

The Euro effect

To what extent does the European Union influence the business environment for UK firms?
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Abstract

Much has been made of assessing the contribution of political leaders to making their place in history. This article examines leaders from Europe including Britain, Germany and France and makes a judgement on whether the expansion of the European Union and its processes has begun to take away the contribution made by politicians of individual countries. The paper also draws upon European Integration theory in order to show how the European Integration process is influencing politics in the member states.

Introduction

In order to assess the contribution of former and current politicians it is necessary to examine key themes. These would include economy, trade unions, populist themes social justice and foreign policy. The impact of the EU on these themes can then be examined.

Thatcher has recently been suggested by Middleton 2006 as being the only party leader to win three general elections in

that century. Economic performance was robust, but only during certain times of the premiership. Inflation was under control, but control was later lost during the tax cuts of the Lawson boom in the late 1980s. Privatisation had success stories, for example British Telecom and British Airways, although the privatisation of the railways proved to be a failure. Ewen Green author of *Ideologies of Conservatism* states there were positive changes from the winter of discontent and the tranquillity of trade unions experienced by the 1990s. Neoliberalist policies became the main focus though government expenditure remained high due to the costs of high unemployment in the short term.

Like its European counterparts the UK continued to fund the public sector and some declining industries such as the car industry and Rover until later in the term, when it was felt more politically acceptable to reduce subsidies and privatise further. France is now to some extent having to reform the

labour market and reduce subsidies due to EU legislation, though this is a much slower process than in the UK and there is a greater will in France to maintain a social Europe if possible. In terms of the electorate populist themes were pursued to attract voters such as social policy reforms except for the poll tax which encountered many problems.

In terms of foreign policy there was success on the Cold War, South Africa and the Falklands in terms of electoral opinion though the many disputes with Europe including joining the European Exchange Rate mechanism at the wrong time was not always seen in a positive light.

On the economy the Labour Party has delivered economic stability and social justice has come second, unlike previous labour governments. In this sense Thatcher can be seen as the mother of New Labour according to Middleton 2006. This was a similar approach to the Thatcher government whereby inflation was brought under control, however in the late 1980s tax cuts did lead to inflation getting out of hand. Both the European Central Bank and UK political parties alike have a policy of controlling effectively the rate of inflation, therefore in this domain both domestic politicians and the EU have influenced the political agenda. In addition, trade union membership has declined and citizens have been given an EU Charter of fundamental rights which has greatly reduced the role of trade unions.

Blair, in a recent September 2006 speech stated that popular themes were migration and terrorism. It remains to be seen how effective he has been in these areas, though on immigration both conservative and labour politicians are opting for future policies of managed migration. There was however a difference in policy making between the Thatcher and Blair governments concerning immigration. Blair opted for a more open policy where immigrants may have helped put downward pressure on wage inflation. This lack of downward pressure in the Thatcher era helped contribute to inflation getting out of control in the late 1980s. However of late Blair has opted for a more restrictive policy on immigration from Bulgaria and Romania, similar to both other EU countries and the more strict policies of the Thatcher era. In some ways again EU politicians are having similar policies, since the UK was one of a few EU countries to have an open door policy on migration from Eastern Europe from 2004 to 2006.

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The French viewpoint

In France politicians in the 1980s differed from those of the UK. Mitterand tried to pursue a government expansionist policy in the early 1980s which led to a balance of payments deficit. However since then France has embarked upon policies of privatisation and tax reduction though still maintains more social policy compared with the UK, including a 35 hour maximum working week, see Floyd 1999. However France remains more protectionist than the UK with a greater amount of government ownership in industry, although this is being reduced due to the Single European Market legislation.

France also has higher levels of unemployment than the UK and greater protection for workers, as well as higher levels of benefit for those unable to find work. Sapir 2006 suggests that further reforms are necessary to compete in the global economy. It must also be remembered that France has a higher level of educational achievement compared with the UK, though the UK is now beginning to catch up. Managed migration is also the main policy. As far as foreign policy is concerned, there has been less support for US policies, including the use of armed conflict to combat global terrorism. More recently the French government has lowered taxes in a similar fashion to the UK. Both France and Germany have also adopted a more positive outlook towards foreign direct investment and increasingly see this as potential for future job creation. The UK has attracted the highest level of FDI according to the World Investment Report, though other countries are starting to catch up.

The situation in Germany

Germany has also adopted reforms to reduce costs of employment as in France and the UK. Taxation has been reduced and Angel Merkel the first female chancellor, has introduced reforms to make it less costly to hire and fire workers similar to what has happened in the UK in earlier years. There is a neoclassical gradualist approach like that suggested by Kornai 1995 since countries like France

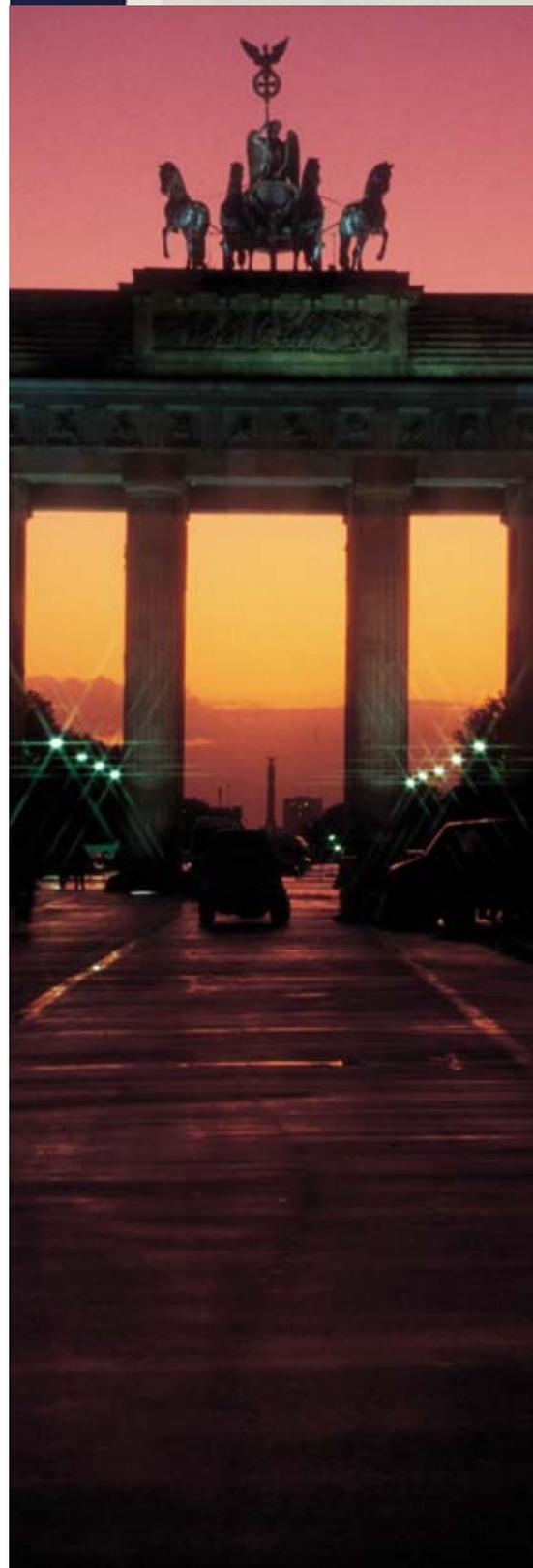
and Germany were starting at a higher social welfare base than the UK. New member states from transition countries may also be prepared to move quicker in the neo liberalist direction since the collapse of communism destroyed some of the social values very quickly and many countries then rapidly looked for new alternatives, see Marangos 2004. However Germany remains different to the UK in that trade unions have greater consultation under the process of codetermination.

Scandinavian countries have also opted for high levels of skill and high levels of trade union representation, though these countries can afford to keep a social model due to the high level of skill and productivity. Sapir 2006 also states that the Mediterranean countries and Germany are under the greatest pressure to reform their labour markets and make them more flexible due to the fact that skill levels have not been as great as the Scandinavian countries. The German economy has failed to create enough jobs to absorb Eastern Germany. There is also less focus on encouraging people to take on more credit (like in the UK) as traditionally Germany has focused more on low inflation and stability, as well as increased investment. Much of manufacturing has now shifted to China and policy is starting to shift towards encouraging the service sector, as well as producing more low cost semi finished products abroad.

Immigration and establishing common standards

Germany, like France and the UK is managing migration though Germany adopts a similar policy to France concerning US Policies to combat global terrorism.

There have also been a number of measures to promote mutual recognition of qualifications across Europe. This has included the professions directive whereby qualified professionals are able to practice all over Europe. However, there are still cultural barriers to be overcome. In addition there is the Higher Education Directive whereby any one studying in Europe can transfer the





credits they achieve to studying in another country. Language barriers however still need to be overcome though many institutions now offer programmes in different languages. Cultural barriers also restrict trade, in some cases there may be national preferences as well as major differences in the way business is carried out. Levels of corruption also vary across Europe despite the numerous directives that have taken place to establish common business laws across member states.

Measures in the social chapter also include equal rights for disabled, plus race and sex discrimination are also covered along with equal rights and benefits for part time workers. Minimum wages and a maximum working week is also included. All these developments lead to a more integrated Europe where similar types of policy and political decision making is taking place across member states.

European policy making

The EU influences policy making for member states and business in many ways. Firstly the single currency and the stability growth pact prevent countries from letting inflation get out of control. Daly 2006 shows how this policy has hampered developments in social policy as countries are prevented from investing more in this area due to the restrictions imposed by the ECB on budget deficits. In some ways therefore, the ECB have imposed more Thatcherite policies on EU countries that politicians cannot escape from. Some say this is Thatcher's revenge for her former disagreements concerning Europe.

In addition both the UK and Europe have left interest rate decisions in the hands of independent policy makers and most countries in Europe have been willing to raise interest rates as inflationary pressures have begun to creep in.

Finally it needs to be considered that the main areas of EU Policy making where integration is taking place is in member states. According to Dearden 2006, firstly the EU has the single market where all tariff barriers are removed. There also

needs to be access to competition in all industries and this explains why privatisation is taking place across Europe, which recently included the telecoms and energy sectors. In this way economies become similar with an emphasis on freer markets and individual politicians have less influence on economic policy making. Some EU countries however, particularly the Mediterranean ones, have been slow to open up markets, for example Greece was given a five year extension to comply with opening up its telecom markets. In a similar way France still has a small amount of state ownership in its car industry for example.

There have also been variations in policy making in the energy sector. Recently France and Germany have stock piled energy supplies rather than selling them in the open market which indicates how difficult it is to create a single market for all types of goods and services. According to Sapir 2006 around 70% of the European Union economy is now attributed to the service sector, so more progress needs to be made here. However it is argued that in time further integration will take place and markets will finally open. Evidence has shown that prices in Europe have become more competitive due to the process of competition and integration, for example car prices in the UK have fallen in the last five years and are almost the same today in nominal terms and considerably lower in real terms.

There is also a single currency for many countries which means all countries have the same goals of low inflation and balancing their budget. The UK differs here from continental Europe in that historically the UK has experienced higher levels of inflation than Germany. There is a desire in the UK to avoid boom bust cycles and have a similar approach to Germany with more stability, though it is too early to tell if the historical past has been left behind. At present the

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world has experienced low levels of inflation partly due to the emergence of countries like China, where manufactured goods are being produced at low prices due to the benefits of the World Trade Organisation. There is currently some upward pressure on interest rates due to higher oil prices though interest rates remain low at present. There has also been wage restraint and declining trade union membership in many industrialised countries. Recent inflation levels in the UK show rates to be higher than the Eurozone and the UK has more debt similar to the US economy, however at present inflation rates are not varying significantly with the rest of Europe.

Inflation may be slightly higher than we think due to the new use of CPI measure rather than RPI which would include council tax and mortgage repayments, see Floyd 2006. There is also a Social Charter giving rights to workers, including a maximum 48 hour week and this has helped to integrate social policies across Europe. However the countries still vary since minimum wages are not the same all over Europe reflecting the income disparities that exist. It has also been argued that UK employment legislation has increasingly come in line with the policy of the European Union. For example the UK now gives equal rights for part time workers and a minimum wage, which did not exist under the Thatcher legacy. More recently matters of age discrimination and disability have been strengthened under EU legislation for all EU member countries.

Further EU policy making

There is also a competition policy to prevent monopolies and price fixing which can now be applied on a Europe wide basis. Environmental policy is also being developed and the EU has signed

up to Kyoto to reduce emissions over the next decade. There are finally other policies common in Europe including regional aid to reduce income disparities all over Europe. These measures are designed to promote balanced growth across Europe whereby the poorer EU members are given the lion's share of funding. In this way European member states move closer together in terms of development prospects. The UK has also benefited from EU regional aid and this helped make up for government turning its back on regional policy over the Thatcher period of office and in this sense policy here came under the command of EU rules and regulations.

On matters of defence and security there have been measures and financial aid available to promote peace in Europe though the EU remains split on a common foreign policy. There have also been attempts to manage migration of late and the EU has begun to promote the use of identity cards. These policies are likely to become more integrated in the future.

Conclusion

It has therefore been shown that the influence of the EU has had a huge impact of the politics of EU member states. This has taken place in the fields of economic policy making, labour relations, environmental policy and business regulation. However as shown in the three country examples, there is variation in the degree of social provision being offered, though over time things have been moving in the same direction. The forces of globalisation are attributing to more common ground for the member states particularly concerning the opening up of the labour market. Opening up a single European market has led to all member states having to further embrace competition, free enterprise and capitalism.

There are also differences however over a single currency though all countries have the same goal of low inflation. Evidence has also been shown that opposition parties are offering little in the way of alternative policies in most EU countries. This is unlikely to change if EU policies move further forward in new areas such as migration and the further widening and deepening of the European Union.

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