, given the freedom of movement within the EU. In the fight against crime and terrorism, there must be greater cooperation between the authorities in different countries and the collaborative structures must work more efficiently, not only because they must overcome emergent threats but mainly because this is the only way to guarantee the rule of law for all EU citizens. At the same time, liberals should be vigilant and ensure that, in the name of security, we do not overreact to a terrorist attack, for example, and thus violate fundamental civil rights.

3 Für ein Europa der Freiheit und der Bürger. Vorschläge einer Expertenkommission unter Vorsitz von Dr. Otto Graf Lambsdorff, in: Hubertus Müller-Groeling (ed.), Reform des Föderalismus. Kleine Festgabe für Otto Graf Lambsdorff, Berlin 2002, pp. 112-113. <http://admin.fnst.org/uploads/487/foed-m5.pdf>, p. 5.

4 Ibid, p. 111, internet: p. 4.

The standards set forth in the German constitution to safeguard the private sphere and freedom of the citizen must be applied at the European level too. For example, the European warrant for arrest must be reworked to bring the guarantees of the rule of law in line with German regulations.

Whether the EU requires a common foreign and security policy is a subject for constant discussion. Negotiations were in fact under way a while ago in Germany to propose a candidate for the post of 'European Foreign Minister'. As the interests of member states differ widely in this regard, the principal goal should be to achieve greater coordination and accord. A few thoughts on the EU's foreign relations are discussed later in this paper.

4. Unjust and growth-reducing subsidies – not only in Europe

A substantial portion of the EU budget goes in subsidies earmarked for certain economic sectors and regions, the most well-known example being the EU agricultural policy, which consumes about half the budget. It is often argued that these figures distort the true picture, as the agricultural policy is one of the few political fields confined almost completely to the European level and therefore incurs relatively high costs. While this is true, it really implies that agricultural policy would be better off at the level of individual countries. The high subsidies would still be unacceptable, but at least national governments would have to assume responsibility vis-à-vis their tax payers and consumers and would also make more concerted efforts to dismantle the subsidies.

According to figures released by the OECD (the figures refer to the expanded EU with 25 members))

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duties and other trade barriers are particularly high in branches of industry that could help several countries advance their economies, the textile industry being a case in point.

5. A constitution for Europe

The ,no' vote cast by the citizens of France and the Netherlands has pushed away the possibility of the European Constitutional Treaty coming into force. While this does not spell disaster, it should make us think long and hard about the values and principles that characterise Europe. The constitution guarantees the fundamental individual rights that underlie the rule of law and democracy. It creates a basis for the order of European institutions and defines the distribution of competencies between European and national levels. In liberal eyes, although parts of the constitution do make a significant contribution to the future of Europe, there is still reason for criticism.

First, the style of the constitutional debate. The attempts to rush through such an important document were and are shocking. Even after the draft has been rejected in two public referendums, most politicians cannot think beyond shelving the constitutional issue or warning against amendments.

It would certainly be presumptuous to call for a debate of the quality and depth that marked the debate on the American constitution 200 years ago. However, the cause deserved more discussion and debate about fundamental issues, which would also have aroused greater citizen interest and acceptance. A public referendum should have been planned in all the countries at the very outset, but this is where the initial flaws in the document become apparent: its sheer volume and diversity of technical rules and regulations make it ill-suited for a referendum. As sections II, III and IV are often nothing more than summaries and specifications of existing treaties, the first section should be clearly set out, and when supplemented with key statements from other sections, it would become something like a formal constitution. In this way, the document would be easier to understand, could be widely debated and would lend itself well to a public referendum.

As early as in 1993, the European Constitutional Group comprising distinguished academics had presented a radically liberal and radically simple draft; the Group followed this up with an improved version in 2003.⁵ This text of just eight pages outlines an enduring framework oriented on classic liberal constitutional

5 Internet: <http://www.european-constitutional-group.org/pdf/Newdraft2003.pdf>

principles for the co-existence of people in Europe. Of course, it is illusory to believe that it can be implemented in the current political scenario, but it is a yardstick to measure the degree of freedom in constitutions that have many more regulations and constraints on personal freedom. The Group has now submitted yet another draft oriented more towards the structure of the Constitutional Treaty and undeniably based on liberal principles.⁶

Some shortcomings of the European Constitutional Treaty will be discussed from the liberal perspective, as they provide excellent examples of the lines of conflict in European politics between political direction and the need for reform. Liberals believe that freedom must be given primacy over equality even in the preamble, as is the case in other sections of the constitutional draft. Overall, far too much is made of the positive rights to benefits and consequently even social justice and full employment are defined as goals. While the concepts may be abstract, they do invite interventions at the European level that question the commitment of the individual state to exercise its authority particularly with regard to social policy and subsidiarity.

Equality before the law is an extremely valuable commodity for liberals and nobody has the right of disposition. However, the paragraphs dealing with equality (Art. II-20 - II-26) and non-discrimination (Art. III-7 - III-8) in the draft constitution could clash with the freedom of contract, another valuable commodity. The first signs of this are already surfacing in the policies implemented by the EU.

However, in several other sections too, the devil lurks in the details. For example, while the endeavour to enshrine the principle of subsidiarity in the constitution is to be welcomed, it must be explicitly enshrined in the preamble and in the EU's values and goals. ,Article 9: Fundamental Principles' must be formulated more precisely. The article stipulates that competencies can be transferred to the European level if this makes it ,easier' to attain the pertinent objectives. This opens the door to a range of widely differing interpretations and experience has shown that such wishy-washy formulations almost always culminate in increased centralisation. Therefore, competencies should only be transferred to the European level if there is no other way of achieving the targeted goals. The principles of subsidiarity and proportionality should not be limited to Article 9, but must also be enshrined in other pertinent articles in the constitution.⁷

6 Internet: http://admin.fnst.org/uploads/1207/A_Proposal_for_a_Revised_Constitutional_Treaty_10.04.06.pdf

7 For more information see: Forderungen der Friedrich-Naumann-Stiftung zum Entwurf der Verfassung der Europäischen Union, Potsdam 2004. <http://admin.fnst.org/uploads/487/EUVerfassung.pdf>, pp. 6-8.

In areas of shared responsibility (and they must also exist in the future), European law should not, in principle, have primacy over the constitution of the individual country. In individual cases, the law of the member states must have primacy over EU law, marking a significant departure from countries with federal constitutions.

A crucial prerequisite for the ongoing dynamic economic development is a stable currency. In recent decades, the methods used to ensure stability have proved their efficacy beyond doubt. It is essential to have an independent central bank that is not under any political influence and works solely towards the goal of achieving monetary stability. EU politicians have yet to fully realise this. They make repeated attempts to intervene, sometimes through 'suggestions' or even blatant demands such as the call for reduced interest rates. While the European Central Bank has always successfully resisted such attempts, its constitutional position must be significantly reinforced. To this end, monetary stability should be adopted as an objective in the EU constitution. On the other hand, there is the danger that the 'full mutual cooperation' to be practised by the institutions of the Union as set forth in Article 18, can be misused if interpreted as a reason for exerting influence through other organs.

6. Expansion as an opportunity

In 2004, 10 new member states—Estonia, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia, the Czech Republic, Hungary and Cyprus joined the EU. The accession presented not only a historical opportunity but also a great challenge. The prospect of EU accession has fostered and accelerated the transformation process in the eight erstwhile socialist countries. With this goal in mind, the reform-oriented, pro-market and democratic forces were able to proffer many convincing arguments in favour of reconstructing their countries and societies. A little over a decade ago, it would have been inconceivable that these countries would join the EU in such a short time—at least in historical terms. But the reforms were more successful and pushed through more quickly than many had believed possible given the upheaval in central, east and south-east Europe. It should not be forgotten that the prospect of accession was a significant factor in breaking the stalemate in Cyprus even if a final solution to the conflict has yet to be found.

The accession countries are still undergoing reform and there is a huge backlog to tackle, particularly in the economic sector. An above-average growth rate is crucial if the standard of living in these countries is to be on a par with that in other EU countries. This is only possible if the framework conditions for investments

and business continue to improve and if consistent efforts are made to guide these countries towards becoming functioning states based on the rule of law.

The accession process has yet again highlighted the EU's internal problems. Political debates in the run-up to membership have often focused far too much on the distribution of parliamentary seats in Brussels, agricultural subsidies and regional assistance. This means, among other things, that the new members are often perceived primarily as threats and as rival contenders for financial benefits. Even among the new member states one can already see the first signs of the fight for benefits from Brussels. On the other hand, societies of member states that were earlier part of the socialist camp, can now serve as examples of a dynamic and optimistic approach to reform. Besides the new markets (also vital for the German economy) and greater cultural diversity, it is precisely this ability and willingness to change that could lead Europe out of its fossilisation in some sectors. While large countries like France or Germany may often find the self-confidence of new member states annoying, it is nevertheless an important and invigorating moment in the political debate in Europe.

7. New neighbours: opportunities for the entire continent

The EU's expansion has brought about many changes for the countries of Europe. Some countries will now become immediate neighbours of the EU while many others are either working towards EU accession or at least see it as a long-term prospect. For the expansion process, much will depend on the successful integration of the new members admitted in 2004. It is, however, more important that the EU sorts out its structural problems. Only then can it continue to set an encouraging example to other countries and provide them with incentives to work towards freedom, the free market and democracy.

The EU's neighbours include the Balkan countries of which Bulgaria and Romania are closest to accession. In recent years, significant progress has been made in these two countries, accession negotiations have been completed and membership in 2007 is a very realistic aim. Subsequent negotiations for membership will follow the pattern of negotiations conducted with the current new members: concrete, transparent criteria will be applied and assistance offered to resolve complex outstanding problems. The Copenhagen Criteria are good guidelines. They include the following.

- Political criterion: stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities
- Economic criterion: the existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union
- Acquis criterion: the ability to take on the obligations of membership including adherence to the aims of political, economic & monetary union.⁸

The criteria apply equally to all countries and Turkey is no exception. Should it succeed in establishing an order based on the rule of law and set up free market institutions, it cannot be excluded on grounds of culture or religion. Europe does not rest exclusively on Christian values that are apparently inaccessible to Muslim majority states, but is built on a liberal order that underpins the co-existence of people from vastly different cultural and religious backgrounds. Turkey has recently undertaken many important steps in the right direction, raising hope but is still a long way from fulfilling all the accession criteria.

Divergent points of departure and outcomes are evident in the reform processes in Albania and the countries of the erstwhile Yugoslavia. While Slovenia is already an EU member and Croatia obtained candidate status in 2004, many other countries are facing a range of difficult problems often related to the violent conflicts that have rocked the Balkans in the last 150 years. The 'critical' phase may be over, but we still have a long way to go before the conflicts are permanently resolved. Kosovo's unsettled status conceals many dangers. The independence of a country is not a panacea for all problems but could be a first step towards stability.

Even those European countries that were once part of the erstwhile Soviet Union are now moving closer to the EU. However, as these countries are in far greater need of reform than those already discussed, it is important to consolidate cooperation with the EU. The EU's new external boundary should not be allowed to become an impenetrable wall keeping out Ukrainians and Belarussians. The same is true of the Republic of Moldova and the Southern Caucasian countries. These countries should see in the EU not only an attractive market but also a partner who will help them resolve existing conflicts and support them in setting up structures based on the rule of law. Following the political upheavals in recent years, the people in Georgia, Ukraine and other countries are pinning their hopes on the prospect of joining

⁸ See: http://ec.europa.eu/enlargement/enlargement_process/accession_process/criteria/index_en.htm

Europe and should not be disappointed by the EU. The European policy with regard to neighbouring states is a first step in the right direction but, in the long term, Europe will also have to face the question of admitting new members. It would be a disastrous message to the people in the countries concerned, if the EU were to exhaust its capacity for new members because of internal disagreements about financing the gigantic redistribution systems.

A constructive and critical partnership must also be the guiding motive for Russia. Short-term interests in raw materials should not be allowed to dilute the standards. Peaceful co-existence and the economic advantages of trade and co-operation go hand in hand. A stable and peaceful order is inconceivable without economic growth that leads to prosperity in individual countries.

8. Europe's worldwide responsibility

The EU is one of the world's most affluent regions. As it can also be upheld as an example of individual freedom and respect for human rights, it acquires a special responsibility. There is still armed conflict in many parts of the world and the international community must help find a solution. The EU can and must play a vital and constructive role, working towards a coordinated and harmonised foreign and security policy. This is not easy to achieve. Discussions about a future European foreign minister and who will occupy this post are not helpful and divert focus from the real problems.

Within the EU today, there are widely divergent and to some extent conflicting interests and opinions with regard to foreign policy. Arrogance towards new EU members, recently observed, is a very poor adviser. If a stand is taken by leading German or French politicians, it does not necessarily follow that it is correct. This attitude makes an open discussion about different standpoints virtually impossible and is a serious impediment to a joint foreign policy because no country will be willing to constantly abide by the interests of the 'large' member countries.

A dangerous trend has recently been observed in some European countries: Europe is expected to rival the USA, particularly with regard to foreign and security policy. There is talk of a 'counter weight' to the power of the US but it is treacherous to try and drive a wedge between the EU and its strongest partner. Although the historical reasons may be highly significant, they are not the only ones.

Without a close partner in the US, it would not have been possible to reconstruct Europe after the Second World War. Above all, EU countries and their transatlantic partner share common values. Their people enjoy individual freedoms and demo-

cratic rights; private property is protected. The binding values must also form the basis of the foreign policy and, as good partners, the problems should be freely and openly discussed. Only through constructive cooperation can institutions be designed to meet the ever-growing challenges.

Most important, the EU's global responsibility also encompasses the commitment to guarantee unrestricted access to European markets for developing countries. This is at least as important as the development cooperation that should always be based on the principles of the free market and human rights. In this context, negotiations within the WTO framework merit special attention. At WTO meetings, Europe continues to defend protectionist interests. In the long term, the global economy, from which Europe still benefits, can only continue to grow if there is a system of free trade where all countries participate. Thanks to its political institutions and economic strength, Europe can do much to enhance peaceful co-existence and raise standards of living in the world. It must make better use of the opportunities that come its way.

