



EUROPEAN UNIVERSITY INSTITUTE

PETER MANDELSON

The British Presidency
of the European Union

DISTINGUISHED LECTURE SERIES



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The British Presidency of the European Union

Peter MANDELSON MP
Minister of State at the Cabinet Office

Distinguished Lecture Series
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January 30th 1998

This inaugural lecture is the first of a series marking the British Presidency of the European Union.

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Welcome Address
by
Patrick Masterson
President of the European University Institute

On behalf of the European University Institute I am delighted to welcome all of you who have come along to attend this opening lecture in the Presidency Series on the occasion of the British EU Presidency. The lecture will be given by Mr Peter Mandelson MP. Mr Mandelson a Minister of State in the Cabinet Office and a leading member of the British Government, responsible for assisting the Prime Minister and other Ministerial colleagues in co-ordinating, implementing and presenting government policy.

Mr Mandelson graduated from Oxford with the splendid Philosophy, Politics and Economics degree and started his wide-ranging career in the Economic Department of the TUC (Trade Union Council). From 1982-85 he was a Producer with London Weekend Television. Between 1985-1990 he was Director of Campaigns and Communications for the Labour Party . He has been an industrial consultant and a journalist, a member of the Lambeth Borough Council and Opposition Whip.

Peter Mandelson was elected as Member of Parliament for Hartlepool in 1992. He was appointed Shadow Civil Service Spokesman in October 1993 and in 1996-97 worked full time as the Labour Party's election campaign manager, while remaining on the Opposition front bench. Mr Mandelson has cross-departmental responsibilities to ensure that the administration succeeds in fulfilling its programme and to ensure the consistent and clear projection of the government's activities and messages to the public. In 1996 he co-authored a book entitled *The Blair Revolution*. (With such skills and experience I wish Mr Blair could spare him to come and work with us here at the EUI !!)

Britain's Presidency of the European Union takes place at a crucial time. Pivotal issues must be addressed, from enlargement to the single currency. The United Kingdom is keen that the Union tackles the priorities of the people of Europe: jobs and prosperity, peace and progress, crime and the environment. The Prime Minister has signalled that "The UK Presidency will show the constructive and innovative contribution to European affairs that Britain can make. Europe has to meet the challenges of the next century. Our aim is to help prepare it to do so".

It is very appropriate that the European University Institute should be the venue for the first lecture in the Presidency Series and for us to have this opportunity to learn more, from such a distinguished and knowledgeable speaker, about the objectives planned for the next 6 months under the British Presidency.

The British Presidency of the European Union
by
Peter Mandelson
Minister of State at the Cabinet Office

It is a great pleasure to speak at the European University Institute in this great city this evening – a city that for thousands of Britons over many generations has been the centre of their lifelong love affair with Italy. A love affair that stills runs deep and passionate within me.

It is also a matter of great personal pride to be speaking here as a British Minister in a Labour Government that is whole-heartedly committed to Britain's constructive engagement in Europe - and, with the good fortune of our Presidency, uniquely placed to take that mission forward.

Of course in the life of the European Union, Presidencies come and go. And six months is not a lot of time. But these six months are months of special moment for Britain. They mark a quarter century of British membership – a quarter century of some achievement, but in the main of missed opportunity. Tony Blair's government is determined, that from this time forth, things will be different. From our Presidency on, Britain intends to be a leading partner in the construction of Europe.

If we can pull this off, it will be a great historic achievement – a political revolution in Britain's relations with Europe. It will be one of the key parts of the Blair Revolution which began on May 1st last year, and was the ambitious title – but not I think foolishly ambitious - of a book that I co-authored a year before the election.

Italy has seen a political revolution of its own in recent years. Without getting trapped in the dangerous snare of foreign guests entering into domestic political controversy, I would like to say how much respect I have – and I know Tony Blair has - for what you have achieved.

There are several important parallels between the Blair and Prodi experiences. A commitment to build an enduring coalition of the centre and left - a radical centre, that can be the basis for change that lasts. A recognition that economic and social policies must be firmly rooted in economic realities, but

that they must combine with that a staunch commitment to the values of fairness and social justice - the values that first brought all of us into politics.

A common acknowledgement of the central importance of political reform. And a shared determination to play an active and leading part in the European Union.

At the start of this week Prime Minister Prodi gave a lecture to the LSE in London. It was a most impressive occasion. A packed audience. A warm reception. A lecture whose content bore marked similarities of outlook to a speech that Tony Blair had given on Europe in The Hague the previous week.

A shared commitment to Europe, based on a shared recognition that Europe must change and reform if it is to prosper in the modern world.

The Olive Tree Coalition has made its commitment to Europe the cornerstone of its domestic policy. When Romano Prodi became Prime Minister, he took a bold decision. Despite the doubters and sceptics, he proclaimed that Italy would get itself ready for first wave entry to the Euro.

Your government has been prepared to take a series of extraordinarily tough decisions to bring that goal within reach. Italy has slashed its public sector deficit. It has raised taxes – and what's more, had the boldness to name the tax increase, a "Euro Tax". It has cut welfare spending. Your Pensions reform alone has cut entitlements by over 4 billion lira – and the Prime Minister got a coalition including the Refounded Communists to vote it through. Italy has shown remarkable unity of purpose in its drive to be fully part of Europe.

Lack of convergence in our economic cycles has made it impossible for the new British government to contemplate EMU entry in the first wave. But public opinion and history count too. Britain's starting point in this whole debate is a far different one to Italy's.

Italy was in the Common Market from the start. The remarkable economic progress that this country has made in the last half century can be attributed in no small measure to Europe - and Italy's full participation in Europe from day one.

At the end of the war Italy had an economy where over half the workforce was still engaged in agriculture. Now you enjoy a higher average standard of living than Britain – even with the Mezzogiornos.

Britain's experience of Europe has been sadly different. We were of course much slower to join. When eventually we did, it was the early 1970s. The oil crisis came a year later and the Golden Age of European economic growth was over.

More particularly, we joined after fierce political controversy - not least within my own Party. Since the first days of membership, Britain has never had a government that has been prepared to sell the benefits of Europe to the British people. Until Tony Blair's government, that is.

Who can doubt Europe's success when they consider the facts? We have enjoyed more than half a century of peace. This is a period of stability in relations between the great powers of Europe unparalleled since the 44 years of peace between the end of the Franco-German war in 1870 and the assassination of Archduke Franz Ferdinand in Sarajevo. In recent times we have seen another Bosnian tragedy. But in the post-war era we had built a sufficient degree of European unity to ensure that this second Bosnian tragedy no longer led to Continental war. It may well be that as a European Union we should have been more prepared, more decisive and more united in our approach to the problems of the former Yugoslavia. But at least we avoided the balance of power politics of the past and another bloody conflagration that consumed the whole of the continent.

Europe's progress in political understanding has been historically breathtaking. Equally our economic progress has been by any previous standard remarkable. When the Common Market was founded, the standard of living in the six founding Member States was a third of the United States. Today it is roughly similar.

In the last quarter century the European Union can boast of many achievements. The EU has proved an effective force for economic stability. The ERM founded in the late 1970s stabilised exchange rates. The pulling power of its membership proved an effective discipline on French attempts to go it alone in the early 1980s.

Adherence to exchange rate stability has been the foundation of wider macrostability. The Maastricht convergence criteria, which so many regard as a term of abuse, have proved effective in building up a sound foundation for EMU. Inflation is under control. Public finances are in much better shape.

More than that, Europe has proved itself a champion of economic liberalisation. The huge leap forward of the Single Market is one of the greatest

market opening exercises in human history. Also I have no doubt that, if in place of the European Commission negotiating for Europe as a whole on trade matters, we had had individual member states dealing with trade issues on their own, there would have been no Uruguay Round and no World Trade Organisation established to help enforce it.

And Europe has proved that it can rise above the harsh necessities of economics. Legitimate criticisms can be levelled at Europe's legislative record and the unnecessary overprescription that has sometimes been part and parcel of it. However Europe has proved itself a creator of decent standards on the environment, on health and safety and through the Social Chapter.

European policies have worked to strengthen social cohesion. The structural and regional funds may be far from perfect, both in conception and operation. But they have been successful in improving the relative position of at least some parts of the Union as against the more prosperous members. Just look at the progress that Ireland and Portugal have made in the 1990s with the benefit of EU help.

And I can speak from personal experience from my constituency in the North East of England, that throughout the long years of Conservative dominance at Westminster, there was very strong political support for the maintenance of an active regional policy in Britain which would not have been possible without the existence of the European funds.

The truth is that on the big issues, Europe has made a bigger contribution than many in Britain are prepared to admit. Without Britain I have no doubt that Europe's advocacy of free trade in the Uruguay Round would have been weaker.

I have no doubt that the Single Market would have been more difficult to achieve and then enforce. The tragedy is that Europe's success in part results from a positive contribution by Britain that very few people in Britain have been prepared to acknowledge.

However, I do not want to give the impression that I believe that everything in Europe has gone swimmingly. In the last decade Europe has suffered a grave loss of legitimacy in the eyes of many. I know in Italy people may find this difficult to accept. But, it is not just a phenomenon of UK Euroscepticism. Public opinion in Germany is barely more enthusiastic about Europe than it is in Britain. In most Member States, support for European Union has declined in recent years.

Explanations for this abound. In economics, Europe has passed the golden age of high growth for which the Common Market was once given the credit. In an age of much lower growth, people are inevitably more questioning. In some people's minds, Europe's drive to open up a single market was seen as a bureaucratic obsession with regulating everything that moved. We were slow to promote subsidiarity. We could have done earlier with some restraint on the impulse to regulate and interfere. The European Parliament which is supposed to close the democratic deficit between the institutions of Europe and the people, has, if we are honest, yet to win public respect and confidence. Too much European decision making remains either obscure or secretive.

Politically, there was a real danger that by the early 1990s, Europe was becoming out of touch. The original impetus for post war reconciliation looked passé to a new generation. The single market may have caught the imagination of business – but it did not resonate with the public. The political manoeuvrings of Maastricht appeared a bridge too far. Even the Treaty of Amsterdam for all its strengths seemed fairly remote from people's lives.

Some people have interpreted these concerns as a popular reaction to a perceived loss of sovereignty. As Europe gained power, the nation state has lost it, or so many people think. Some still fear that Europe is set on an inexorable path to a super state. In my view the old debate between a Federal Europe and the nation state is dead and gone.

If anyone ever had the aim of constructing a United States of Europe, they have long since given it up. The trend is going the other way. Mega-states are breaking up – look at the Soviet Union or Yugoslavia. And nation states are not going to disappear. Our peoples don't want them to.

What we are building in Europe is a different sort of entity. A hybrid of inter-governmentalism and shared sovereignty. An association of nation states that co-operate closely together on a range of issues. An organisation that is flexible, with different states moving at different speeds, inevitably so after the next wave of enlargement. But not a partnership divided between ins and outs.

A European Union that is not dominated by a centralising bureaucracy in Brussels - but ready to devolve power to the lowest level practicable, so that power is exercised as close to the people as possible. In this way, Europe can be a super-power without being a super-state.

This is the constitutional answer to those who worry about Europe's direction. But I also think there is a more pragmatic response. In my experience,

there are very few people who worry about the pooling of sovereignty if they think it makes sense and is going to bring them benefits. I have never had anyone turning up at my constituency surgery in Hartlepool to complain about the loss of sovereignty involved in Britain's membership of NATO.

Yet NATO touches sovereignty at its most fundamental point: the obligation to go to the aid of our allies when they are under attack. In a real sense, our treaty commitments remove our discretion as to whether we go to war or not. Nothing could be more fundamental to a country's sovereignty and sense of national independence. But people do not worry about it, because they know that collective defence makes far better sense than unilateral defence. They know that a pooling of sovereignty gives us in this case some real control of our destiny - whereas, if we were left on our own, we might in practice have none at all.

Sovereignty is not therefore the heart of the matter. Loss of sovereignty only concerns people if they think we are giving it up to no good purpose.

The problem with Europe is that too many of our citizens have only perceived the aggrandising ambitions of European institutions. We have not demonstrated clearly enough that the purpose of pooling sovereignty is to address issues that are of real concern to ordinary people's lives.

That is why we have made the overarching theme of our Presidency - a people's Europe. This has many dimensions on which I could expand. But I would like to focus the rest of this lecture on the most difficult of all the issues that Europe faces.

That is the problem of jobs. For a decade and a half Europe has had growth: but it has been jobless growth. In Britain 1 in 5 of households of working age contain no one in work. The jobs problem has to be understood in the context of a bigger failure of economic reform and adjustment. It has contributed to a wider crisis in Europe's welfare systems and a loss of confidence in the continued viability of the so called "European social model".

Europe's welfare systems are all different. But there is a shared common objective - to provide a high standard of social protection. These ambitions have fallen foul of two realities. First, the electorate's unwillingness to pay high taxes to finance the welfare state.

The explosion of welfare budgets is one reason for the growth of structural fiscal deficits in the 80s and early 90s which it became the task of the

Maastricht convergence criteria to discipline. Secondly, as global competition has intensified, there have been increasing limitations on the capacity of European businesses to finance high non-wage social costs. Where business has continued to finance these costs, society has paid an indirect penalty because new capital investment has focused on increasing productivity at the expense of jobs, rather than widening productive capacity in order to increase output and employment.

At the same time generous welfare systems discourage the unemployed from pursuing routes back into the labour market – routes that often require in the first instance at least, acceptance of lower paid starter jobs. Also generosity of social protection has pre-empted resources that could otherwise have been spent on promoting employability and new skills. In many parts of Europe, standards of education and training have failed to keep pace with newly emerging countries and the rapid pace of technological change.

As large firms have downsized, and restraints on public sector deficits have limited the scope for expansion of the public sector, small and medium enterprises have become the main source of new job generation. However in many places, barriers remain to the creation of these new jobs because of failures to liberalise markets and bring about the conditions in which small and medium enterprises can grow. SMEs enjoy limited access to venture capital, find it difficult to obtain employees with the right level of skills and face excessive burdens of regulation. To address these problems requires a thorough-going programme of modernisation. New economic circumstances require a new agenda based on the promotion of education, employability and entrepreneurship. Government policies have to work with the grain of the market. Europe cannot legislate for jobs: but it can legislate to remove some of the barriers to jobs and open up new opportunities.

Europe as a whole needs to buy into this approach, but the action to put it in place has to be bottom up, not top down. Europe has to find a way of combining economic dynamism with social cohesion in the modern world.

Hence the supreme importance that Tony Blair has identified of defining a Third Way for Europe – of working out how we can combine labour market flexibility with social justice – of planning reform of the European social model without tearing the heart out of its essential commitment to decency, social cohesion and opportunity for all.

This Third Way is more than the free market plus decent public services - *laissez-faire* economics with a warm heart. It is about active government

working with the grain of the market to ensure a highly adaptable workforce, good education, high levels of technology, decent infrastructure and the right conditions for high investment and sustainable non-inflationary growth. It is about securing the flexibility that the market offers with the "pluses" that only an active government can add. In other words it is about a modern concept of government. In the past when governments tried to replace the market or manipulate it, they almost always got it wrong. The Third Way dictates that it is not the job of government to replace the market but to make it work for them. It is however a prime job of government to set the framework within which the market operates and to organise the infrastructure in every sense – physical, legal and social.

This is not a case of Britain preaching on the sidelines to the unconverted Continentals. The truth is that the whole of Europe is in the throes of wide-ranging economic reform. To a greater or lesser extent, Europe's governments have made a start on the painful process of reforming their welfare systems and labour markets.

In the Netherlands, the centre-left coalition has carried through a nationwide assessment of continued entitlement to disability benefits resulting in a marked drop in the number of younger claimants. Sickness benefits have been completely privatised since 1986.

Many EU countries have recognised that the cost of pensions is unsustainable. Here in Italy your government is also grasping the nettle of welfare reform.

France, Austria and Greece have tightened eligibility for early retirement. Germany is raising the retirement age in staggered steps and gradually reducing the guaranteed percentage of former earnings.

As for labour market reform, let me give you some examples of recent action. Spain, Italy and Sweden have eased their employment protection legislation to encourage temporary work. France, Italy and Spain have introduced tax incentives for part time work and together with Austria and Greece have eased legal restrictions on it. Finland, France, Greece, Italy and Spain have relaxed restrictions on unusual working hours.

I am not arguing that these reforms are either comprehensive or complete. They are neither. But the thrust of policy is largely in one direction and it is the right one. The truth is that economic reform is more or less shared as a common goal throughout Europe.

We are moving in convoy towards a common destination. Britain is unmistakably part of that convoy, even if initially we set sail from a different port.

The launch of EMU is the most significant event of our Presidency. EMU is a project of huge political and economic importance. There should be no doubting Britain's position - we support it and want it to succeed.

We shall work for the smoothest possible start, notably in the choice of participants in the first wave at the special Summit in May. In or out, we are all affected by its success or failure, and by its consequences.

But more than this, there is a new positive attitude towards EMU on the part of the British Government. The case in principle we accept. A single market and a single currency naturally fit together. It makes common sense and it can bring large economic benefits.

Of course there are constitutional and political implications. It does mean some pooling of sovereignty. But then so do many other things. If the single currency is launched successfully and the economic benefits are clear-cut, then it will be the right course for Britain and sovereignty arguments should not stand in the way of our joining.

The British people will want to weigh these considerations, just as they weighed them in 1975 and made the right decision then - a decision which has made us no less British, but which has made us more prosperous and more secure.

A single currency is however a vastly ambitious undertaking. The hard question Europe will still have to answer after the launch is how, without the safety valve of exchange rate flexibility, Europe's economies will cope with differing performance, especially if labour market flexibility and labour mobility are still not realities - and none of us have an appetite for larger scale fiscal transfers than presently exist with the Structural and Cohesion Funds.

The creation of EMU will present the European economy with an enormous structural shock. Price differentials will become more transparent to consumers. Huge economies of scale in production will become realisable. EMU will expose weaknesses, not mask them. It will make economic reform more of an imperative, not less. To quote Churchill, this is not the end, nor even the beginning of the end. But it is the end of the beginning. Economic reform must go on.

In Britain, the presentation of the debate on economic reform as a life and death struggle between Anglo-Saxon flexibility and Rhineland corporatism is misleading. Economic, industrial and social policy in Europe is increasingly based on common principles that Britain's New Labour Government shares. The Prime Minister set them out in his speech in The Hague last week.

First, macro-economic stability (which a successful single currency will reinforce) is the essential foundation of sustainable growth. Old style tax and spend is gone.

Second, the best way to promote efficiency in production is through competition, liberalisation and open markets, not through monopoly, state subsidy or preferential procurement.

Third, Governments can best improve economic performance by addressing supply side weakness – quickening the pace of economic change, and equipping people to cope positively with its consequences – not attempting to slow change on behalf of vested interests.

Here, education, skills, technology, better infrastructure and transport systems are the key; not over regulation and burdens on business. The New Labour Government is committed to the Social Chapter and a minimum wage. But, subject to basic minimum standards of fairness, the best way for Governments to provide job security is through education and an employment service that helps people to new jobs and re-training throughout their working lives.

Fourth, the priority in social expenditure to tackle unemployment should be for active labour market policies that offer opportunities matched by obligations to the young and long term unemployed, not for welfare systems that lock people in idleness and dependency.

Fifth, the best long term policy for job creation is to get the conditions right to enable small and medium-sized enterprises to flourish, not rely on unfocused expansion of the public sector which has led to high taxes and high deficits.

Sixth, welfare systems need reform to curb spiralling costs and make work the most attractive option, as well as to tackle more effectively the root cause of poverty - thereby sustaining the social cohesion that is a necessary underpinning of economic success.

Seventh, we need the right balance of investment plus concern for the protection of the environment to govern our policies for growth. High quality infrastructure, better public transport, cleaner air, investment in the environmentally friendly new industries.

All these have a part to play in securing the twin goals of higher living standards and social justice.

This is the new European consensus – the shared understandings that will be the foundation of a reformed European social model of which Britain cannot only be part, but must take a lead in helping to create.

The European Union also stands at the beginning of a new phase in another sense. Enlargement to central and eastern Europe is about to begin. Before the detailed negotiations about fat content of butter, definition of structural fund eligibility, state aid rules and so on get underway, we need to remind ourselves of the wider context within which the European Union is taking on this historic challenge.

In the early 1980s, only 15 years ago, most European defence budgets were increasing by 3% in real terms each year to deal with the threat from the Warsaw Pact military forces. In Britain defence spending was higher than spending on health care.

Today the cold war front line that scarred our continent is happily no more than a memory. While there are still threats to our security the east-west division is ended. And we have all benefited. Today in Britain the health budget is 50% larger than the defence budget. Our economies have all benefited from the transfer of resources away from military and defence expenditure towards more productive areas.

But that is only half the story. Enlargement of our common European institutions, based on equality, liberal democracy and respect for the rule of law, is what we have promised the countries of central and eastern Europe. They are our partners, with a right to shape the future of Europe together with the existing members of the European Union. That is why the Luxembourg European Council launched the enlargement process in December last year. And the United Kingdom Presidency has made getting the enlargement negotiations off to a good start a high priority.

We all know that enlargement will involve difficult choices, and some economic adjustment by existing members as well as by the candidate member states.

We know too that there will be institutional challenges to meet to ensure that our common European home remains structurally sound as we enlarge it to include more members of the European family. Here too we will need to show imagination and generosity.

So as we go into the detailed discussions on the enlargement process let us remember to put them in the wider context of our shared aims and values. Enlargement of the European Union increases Europe's security; it will over time increase our prosperity; and it represents a further vindication of European ideals of co-operation and solidarity in a world which has so much need of them.

Our aim, simply put, must be to help shape a Europe which is modern, outward-looking, competitive, and above all connected to the lives of ordinary people. That is a Europe with which we can be fully comfortable and of which we can be justly proud. I hope our Presidency can help set us on that path.