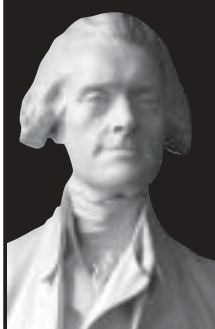


By Sally McNamara

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Jeffersonian  
Principles  
in Action

The Atlantic Connection



*Johnny Munkhammar is Director of Timbro, a free-market think tank in Sweden dedicated to the principles of personal liberty, a free economy and society, open borders and limited government. For over 25 years Timbro has promoted the ideas and shaped the opinions which guide Swedish enterprise. He recently authored "European Dawn: After the Social Model," which Nobel Laureate Robert Mundell describes as, "a blockbuster tract that tackles head-on the major problems confronting the European economy." Mr. Munkhammar has a Masters in Social Sciences, and previously served in the Swedish Navy.*

Contact: [johnnym@timbro.se](mailto:johnnym@timbro.se)

## European Economic Nationalism – Or Reform

Never before have so many countries been as successful as they are today. Economic growth is strong in many countries, and poverty is decreasing faster than ever. People are healthier and living longer. The global market economy is spreading opportunities for a better future.

But most of Western Europe is in economic decline. Economic growth is low, unemployment is high, dependency on the state is increasing, and welfare services are deteriorating. The problems in many Western European countries are obvious, yet most politicians still want to keep the European Social Model, which is causing these problems. Europe is now facing a crossroads. Where will Europe go?

French Prime Minister Dominique de Villepin talks of 'economic patriotism' and has launched a number of protectionist policies. A country that recently had riots because of its economic and social failure wants to do more of the same policies. Is that really something for the rest of Europe to follow?

The so-called social model is all about having a very big state financed by high taxes; the state takes care of large parts of people's lives with their own money. That creates the problems – high taxes lead to slower growth, a regulated labour market stops job creation, and state monopolies do not deliver welfare services. This model is especially damaging for young people and immigrants whose unemployment rates are disastrously high. In effect, they are excluded from society. And with a globalized economy and demographic development, the need for reform is ever more pressing.

Instead of trying French protectionism – a path that economic history has shown leads to poverty – we should look at more successful stories. Some evidences points to the Nordic countries, where market-orientated reforms have taken place, such as a de-regulation of labour markets in Denmark

and pension reforms in Sweden. These reforms have indeed been successful. But the Nordic countries have also introduced an extreme version of the European Social Model of a big state. And that causes problems. In my home country, Sweden, the unofficial total unemployment is about 20 per cent, youth unemployment is the sixth highest in the EU, and many people have to wait for months for health care. This model should be avoided, not copied.

Knowing what to avoid and what to learn from is essential not only to the rest of Europe but also for the U.S. When tax and social security reform is debated, there will be success stories and failures to look at. But one has to know which is which. Obvious success stories can be found in Eastern and Central Europe, whose growth rate is more than twice that in Western Europe. Employment grows strongly. Slovakia is now the biggest car producer in the world relative to the country's size. The Baltic countries have a growth rate equal to China. They have flat and low taxes, and they do not practice economic nationalism.

In a new study, I analysed what conditions successful countries had compared to failing EU countries: they have lower taxes on work, a more unregulated labour market and lower social contributions from the state. These are facts to learn from.

The welfare state is simply an unfair state. Young people don't get a chance and old people do not receive good care. Low-income earners pay high taxes and cannot live off their salary. There are strong moral reasons for change. As an optimist, I think that reforms that decrease the size of the state, and thus liberate the creative forces, are coming in Europe. There are so many positive examples, and new competition from within Europe pushes in that direction. If this happens, current decline could be stopped, and Europe could develop into a more relevant partner for the U.S. in the future.

## Spotlight on.....

### Genetically Modified Organisms: Precaution or Protection?

The United States, Argentina and Canada have successfully challenged the EU's unjustified moratorium on genetically modified (GM) crops in the World Trade Organization (WTO). Several EU member states, including France, Germany, Austria, Hungary and Greece, imposed national bans on GM crops in spite of approval by the European Food Safety Agency (EFSA). These Member States justify their exercise of extreme precaution, saying that they do not trust the scientific data, despite the very detailed procedures carried out to scientifically assess all risks to health and the environment. EU rules on GM also require mandatory post-market monitoring, including on long-term effects associated with the interaction with other genetically modified organisms (GMOs) and the environment. The EFSA has found no scientific data to suggest that GM is environmentally unsound, and in all of the ten cases where member states employed unilateral bans, the EFSA deemed that there was no new evidence which would justify overturning the original authorization decision. However nine of the ten bans remain in place, the UK being alone in lifting its ban.

In order to placate national member states employing the precautionary principle (otherwise called the 'Safeguard Clause'), the EU enacted lengthy and complicated approval procedures for GM crops, procedures that the WTO found to be unsatisfactory.

The EU is facing a tough battle with member states over GM and has been thus far unable to convince member states to lift blatantly illegal national bans, despite having treaty responsibilities for environmental policy. Earlier this year, they ordered the Greek government to lift its national ban on MON810 maize, under risk of facing the European Courts of Justice. Greece has still not complied with the EU's ruling.

The Austrian Presidency of the EU has said that it will re-examine the rules assessing the safety of GMOs but is one of the member states most opposed to GM crop technology. It is likely that they will ask the EFSA to take account of national opinion opposed to GM, rather than basing safety assessments on the scientific data.

GMOs are already subject to exceptionally tight rules, governed by several EU Directives and the United Nations' Cartagena Protocol on Biosafety. The exercise of precaution over and above the rules in place may well invoke further WTO action, since the U.S. fears that precaution is turning into protectionism for Europe's already heavily-subsidized farmers.

Evidence also suggests that GM holds special potential for the developing world, where GM crops could

harvest vast yields for the under nourished and diseased. According to Cécile Philippe, Director of French think tanks Institut Economique Molinari, "It [the precautionary principles] is a dangerous principle which invites us to ruin the basis of a process of discovery essential to the healthy management of risk."

## Article Review

### Economic Life Support

By Sally McNamara

Published by TCSDaily.com

Just before assuming presidency of the European Union in summer 2005, British Prime Minister Tony Blair delivered a stunning speech before the European Parliament, telling Europe that it must change or fail. For most observers, Mr. Blair's speech was seen as a direct challenge to finally undertake the difficult reforms that Europe has been struggling with – high taxes, over-regulation, structural unemployment, extensive welfare states, agricultural subsidies, lack of competitiveness, and lack of growth. As part of facing up to that challenge, a \$600 million 'globalization fund' was proposed to compensate workers who lose their jobs under pressure of competition from countries such as China and India.

Since then, little has been done to enhance Europe's competitiveness, and the Lisbon Agenda is almost totally lifeless (Lisbon proposed to make Europe the most competitive, dynamic, knowledge-based economy in world by 2010.) However, with relative speed and much vigor, the European Commission has presented details of its new Globalization Adjustment Fund, which will give an average of \$10,500 each to approximately 50,000 workers a year who lose their jobs because of competition.

To read this article in full, see TCSDaily:

<http://www.tcsdaily.com/article.aspx?id=030606B>

### Quote Of The Month

"Weakness only encourages terrorists to continue perpetrating their atrocities. And let us not forget, there is no greater success for terrorists than that of being able to continue their operations."

- José María Aznar

Former Prime Minister of Spain

*The Choices Facing Europe, Imprimis*

### The European Parliament's Temporary Committee on CIA 'Black Sites'

Following media reports in several EU member states and the U.S., the European Parliament has convened a temporary committee to investigate whether CIA detention centers exist in Europe and whether the CIA has been transporting terror suspects across European Member States. The 46-member committee has been commissioned to investigate whether American intelligence services kidnapped and detained prisoners at secret sites to torture them and specifically if they used EU territory to these ends.

Anne FitzGerald, Senior Advisor at human rights group Amnesty International, gave evidence to the Committee last month, saying that while the secret nature of this practice means there is limited hard evidence, Amnesty have managed to detail some dates of the alleged abductions and match renditions with flight records. She also outlined torture practices employed at these 'black sites,' including prisoners having no control over lighting in their cells, and constant buzzing noises pumped into cells to prevent prisoners from communicating with each other. In December, Amnesty issued press reports alleging that six planes used by the CIA for renditions had made 800 flights in EU airspace, including 50 landings at Shannon airport in the Republic of Ireland.

ALEC's Adam Smith Scholar Roger Helmer MEP is a member of the Committee and spoke at February's full plenary session of Parliament in Strasbourg. Mr. Helmer encouraged legislators to deal with the facts of the case, rather than speculative press reports. He highlighted a Council of Europe report by Swiss Senator Dick Marty, which has been described by a former British government Minister as "having more holes than a Swiss cheese." Marty himself has said that there is "no formal, irrefutable evidence." Both British and U.S. officials have been dismissive of interim reports, saying that hard evidence is grossly lacking to substantiate these allegations.

EU Justice Commissioner and Vice-President Franco Frattini has also called for restraint by the Committee, asking for the case to be considerably established, rather than reliant on supposition and accusation. U.S. Secretary of State Condoleezza Rice has admitted that terror suspects are flown abroad for interrogation, but that this "rendition" process is a lawful weapon in the War on Terror and that the U.S. does not condone torture.

The Temporary Committee must vote on an interim report by latest May 2006, with the report going before a plenary session in June 2006. The Committee has a 12 month mandate in total.

### Travel Taxes

The European Union has long held ambitions to introduce taxation on aviation, an industry that is currently excluded from many areas of taxation. A 2004 full assembly meeting of the UN's 53-member International Civil Aviation Organization (ICAO) also agreed that no taxes or charges related to climate change caused by aviation could come into effect until after 2007.

However, the EU is not a signatory to ICAO agreements and taxation for aviation fuel still weighs heavily on the EU's agenda (individual member states are members of ICAO rather than the EU per se). EU Transport Commissioner Jacques Barrot has long supported tax on kerosene for airlines, and the EU is actively working for the removal of legal obstacles preventing the taxation of aviation fuel. The EU sees the aviation industry as a key contributor to rising carbon emissions, and a major industry to target to achieve its mammoth Kyoto commitments.

However, EU member states remain divided over the issue of air taxes. British Prime Minister Tony Blair recently came out against aviation taxes, saying that it was unrealistic to think that higher taxes would significantly cut air travel (and thus emissions). In this way, it would merely be an unfair tax on travelers. Notably, Prime Minister Blair backed what is widely regarded as U.S. environmental policy in calling for greater investment in environmentally friendly aircraft technology and other new, cleaner technologies. The U.S. Administration opposes air fuel taxes, preferring voluntary targets and investment strategies as the most efficient way to cut emissions.

That has not stopped other EU member states adopting a high-tax agenda. In November 2005, the French Government agreed a new tax on airline tickets, the revenue from which will be ring-fenced for development aid. The tax, ranging from 1-40 (\$1-\$48) is heavily targeted toward long-haul business travelers and has been widely criticized by airline industries as nonsensical. So far, only one other country has taken steps to implement this tax too (Chile).

A compromise EU solution is to include airlines in its emissions trading scheme (ETS), which requires large industrial carbon emitters to buy credits from companies whose emissions are below target. Although it is predicted to increase the cost of air travel, some airlines have backed the inclusion of aviation into the ETS, seeing it as a better alternative than taxation. This proposal has been somewhat less controversial among member states too, and EU Environment Ministers have backed the Commission's September 2005 communication on how they plan to include airlines in the scheme.

EU legislation is due this year, although any significant EU-wide changes to the aviation industry are not predicted until 2010 at the earliest.

- ❖ ALEC was privileged to be invited to the opening of the Heritage Foundation's Margaret Thatcher Center for Freedom (February 16). In his speech to new Center, Dr. Liam Fox MP (UK) lectured on the special relationship between London and Washington, assessing the challenges that lie ahead for the United States and the United Kingdom, from the NATO operation in Afghanistan to the Iranian nuclear crisis and the growing threat of international terrorism.
- ❖ ALEC participated in USA for Innovation's conference on "The State of American Intellectual Property Policy" (February 8). With speakers from Congress, the Administration, USTR and diplomatic representation from Brazil and India, the conference held two dedicated panels – "Emerging Economies and Intellectual Property Law – IP Framework for Brazil, India and China in the 21st Century," and "IP as Foreign Policy – What can the Administration do to Safeguard US Assets Abroad."
- ❖ ALEC will hold an international relations seminar with Bill Cash Member of Parliament (UK) on April 6. Bill Cash is President of the European Foundation, a London-based think tank dedicated to Euro-realist policy analysis of European Union issues. Attendance by invitation-only. For information, please email [smcnamara@alec.org](mailto:smcnamara@alec.org)
- ❖ ALEC will welcome a legislative delegation from the Chinese Province of Zhejiang next month (March 20) to exchange details of our work on the state, federal, and international level. The delegation requested an audience with ALEC to bring about an exchange of ideas on innovative public policy.
- ❖ Registration is now open for ALEC's 33rd Annual Meeting in San Francisco, California, July 19-23. State legislators, business leaders, and public policy experts will attend ALEC Annual Meeting and partake in workshops, plenary sessions, issue seminars, and task force meetings. Registration can be done through ALEC's website, and early bird registration is open until March 31.

- ❖ On February 6, 2006, the leader of Canada's Conservative party, Stephen Harper, was sworn in as the country's new prime minister. The Conservative victory marked the end of 12 years of Liberal Party rule, although the Conservatives did not secure an absolute majority with just 124 seats out of a total 308. Mr. Harper was elected on a platform to end corruption, reduce taxation, and create a smaller government.
- ❖ Portugal's centre-right party is also enjoying electoral success, with Anibal Cavaco Silva securing the presidency in a decisive first round vote. Mr. Cavaco Silva is chiefly credited with the successful economic reforms that were enacted under his Premiership from 1985 to 1995. The President fulfils a largely ceremonial role but does have the power to appoint prime ministers, dissolve parliament, and call elections. Mr. Silva is the first centre-right president since 1974.
- ❖ Following a report by the UN's nuclear watchdog, the International Atomic Energy Agency (IAEA), Iran has been officially referred to the United Nations Security Council. The report said that it could not "conclude that there are no undeclared nuclear materials or activities in Iran." The Security Council has the power to impose a variety of financial and trade sanctions on Iran, but individual member such as Russia and China – who have significant economic interests in Iran – hold veto power. Discussions could begin as early as March 12.
- ❖ U.S. third quarter GDP growth in 2005 exceeded expectations at 4.3%, with average job growth of 200,000 per month. Unemployment is also at its lowest rate for three decades at 5%. European Union figures show that employment grew by just 0.6% in 2004, with overall unemployment of 9% (with permanent unemployment rates over 10% in France and Germany). Only a very marginal reduction in unemployment is expected in Europe in 2006 (0.3%) and forecasts for labor productivity growth are lower than both the U.S. and Japan.

## Legislator Profile

### Bill Cash MP (United Kingdom)

**Party:** Conservative Party

**Education:** Studied History at Lincoln College, Oxford University

**First elected:** 1984

**Positions held:** House of Commons European Legislation Select Committee (1985-present)  
Shadow Attorney General (2001-2003)  
Chairman of the Conservative Backbench Committee on European Affairs (1988 to 1991)  
Chairman of the All Party Committee on East Africa (1988)

**Career highlights:** Voted MP of the Year in 1990  
Voted against his government's position on the EU's Maastricht Treaty in 1991 and found the Maastricht Referendum Campaign  
Voted the UK's Parliamentary Campaigner of the Year 1991 by an independent panel of journalists.  
Addressed the College Republicans' AGM (1998) on the subject of Europe and America

**Publications:** **The Challenge for the Conservative Party:** The future for Britain and Europe  
**The European Constitution - A Political Timebomb:** Returning power to Britain, Westminster and You  
**Associated, Not Absorbed:** The Associated European Area - a constructive alternative to a single European state  
**Britain and Europe:** Challenging questions for Tony Blair, Kenneth Clarke and Michael Heseltine  
**A Response to Chancellor Kohl** A European Germany or a German Europe?  
**Are we really winning on Europe?**

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*Founded in 1973, The American Legislative Exchange Council (ALEC) is the nation's largest nonpartisan individual membership association of state legislators, with 2,400 members nationwide. ALEC is a 501(c)(3) nonprofit educational and public policy association. Nothing contained herein should be construed as an attempt to aid or hinder the passage of any bill in the U.S. Congress or any state legislature.*

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