

# The Commission predicts a grim future

*The EU's own forecast suggests that members will face a deepening economic malaise - but this may actually underestimate the severity of the problems ahead*

By Anthony Scholefield

Tony Blair told the 2002 Labour Party Conference: "Europe is our destiny". A realistic, if devastating, account of that destiny is presented in the European Commission's own report for 2002 (*The EU Economy: 2002 Review*). This suggests that Europe's long-term future is one of unremitting and deepening gloom.

It states: "The choice now facing Europe is how it should address the effects of a significant structural determinant of its long run growth trend, namely ageing. If policies do not change, and especially if labour market reforms are not systematically introduced, then the EU will experience a very sharp downturn in the growth of its living standards and its underlying potential growth rate."

As the report points out, not all of the EU faces an identical future. Britain's demographic problems are serious but its future demographic profile is far superior to most of the rest of the EU.

## Steady Erosion

The EU report's central projection is that the share of world output of the existing 15 members will fall from 18 per cent at present to 10 per cent in 2050. And, as it points out, "... it is worth remembering that in 1970, the EU produced 25 per cent of global output compared with 23 per cent for the USA. While the USA has been able to retain its share over the last 30 years and is expected to do so over the next 50 years, the EU has already witnessed a steady erosion in its share of global output, a trend which is forecast to continue over coming decades".

"In terms of the distribution of global output, these persistent differences in potential growth rates between the EU and the US result in large changes in their relative economic importance in the world, with the EU's present share of an 18 per cent of world production

falling to 10 per cent in 2050 and with that of the USA continuing to run from 23 per cent in 2000 to 26 per cent in 2050.

As Pedro Solbes, the EU economy commissioner commented, "...in the past we have largely focussed on the effect of an ageing population on public finances. This report shows there could be a clear impact on growth".

Analysis of the Commission's report suggests that the gloomy central prediction may actually be far too optimistic. For example, it states that "if one links change in technical progress to changes in the average age of capital stock, the potential growth rate of the EU over the period 2000 to 2050 falls even further to an annual average rate of 0.9 per cent versus the 1.3% assumed in the central scenario." It also draws attention to the falling productivity of older workers. Another problem arises from an increase in public pensions expenditure to 6½% GDP and consequently broadly similar increases public health expenditure ranging from 2-2½ per cent of GDP. So the prediction is for an extra nine per cent of GDP to be taken up by pensions and health. OECD studies estimate that this increase in government spending will further reduce GDP by some six per cent.

## Additional Burden

Another point which has also surfaced in demographic studies previously is that "this additional burden [of health and pension expenditure] on the employed population has the potential to generate significant disincentive effects and to result in upward pressure on structural unemployment rates." In other words, higher taxes are a

disincentive to employment.

A weakness of the EU's study is that it ignores the ageing effects on the demand side of the economy. Just as the economic multiplier of increasing population means economic demand for houses, furnishings, etc., so a declining population needs fewer capital goods. This is not taken account of in the EU study.

## Dire Prospects

Finally it should be noted that the dire future portrayed by the EU study assumes already an increased migration into the EU of 30 million people over the fifty-year period, 2000-2050. If one assumes 25 per cent of these come to the UK we are looking at seven and a half million new immigrants (4 million ethnic minorities in 2000) to the UK alone. But, of course, in reality migration goes to the dynamic parts of an economy not to decaying or backward areas.

What does the EU Commission propose to do to avert this grim 'destiny'?

Its first proposal is that all should adhere to the provisions of the Stability and Growth Pact. It points out, quite correctly, that member states should get their public finances in order now before the spending pressures from ageing start to emerge. It does not comment on the fact that all the principal EU governments have recently begun to ignore the pact.

Its second proposal is to postpone the retirement age by at least five years. While there are good reasons for encouraging older workers to keep working, this 'benefit' of EU membership is one which is yet to be explained to the British electorate.

The third proposal is to quicken structural reform along the lines of the Lisbon agenda. This promised 'the

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# Ministers invoke 'the constitution' in order to undermine self-government

*From Ripon to Hain cynicism and manipulation have characterised ministers' approach on Europe*

Ministers may come and go - but the means by which government betrays the wishes of the electorate on European issues follow established paths of cynicism and manipulation.

On 21st November last year Peter Hain, the Secretary of State for Wales, invoked "constitutional reasons" for opposing a referendum on a European constitutional settlement - under which the United Kingdom is likely to be subsumed into a unitary state of 500 million citizens. He told the Conservative MP Andrew Rosindell, *"Treaty change is a matter for members states to decide by unanimity in accordance with their own constitutional arrangements. In the UK this involves a ratification process requiring legislation. It is right that Parliament should decide on the results the Government achieve at Inter-Governmental conferences."*

More than three decades earlier, on 1st November 1972, Geoffrey Ripon, Chancellor of the Duchy of Lancaster, explaining why the Heath government would not permit a referendum to be held on membership of the European Community told a Labour MP who was being pressed by his constituents on the matter: *"A referendum would be entirely contrary to British constitutional practise. Over the centuries we have developed a system of representative democracy whereby*

*the people entrust to their elected Members of Parliament the right to take decisions on all matters of national concern. This system has served us well in the past and there is no reason to change it."*

Sifting papers recently made available under the 30-year rule Charlotte Horsefield, a regular *euofacts* contributor, found letters from members of the public who grasped the full political and constitutional significance of the British Government's decision to sign the Treaty of Accession. One correspondent - Mr Raymond Grumbar of London - asked for a referendum on the grounds that it would be prudent to have the whole country behind the project, pointing out that an opinion poll had shown that 77 per cent of those polled thought there should be one. *"The vision of remote control from Brussels does not appeal,"* he said

## Public Hostility.

Another correspondent made the point that it was the hostility of the electorate to the whole enterprise which deterred the Government from holding a referendum. Another that a petition calling for a referendum had been signed by three quarters of a million people.

When Sir Alec Douglas-Home, then

Foreign Secretary, declared that a referendum was not provided for in our constitution - "...," Mr R J Hobbs, of London wrote to him pointing out: *"This is an issue which affects the freedom and the whole future status of this country. We would remind you that the binding of future Parliaments, entailed in the Treaty of Rome, is likewise contrary to our Constitution, as is also the altering of English laws and legal procedures at the behest of a foreign power. The excuse as to the Constitution is untenable unless applied consistently. It is ludicrous, as well as an affront, that the French people were privileged to decide for us! This land has been called the 'home of Democracy' and yet we alone have had no say in our political destiny. 'That is that' is the language of Dictatorship, not a Democracy."* In reply Mr Hobbs received only a brusque letter of acknowledgement.

Charlotte, whose researches over many years have done much to expose the indifference of ministers to public opinion on the European issue, commented: *"Reading the letters of those in 1972 who foresaw and resisted in a democratic way the destruction of our Parliamentary democracy and Constitution makes one want to weep."*

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## Grim economic future for the EU

most competitive and dynamic knowledge-based economy in the world by 2050'. Its particular target was economic growth of three per cent. In fact the Lisbon agenda has barely begun to be implemented even by the go-ahead EU governments of Ireland and Holland. In the Big 3 - Germany, France and Italy - structural labour change is proceeding in exactly the wrong direction.

Fourth, it discounts increased immigration (a favoured solution of the

current British government) as a possibility for expanding the labour force on the same grounds as all reputable studies for all the usual established reasons, especially *'given the magnitude of the ageing crisis, normal immigration patterns, could at best only provide a small proportion of any solution'*.

The EU Commission's forecast of the decline in the EU as a player in the world economy from 18% to 10% of world output undermines the basic

rationale of Britain's involvement in the EU. To increase integration by locking the British economy to a sector of the world in steep decline seems wholly irrational. To Mr Blair it may seem like Britain's destiny. To more scrupulous observers, it may seem that we are now approaching the point when the political class begins to notice the sheer awfulness of what EU membership actually entails.