

# German- British Relations

and “the Spirit  
of Cadenabbia”

Hartmut Mayer / Thomas Bernd Stehling (Eds.)



Konrad  
Adenauer  
Stiftung

Hartmut Mayer / Thomas Bernd Stehling (Eds.)  
German-British Relations and "the Spirit of Cadenabbia"



Hartmut Mayer / Thomas Bernd Stehling (Eds.)

# German-British Relations

and "the Spirit of Cadenabbia"

## Impressum

Layout and printed by Druckerei Franz Paffenholz GmbH, Bornheim

Translation:

Christiane Ferdinand-Gonzales

© 2005, Konrad-Adenauer-Stiftung e.V., Sankt Augustin / Berlin

All rights reserved.

No part of this book may be reproduced or utilised in any form or by any means, electronical or mechanical, without permission in writing from the publisher.

Printed in Germany.

This publication was printed with financial support of the Federal Republic of Germany.

[www.kas.de](http://www.kas.de)

ISBN 3-937731-58-X

# Table of Contents

List of Contributors	9
<b>Prefaces by the Leaders of the Christian Democratic Union (CDU) and the British Conservative Party</b>	
Angela Merkel	13
Michael Howard	21
<b>Introduction</b>	
Hartmut Mayer/Thomas Bernd Stehling	23
<b>Part I: Participants remember</b>	
20 Years of the Cadenabbia British-German Parliamentary Meeting	
Chapter 1	
<i>David Hunt</i>	
Our Cadenabbia	35
Chapter 2	
<i>Norbert Lammert</i>	
The Myth which is Cadenabbia	48
<b>Part II: Parliamentarians speak</b>	
Domestic and International Challenges for Britain and Germany	
<b><i>Section II.1. Domestic Challenges</i></b>	
Chapter 3	
<i>David Curry</i>	
Devolution in the United Kingdom	59
Chapter 4	
<i>Roland Koch</i>	
German Federalism and British Devolution: Two Sides of a European Debate	76
Chapter 5	
<i>David Willetts</i>	
Conservatism and Christian Democracy: Three Principles of Public Sector Reform	83

Chapter 6	
<i>Matthias Wissmann</i>	
The Challenge of Public Sector Infrastructure: Overcoming the Back-Log of Investment in a Partnership with Private Enterprise	99
Chapter 7	
<i>Christian Wulff</i>	
Future Tasks for Germany	112
Chapter 8	
<i>Tim Yeo</i>	
The Challenge of Public Service Reform: Transport, Health and Education	126
Chapter 9	
<i>Peter Müller</i>	
Integration and Migration in Germany – Challenges for an Immigration Policy for the Future	133
<b><i>Section II.2: International Challenges</i></b>	
Chapter 10	
<i>Douglas Hurd</i>	
The German Unification Process – a Special Episode in Anglo-German Relations	147
Chapter 11	
<i>Wolfgang Schäuble</i>	
The London – Paris – Berlin Axis and the Question of Europe	153
Chapter 12	
<i>Francis Maude</i>	
German-British Relations as Part of the European Triangle London – Paris – Berlin	167
Chapter 13	
<i>Friedbert Pflüger</i>	
German-British Relations and the Transatlantic Alliance: Old Partners, New Challenges	178
Chapter 14	
<i>Michael Ancram</i>	
The Axis Berlin – London within the Transatlantic Partnership	190

Chapter 15  
*Friedrich Merz*  
Germany in the Age of Globalisation 197

**Part III: Experts reflect**

Chapter 16  
*Frank Bösch*  
The CDU – Development of a Successful Model 217

Chapter 17  
*Tim Gardam*  
The Closed World of Modern British Television 236

Chapter 18  
*Michael Rutz*  
The Power of the Fourth Estate 252

**Conclusion**

Hartmut Mayer/Thomas Bernd Stehling 261





# List of Contributors

**Michael Ancram**

MP for Devizes, Deputy Party Leader of the Conservative Party  
Shadow Defence Secretary

**Frank Bösch**

Junior Professor of Media History at Ruhr University of Bochum

**David Curry**

MP for Skipton & Ripon

**Tim Gardam**

Principal of St Anne's College, University of Oxford

**Michael Howard**

MP for Folkstone & Hythe, Leader of the Conservative Party

**David Hunt**

House of Lords, Lord Hunt of Wirral

**Douglas Hurd**

House of Lords, Lord Hurd of Westwell

**Roland Koch**

Prime Minister of the State of Hesse

**Norbert Lammert**

Member of Parliament (MdB) for Bochum 1, Vice President of the German Bundestag

**Francis Maude**

MP for Horsham, Chairman of the Conservative Party

**Hartmut Mayer**

Fellow and Lecturer in Politics at St Peter's College, University of Oxford

**Angela Merkel**

Leader of the Christian Democratic Union (CDU), Member of Parliament (MdB) for Stralsund – Nordvorpommern – Rügen

**Friedrich Merz**

Member of Parliament (MdB) for Hochsauerlandkreis

**Peter Müller**

Prime Minister of the State of Saarland

**Friedbert Pflüger**

Member of Parliament (MdB) for Stadt Hannover II, Foreign Policy Spokesperson of the CDU

**Michael Rutz**

Editor in Chief of *Rheinischer Merkur*

**Wolfgang Schäuble**

Member of Parliament (MdB) for Offenburg, Deputy Leader of the CDU Parliamentary Group in the German Bundestag

**Thomas Bernd Stehling**

Director of the Konrad-Adenauer Foundation in London

**David Willetts**

MP for Havant, Shadow Secretary of State for Trade & Industry

**Matthias Wissmann**

Member of Parliament (MdB) for Ludwigsburg, Leader of the Committee for the Economy and Technology of the German Bundestag

**Christian Wulff**

Prime Minister of the State of Lower Saxony

**Tim Yeo**

MP for South Suffolk

**Prefaces by the Leaders of the  
Christian Democratic Union (CDU)  
and the British Conservative Party**



## Shaping a Free Europe together

In the last century, the relations between Germany and the United Kingdom have had a chequered history. After our nations faced each other as enemies in frightful wars in the first half of the 20th century, we have, in the decades since, walked the path towards a peaceful and united Europe side by side.

It was none other than the great British statesman Winston Churchill who, after the experience of two World Wars, in his Zurich speech on September 16, 1946, envisioned a united Europe as a guarantor of peace and freedom. It is necessary, said the Conservative Party leader, "to provide (the European family) with a structure [ ... ] under which it can dwell in peace, in safety and in freedom. We must build a kind of United States of Europe." At the time, Churchill believed that Germany and France should be the main forces in charge of creating such an order while he saw his own country and the United States in the role of "friends and sponsors of the new Europe". This British position – rooted in history and geography – of keeping a certain distance to continental Europe has remained unchanged until today, at least as far as Britain's political mentality is concerned. Reality, however, tells a different story: Over the years, Great Britain has become a reliable and important part of the European structures of integration. From Konrad Adenauer to Helmut Kohl, Germany has been promoting this development.

Especially after Great Britain became a member of the European Community in 1973, German-British relations developed mostly on the basis of common activities in the European Community and later the European Union, but also in NATO. Both sides have always considered the debate about the progress of European integration to be the key issue. Although there were disagreements regarding this issue, it has always been German policy to keep Great Britain aboard the European steamer in spite of major and minor differences of opinion.

The relationship between the German Christian Democrats and the British Conservatives has always played a special role in this context. In 1979, the Conservative Party under Margaret Thatcher came to power. Three years later, the Chairman of the Christian Democratic Union (CDU), Helmut Kohl, was elected Chancel-

lor. As, from the German perspective, it was essential in the following years to come to an agreement with Great Britain with regard to all important defence and European policy decisions, maintaining contact between the CDU and the Conservative Party became increasingly important.

Apart from the contacts at party leadership and government level, useful relationships developed between parliamentarians of both countries: Exchanges took place between British-German groups of parliamentarians of both national parliaments, the cooperation between Christian Democrats and Conservatives in the European Parliament was strengthened, and last but not least the regular Cadenabbia meetings of British and German parliamentarians were established twenty years ago. It was at these meetings in particular that mutual understanding and personal trust have been built, which helped to steer British-German controversies regarding European policy issues and German reunification towards constructive solutions.

The German CDU and the British Conservative Party share social and political convictions and values: The CDU as well as the Conservative Party view themselves as people's parties to whom it is important to defend national traditions and institutions, to preserve individual freedom and to limit government interference in the economy. The CDU is pursuing concepts that will certainly sound familiar to British Conservatives. Our goal is to protect private ownership and free entrepreneurial activities as the foundation of growth and prosperity, while at the same time preserving social stability – ideas related and familiar to the basic values of the Conservative Party.

Christian Democrats and British Conservatives not only share similar views on economic, financial and social policies, but also on foreign and defence policies, and on the essential questions of European policy. We share the belief that the United States must remain anchored in Europe through the North Atlantic Alliance; we support the recent expansion by 10 new members of the EU; we have an interest in free and open European markets; and we insist on the principle of subsidiarity as the underlying regulatory system of the EU.

Together, Germany and Great Britain face the task of designing an economic model for our countries that is in line with the conditions of the 21st century. Our social and economic order is challenged as never before. The knowledge and information society,

new technologies, globalisation and demographic change are some of the catchwords describing these complex changes. In the future, comprehensive competition between companies and between locations and the struggle to attract the best brains worldwide will shape the conditions for political action.

All European countries are affected by these changes, but Germany as the major economic force in the EU has a particular responsibility to enact necessary reforms. In our country, as in Great Britain, the whole arena of social security systems and the rules of the labour market is under considerable pressure to reform. This presents a particular challenge to our parties. We now have the opportunity, as we did in the late 1970s and early 1980s, to shape the inevitable transformation on the basis of freedom and individual responsibility. This is also true at the European level. Here too we must strengthen the market forces and reduce overregulation. As a part of this effort we must welcome the competition which has increased due to EU expansion, instead of trying to stifle it with new regulations. There is no doubt that the lower tax rates in the new EU member states will put pressure on other countries to introduce reforms. This should be regarded as a challenge to improve the conditions which will be needed to achieve the desired upturn in our countries.

In view of the difficult ratification processes across Europe, including Britain, with regard to the "Treaty Establishing a Constitution for Europe", it will be necessary to have a comprehensive debate between German Christian Democrats and British Conservatives about the future of the European Union. Once again, we must convince people that the destiny of Europe must be shaped within the Union.

For Germany, the growing together of Europe has never been an end in itself. By joining the precursors of the EU and the Western Defence Alliance after the catastrophe of two World Wars, Germany took a conscious decision in favour of peace in liberty. This decision also was and remains to be based on practical German interests: It is easier to guarantee safety within and without if we stand together, and our export-orientated economy will benefit from free trade in a large single market.

Over the last few years, the validity of these motives in favour of EU membership has been reinforced: In an era of globalisation, we need a large and strong single market to remain internation-



ally competitive. The threat of Islamist-fundamentalist terrorism and other security risks require the European nations to stand united more than ever. These new developments present many new challenges to Europe and the Western world as a whole: There are economic challenges – caused by instability in particular in the Middle East – as well as security challenges based on the danger of terrorist attacks and the uncontrolled spread of weapons of mass destruction, and, finally, the threat to our common values and lifestyle.

One answer to these new challenges is the expansion of the EU by ten new member states: We have increased the area of peace, security and prosperity, thereby strengthening the position of Europe. The dimensions of the expansion are fascinating: The EU now comprises 25 nations; 450 million people form one of the largest single markets in the world; the mobility of people, goods, services and knowledge improves the opportunities for innovation and growth. Expansion will increase the trade volume in the old and new member states and provide positive economic stimuli in the entire EU. Having caught up economically in an exemplary fashion, the new member states are now growth markets whose dynamic development will benefit all of Europe, not least of all trade and export nations such as Germany and Great Britain.

If the EU wants to remain able to act and make full use of its potential in terms of economic and security policy, it needs an appropriate structure. For this reason, it made sense to restructure the treaties that Europe is based on. Together with the expansion of the European Union, the Treaty Establishing a Constitution for Europe is the answer to the grave problems confronting all European nations at the beginning of the 21st century. The CDU is convinced that Europe will need the Constitutional Treaty if only for the simple reason that a Union of 25 and possibly more member states in the future will require a reliable institutional framework to be able to take necessary actions and decisions; it will also need clarity, transparency and democratic legitimacy in its policies. Europe needs the Constitutional Treaty because a united Europe, i.e. a Community that is bound by a common destiny, common values and a common sense of responsibility, can only succeed if it becomes a truly political union. Finally, Europe needs the Constitutional Treaty because it may be able to contribute to the definition of a common European identity, thus adding a spiritual dimension to the political union.

Over the last few years, the CDU and the Conservative Party have always agreed on one point: All of this would not be guaranteed on the basis of the treaties signed in Amsterdam and Nice alone. For this reason, the Constitutional Treaty should always be viewed as an urgently needed correction of the existing legal basis of EU structures which, as we all agree, has its shortcomings. Therefore, we should not try to use the criticism of some parts of the EU Constitutional Treaty, justified as it may be, as grounds to reject it altogether. Instead, we should emphasize that, all in all, the Constitutional Treaty will be an improvement to the structures and mechanisms of the EU, compared with the present state of affairs.

It must be understood that the Constitutional Treaty is not about creating a European state in the classical sense of the word. We do need strong European institutions to be able to guarantee the ability of the European Union to act efficiently in areas such as security policy and the single market. What we do not want is a European "super state" with a centralist "super bureaucracy" imposing its ideas of cultural or social policy from above without taking into account how our citizens feel about it. The nation state with its cultural and constitutional traditions is and will remain the prime conveyor of identity and democratic legitimacy. By signing the Treaty Establishing a Constitution for Europe, member states do not only retain their identity as a nation, but also their sovereignty. This means that, while some rights can be transferred to the European level, the authority of the state as a whole cannot. This is precisely what is guaranteed by the EU Constitutional Treaty to be ratified. At the same time, it safeguards the rights of national parliaments within the framework of EU legislation.

The CDU believes that, in line with the concept of subsidiarity, the Treaty Establishing a Constitution for Europe should ensure that on the one hand, the EU will be more active in areas where individual member states would be hampered if they tried; on the other hand, EU action should be clearly restricted in areas where the national state can act faster in a way that is closer to its citizens and therefore more target-orientated. Specifically, this means that the EU should focus on the single market, a joint foreign and defence policy and some questions concerning domestic security and refugee policy. However, sectors such as employment, education, health care and culture should remain within the domain of the member states.

We need greater European competence, in particular in the field of foreign and security policies. Europe must be willing to take on more responsibility for peace, freedom, law and justice in the world – both politically and militarily. There is still a considerable disparity between Europe's importance on the foreign policy stage and its economic strength. One of the reasons is that, in the past, the foreign policy competencies of the EU have been split up. It is distributed between the sitting Council President, the Secretary General of the EU Council, different commissioners and, ultimately, the foreign ministers of the member states. The Constitutional Treaty plans a greater integration of EU foreign policy competencies – a necessary step if Europe is to speak with one voice. Europe must also be enabled to take military action in crisis situations. To this end, the establishment of a European Rapid Reaction Force should be pushed ahead and adequately funded. We must also examine how we can use such a force in the fight against international terror.

However, setting up an efficient EU security policy with its own defence component must never be directed against the partnership with the United States, but must instead serve to strengthen transatlantic relations. For, in spite of the revolutionary changes of 1989/1990, a close relationship between Europe and the United States remains indispensable in order to guarantee European security and deal with global challenges. The stronger and more united the European Union presents itself, the better equipped will it be to be an active partner and ally of the United States.

Put in a nutshell: Europe cannot do without Great Britain; but at the same time, Britain will benefit from a united Europe. The following applies to all European countries, including Great Britain: A weak European Union will not be helpful to anyone, neither in the security nor in the economic policy sector. The problems of today's world can only be dealt with if we join forces. Globalisation, poverty, the spread of AIDS, climate change, migration and especially terrorism do not stop at our national borders. Neither Germany nor Great Britain alone will be able to bear the burden posed by these challenges which will determine our destiny.

In the long run, the European nations will be able to sustain freedom, peace and prosperity only if they succeed in creating an economically and politically united Europe with efficient and legitimate democratic institutions. No single European nation will

be able to deal with today's global challenges standing alone – but together we can. A united and strong Europe can make an important contribution to a better world; this united and strong Europe will also be better able to do justice to our values, our interests and our responsibilities in the world of the 21st century. German Christian Democrats and British Conservatives are called upon to continue working as partners to shape this Europe of the future.



## Anglo-German Relations

Twenty years ago Cadenabbia hosted its first British-German Parliamentary Meeting. Since then, through these meetings, many of our MPs from both countries have met and discussed their political views in a constructive way. This has helped create the mutual respect and friendship that marks the relationship between the German CDU and Conservative Party today; and I am delighted and honoured to have been asked to write a few words for the series of essays that celebrate that anniversary.

Naturally enough for two parties from two countries with very different histories, we have not always agreed on everything; but our disagreements take place against the background of an understanding and a basic belief in shared fundamental values – of democracy, the rule of law, freedom for the individual. We both believe in market economies based on enterprise and choice with the minimum of regulation and red tape. We both believe that Europe and America would be the poorer and the weaker without a strong transatlantic relationship, and that those who put short term political gain ahead of that long-term relationship are putting at risk the new century's prosperity and stability.

I take great satisfaction in the way that our parties have worked so well together to promote our shared aims in the EU. We have a common understanding that, without economic reform, European countries will fall behind our competitors in the rest of the world. The EU cannot insulate us from changes beyond Europe but it can help us meet those challenges.

Today the relationship between the German CDU and the Conservative Party, and between Dr Merkel and myself, is a strong one – and Cadenabbia has certainly played its part in that.

It was to Berlin, thanks to an invitation from the Konrad Adenauer Stiftung, that I first went to set out my vision for Europe's future in 2004 – a vision for a Europe of twenty five members, which provides the flexibility to suit each Member State. We need to understand that different nations will have different aspirations and the European Union can and must be strong enough to embrace that variety confidently.

If the European Union stands for anything, it is for the healing of our continent from the horrors of the past – war, fascism and communism. That central mission of the European Union could never be complete without enlargement, and both Germany and Britain, and the Conservative Party and the CDU, can be proud that we have been among the first and strongest supporters of that process.

I have long been an admirer of the CDU. Through its many achievements – from the rebuilding of democracy in Germany to the intellectual creativity we see today – the CDU has made an outstanding contribution to European politics. Both the CDU and the British Conservative Party are prepared, where other parties are not, to face up to the challenges facing our countries today. For us in Britain, one major challenge is public service reform. Parents and patients have waited too long for the right to choose in education and in health care. For Germany, unemployment and economic reform are questions that must be tackled in order to secure the bright future which Germany deserves. Over the past few years the SPD government has shown itself incapable of meeting Germany's needs. Germany's friends look forward in hope to the next CDU government.

I have no doubt that the next twenty years will see the warm co-operation and the fruitful sharing of ideas between our two great parties continue, in which this book will take a fitting place.

## Introduction

The *Festschrift* is a wonderful academic tradition. Having been started in Germany it spread gradually and became the model for other academic cultures. On the occasion of major, mostly late, birthdays of notable scholars and public figures those who have been associated with them for a long time, students and colleagues present them with a book in their honour. They reflect upon their work as well as look back over their career with personal comments, memories and anecdotes. The charm of these works rests in the close personal bonds between the authors, something that goes beyond the text and will be apparent first to those who have lived and worked with the person honoured in it.

This collection of papers is such a *Festschrift*. However, in contrast to its classical form this one celebrates an institution rather than a person and a very early birthday instead of a late one. The book marks the 20<sup>th</sup> anniversary of the meetings between German and British parliamentarians in Cadenabbia, a unique and fascinating form of Anglo-German encounter. Since 1984 parliamentarians of the German CDU/CSU fraction and the British Conservatives have been meeting once a year in Konrad Adenauer's famous holiday resort in order to exchange views and thoughts as well as maintain old friendships and foster new ones. In a relaxed atmosphere and surroundings of matchless beauty they have for the last twenty years examined the fundamental values they share and searched for answers to the political questions of our time; they have compared strategies and solutions for similar problems; they have quarrelled vehemently about their differences and striven for an understanding of positions incompatible with their own and have finally all come together again over a glass of red wine.

The authors of this volume don't just want to celebrate "Cadenabbia" and strengthen their personal friendships through their contributions but – as many of them imply – also to express their thanks for what has been achieved. The Cadenabbia meetings are without doubt the flagship of the London branch of the Konrad-Adenauer Foundation and its varied and successful work. Private foundations and publicly funded ones, cultural institutes and



civic forums make invaluable contributions to the mutual understanding between Great Britain and Germany and to their increasing rapprochement. Among these the Konrad-Adenauer-Foundation naturally, albeit by no means exclusively, focuses on the fostering of friendship between the German Christian Democrats and the British Conservatives and forms an important link in the Anglo-German network without which a successful understanding between the political elites of Germany and Great Britain would be unthinkable.

This collection of papers endeavours to recreate what has constituted the particular attraction of the Cadenabbia – Meetings: friendship, first of all, mutual exchange and overall agreement on common values and aims with variations in the content.

Consequently the volume divides into three parts. Part 1 is primarily for remembering the good old days, celebrating and thanking. Two of the most constant and important participants of the Cadenabbia-Meetings, David Hunt and Norbert Lammert invite the reader to participate in the "Cadenabbia Myth". These contributions link personal anecdotes with a historical analysis of the developments undergone by both parties and marked gratitude for that which they learned from each other. They also show how a particular generation of then comparatively young parliamentarians experienced a part of their political socialisation and gained their insights into the respective other country and the needs of the sister party through "Cadenabbia". Both texts will undoubtedly give great pleasure to all those who were present, but they also address themselves to anybody interested in this process as well as all those who as members of parliament will participate in future and continue the "Cadenabbia Myth".

Part 2 of the volume reflects all those matters that were central to the dialogues in Cadenabbia. German and British parliamentarians together analyse political questions and problems, describe and evaluate what is specific to the respective national point of view and compare it to the one of the partner country and the sister party. The first half of Part 2 deals with internal reform processes in both countries, the second part with the old and new challenges of international politics.

To begin with the papers by David Curry and Roland Koch examine the fundamental questions of the respective democratic systems, namely the relationship between the central executive and the regional and local tiers of decision making. The more cen-

tralised democracy of Great Britain as well as the federal system of the Federal Republic of Germany are expressions of the entirely individual histories of the two countries and represent their two very different political cultures. It is a familiar cliché of the Anglo-German dialogue that both Britons and Germans may use the same concepts – whether “federalism”, subsidiarity, “Brussels” or “regionalism” – but constantly talk at cross purposes with each other because the connotations and fears each of them connects with these terms are so much at variance. Roland Koch and David Curry help us disentangle the familiar confusion. Curry explains the path of British “devolution” since 1997, Koch the history the current state and potential future of German federalism. A moderate re-ordering of the present relationship between central and regional centres of decision making is seen as unavoidable in both countries. The changes driven by the process of European integration and the newly developing multi-level system of political decision making within the EU as well as between the EU and its member states, the challenges posed by globalisation to national democracies and the desire of their inhabitants for regional identities and transparent political decisions all make such reforms necessary. Common to both authors is the desire to preserve what is tried and tested and successful in their countries and adapt it to new requirements.

The analysis of British devolution and of the reform of German federalism, for many the mother of all reforms in the Federal Republic, is followed by a topic which has dominated public debate in both countries for years: the state and future of the welfare state and of the Public Services. There is no other area, it seems, in which Germany and Great Britain can learn quite so much from each other. It is one of the ironies of Anglo-German relations during the last twenty years that the images of the two social models have been reversed. While many Britons in the 1980s saw the German way as the model for a stable and efficient economic power with high social security and an excellent infrastructure, now many Germans see in Great Britain the most promising European answer to the challenge of economic globalisation. David Willetts and Matthias Wissmann take up the topic in the best Cadenabbia tradition comparing the steps taken on the way to reform in Great Britain and Germany and carefully weighing the advantages and disadvantages of one system against the other. It is astonishing how open they are about the weaknesses of their own respective systems and how sympathic-

tic to the concerns of the other one. Using the Public Service Reform as an example David Willetts also manages to depict the conceptual and historic differences between continental European Christian Democrats and British Conservatives and to make them intelligible. Matthias Wissmann examines how the German infrastructure – which in the international comparison is still rated as excellent – can be preserved and improved in view of the empty coffers of the public purse. He is particularly interested in the tool of the private–public partnership for which the United Kingdom is seen as the trailblazer in Europe. The experiences made with it in Britain, both positive and negative ones, can, therefore, act as a guide for the use of similar reform instruments in Germany.

It is also primarily the future that Christian Wulff looks to. In a broadly based paper covering a number of political sectors he analyses the most urgent tasks for reform in Germany, i.e. the return to more economic growth, the fight against unemployment, the maintenance of an affordable welfare state as well as a solution acceptable to those affected by it of all those challenges arising from the changes in the age pyramid. He criticises the "Agenda 2010" put forward by the Schröder government for not being far-reaching enough, while admitting that it is necessary to create trust among the citizens and to maintain it whatever the reforms.

Following Christian Wulff's general survey Tim Yeo for the United Kingdom and Peter Müller for Germany examine specific details in selected problem areas. Tim Yeo describes the challenges faced by his country in the areas of traffic, health and education and places them into the context of the overall changes which have taken place since 1945. Peter Müller reflects on Germany's immigration policy with a view to the future. In a very sensitive essay he demonstrates why immigration is bound to become a test case for political culture and national identity in Germany. He pleads for the immigration debate in Germany to be de-emotionalised and tries to find a sound middle course between the fears of many people who feel threatened by it and the objective chances for Germany to derive great gains from immigration.

The topic of immigration and national identity leads from the national into the international policy debates in our volume. It is, in fact, primarily the conditions found in the international economic and political environment that cause increasing numbers

of people to immigrate into Europe, conditions like new wars, political persecution, human rights violations, economic inequalities, epidemics and natural disasters. The old continent, for centuries itself a war zone and crisis areas, today is a centre of stability in a still fragile world order.

Who would dispute that – despite all the differences between the German and the British position on the European project – this stability is a success resulting from the European process of integration which Germany and Great Britain, Christian Democrats and Conservatives have helped to create and to fashion in such different ways. In the course of 20 years of Cadenabbia Europe was always a special concern, albeit often also a dangerous minefield. Indeed, the often opposite positions on European integration and the frequently less than smooth cooperation between the Christian Democrats and the Conservatives in the European Parliament were the reason for calling into being the Cadenabbia talks in this form in 1984.

Above and beyond this the forum was, however, always also interested in the wider strategic questions of worldwide international politics. Together they made the move from the second climax of the Cold War under Ronald Reagan to the fast rapprochement with Michael Gorbachev, observed the revolutions in Eastern Europe and shaped the changes resulting from the upheavals of 1989 which for Germany brought unity within a united Europe. In the 1990s they quarrelled about the consolidation and the enlargement of the European Union and NATO which were to lead the way to the now so successful integration of the Central- and Eastern European states into the West's structures for security and stability. They also shared their hopes for a new peaceful world order after the end of its bipolarity, and together they were quickly disillusioned as they faced new ethnic conflicts around the world. Especially the wars in the former Yugoslavia which were particularly painful for Europe and the search for ways and means of overcoming the crisis in the Balkans created a bond between British and German politicians involved in foreign affairs. The terrorist threat after 11 September 2001, the war in Iraq, the tensions in the transatlantic relationship, the unresolved problems in the Middle East as well as the international integration and liberalisation of China remain challenges which Germans and Britons will be able to meet only in cooperation. The authors of the foreign policy part of the book deal with a large number of these topics.

One event of the past twenty years still stands out: the German unification. For those who witnessed that time it would be impossible not to remember the tensions in Anglo-German relations in the years 1989/1990 when the Federal Government under Helmut Kohl created the internal and external conditions for the peaceful unification of the two German states against the opposition of Prime Minister Margaret Thatcher. Relations between Helmut Kohl and Margaret Thatcher were never particularly warm, but rarely were they as bad as during the most important months of Kohl's chancellorship. As a result of the now common personalisation of politics – and what better opportunity for it than the clash between Kohl and Thatcher – many of us are not aware of the fact that Great Britain played a very important and constructive part in the process of German unification in the 2+4 negotiations. In this volume Douglas Hurd, the British Foreign Secretary of the time and one of Germany's most knowledgeable and best friends, in a very personal and open review of the time elucidates the British political stance in the process of German unification. In its own way it is a document of contemporary history.

This is followed by Wolfgang Schäuble's analysis of Anglo-German relations within the triangle of the three major capitals London, Paris and Berlin. He writes about the particular potential for close cooperation between those three in and for Europe. He defines the combined efforts of Britain, France and Germany as the dynamic hub or motor of Europe and expresses the hope that a common European identity will be able to rein in national egotisms in future. Despite the existing problems politicians should neither denigrate what has been achieved nor be dazzled by it. Schäuble emphasises that Europe must achieve an even greater degree of communality, particularly in view of the worldwide threats, in order to be a player in world politics and to fashion its own future in the global order.

Francis Maude in his contribution concentrates on the increasing closeness of British-German relations and traces the development of the last 20 years. He proposes the thesis that the best political analysis may possibly be gained from examining the attitudes of the senior politicians. Therefore he focuses on the personalities and attitudes of Margaret Thatcher, John Major and Tony Blair.

Friedbert Pflüger and Michael Ancram apply themselves to the transatlantic relations which are so important for both countries.

They ask with some justification whether Europe and the USA continue to sing from the same hymn sheet at the beginning of the 21<sup>st</sup> century and in doing so will carry on to implement the most important lesson of the 20<sup>th</sup> century, i.e. the necessity for the free world to cooperate. Pflüger makes it clear that a new generation of politicians who did not experience the Second World War or the Cold War have to be won over for the transatlantic partnership again and again, that NATO has to be revitalised and Europe has to accept its global responsibilities more wholeheartedly. What is needed on both sides, he claims, is a transatlantic "we-feeling", and he believes that British-German cooperation could contribute to developing this indispensable identity and strengthen it.

Michael Ancram stresses that the USA are undoubtedly the heart of our geopolitical environment. Europe should always act as a partner rather than a rival to the United States. Germany has a key role to play in this, in his opinion, and ought to help to keep Europe on the course of a close transatlantic cooperation. He believes that a close union of Great Britain, the USA and Germany must inevitably be a goal if the global threats are to be repulsed, and that a triple alliance of Washington-London-Berlin would serve to unite Europe and America as opposed to dividing them, as was unfortunately the case with the Iraq crisis.

In the concluding contribution of the international part of the book Friedrich Merz poses the question, how Germany should reposition itself in the globalised economic order. He views globalisation in Schumpeter's interpretation as a dynamic process of destruction and renewal. He emphasises the opportunities arising from the worldwide division of labour. Countries that are afraid of the destruction and renewal of their traditional structures could, however, quickly join the ranks of the losers of globalisation according to Merz. This is why it is important, in his view, for Germany to accelerate the process of structural changes, since any delay would cost the country dearly. He sees globalisation as both fate and opportunity for Germany, and he advises that Germany must be made fit for the transition from traditional industrial nation to global information and technology society without delay.

Part 3 of our volume opens up the dialogue with outside experts. Parliamentarians are always dependent on exchanges of ideas with scientists, captains of industry, the media, as well as repre-

representatives of the churches and civic groups. Three papers serve as examples for this transfer of knowledge which have enriched the Cadenabbia gatherings. Frank Bösch, a young historian, traces the history of the CDU over the past 20 years. He argues that the Christian Democrats have undergone a continuous liberalisation during this period without the kind of drastic changes that may have to be faced by the British Conservatives. He explains the success of the CDU at recent elections as a result of this – in contrast to the Tories – low-profile and gradual form of inner renewal.

In conclusion two prominent representatives of the media, Tim Gardam and Michael Rutz, examine the changes which have transformed the media during the past 20 years and the effect they have had on the conditions for political life in both countries. Tim Gardam analyses the far-reaching changes in the electronic media in Great Britain. He regrets that the content of British television has become increasingly impoverished and that it has abandoned its rightful task as cultural and social catalyst. Michael Rutz enquires into the way the power of the media is organised in modern societies and asks whether we might not already be living in a time of the breathless pursuit of the insubstantial when the fast-moving media business overdoes the staging of politics and thereby creates resentment against politics instead of transmitting and controlling politics. Rutz sees the danger of a power struggle between the political elites and the media elites which might prove detrimental to the entire democratic system. In an important and well-balanced paper Rutz connects with universal thinkers like Rousseau, Weber and Luhmann in explaining the reasons why it is of such vital importance for the functioning of democracy to think long and hard about the role of the media.

The concluding reflections of the editors finally place the key points made in the individual texts into the broader context of German-British relations during the last 20 years. They also risk a preview of topics to be discussed by the Cadenabbia participants in future. A brief preliminary remark may be permitted here. Regrettably one repeatedly hears the view in some academic circles that purely bilateral dialogues, be they on politics, economics, diplomacy or the civil society, are in fact, out-dated in an increasingly integrated Europe. In view of the closely interlinked relations between the rich democracies of Europe and the normal professional interchanges between their elites, they believe,

that bilateral forums produce only marginal gains for the countries involved, apart from the personal enjoyment of the participants. Increasingly scarce resources should be used for larger European forums, in their opinion, for exchanges with the new EU member states or for the dialogue with the global regions and regions. This volume clearly shows that such views fall far short of the reality. The strengthening of classical bilateral relations and new multilateral and interregional forums are not mutually exclusive, instead, they complement each other. The trust between the decision makers of the big European states has always formed the basis for progress in Europe as well as for common answers to the global questions of the time.

The value of a 20 year long dialogue between German Christian Democrats and British Conservatives cannot be measured exactly, nor would anybody want to demand or wish such a thing. However, all the authors in this volume bear witness with their contributions to their high estimation of what has been achieved in the past 20 years. The relations between the German Christian Democrats and the British Conservatives, between the non-socialist parties in the European Parliament and between Germany and Great Britain would have developed differently and certainly more problematically. This key message links all the texts in this volume. It binds together the book and the "Cadenabbia Myth".





**Part I:  
Participants remember  
20 Years of the Cadenabbia  
British-German Parliamentary Meeting**



# Chapter 1

David Hunt

## Our Cadenabbia

It has been an enormous pleasure and privilege to participate in the British-German Round-Table events organised by the Konrad Adenauer Foundation over the past twenty years for parliamentarians from our two countries. Thanks to the good work of the foundation, a generation of Conservative and Christian Democratic politicians in the United Kingdom and Germany was able to develop together – to grow up together politically. In the late Thatcher and Major years, when Helmut Kohl also held sway in the Federal Republic, cabinet-ranking ministers in our two countries were not only colleagues. They were genuinely friends too – and all thanks to the good work of the Konrad Adenauer Foundation. I was delighted when I was asked to contribute to this book, but also a little nervous: I tend to think of our gatherings not as a series of anecdotes, but as a seamless process of deliberation and renewal. Nonetheless, it is healthy and worthwhile to mark such anniversaries with a period of reflection and I hope that my own recollections (interspersed with helpful promptings from friends and colleagues – anything inaccurate must of course be blamed on them!) will add something.

Konrad Adenauer was a towering figure, both in the death throes of the Weimar Republic and in the birth of the Federal Republic of Germany (FRG) and the Christian Democratic Union (CDU). His politics were heavily influenced both by his strong Christian principles and by his experiences of the First World War and the recession of the 1920s and 1930s. Anyone whose signature appeared on a banknote for a billion Reichsmarks was unlikely to be untroubled by the experience. As President of the German Catholic Assembly, leader of the Catholic Centre Party and Mayor of Cologne, Adenauer always sought to ally his strong beliefs in traditional conservative virtues with his religious convictions. He urged a Keynesian response to the mass unemployment caused by the world recession that began with the Wall Street Crash, and he refused to fly the Nazi flag on the Town Hall in Cologne. By the end of 1933 he had been relieved of his position as Mayor and was in internal exile, initially in a monastery and then in a series of safe houses. During the war he even found

himself in a concentration camp for a time, facing possible deportation. He did well to survive.

Characteristically, Konrad Adenauer did not waste those years. He immersed himself in political and religious thinking and refined his analysis of the policies that Germany would need once the shadow of Hitler had passed. As he pondered everything from papal encyclicals to his own personal observations, rooted in decades of front-line, hands-on political experience, he gradually forged a new political fusion. He rejected the tired dialectic of the struggle between classes and subscribed instead to notions of social solidarity and civic responsibility – and the “de-proletarianisation of the proletariat” (a word with this many syllables surely works better in the original German). Elsewhere in mainland Europe, others who were equally appalled by the scourge of Nazism – Schuman, Monnet, Fanfani – came to similar conclusions. The policy formulae they concocted were, in truth, remarkably similar to what we in the United Kingdom know as “One Nation” Conservatism. This curious blend of social market economics, social services, *noblesse oblige* and good old public service may not make a great deal of sense on paper, but it works very well in practice.

It is worth noting that Adenauer himself earned something of a reputation for being less than enthusiastic about the British. Shortly after the US occupying forces had re-appointed him as mayor of Cologne, the British sacked him and even exiled him from the city – supposedly for incompetence but in reality because they regarded him as politically capricious and unreliable. It was an unpropitious start to a new era in Anglo-German relations and soon proved to be untenable. Once again, Adenauer reacted to adverse conditions not by lapsing into self-pity, but by organising. He was one of the first German statesmen to recognise the practical necessity of bringing together the French, US and British zones of Western and Southern Germany into a single, federal arrangement. Like his fellow countrymen, of course he wished to see Germany truly united, but he had no illusions about the likely intentions of Marshal Stalin and what the future held for the Eastern part of Germany under Soviet occupation. He was lambasted as a “cold warrior” and perhaps, in a sense, he was. If so, it was just as well for us all that he was. He also saw the need for a rapid economic integration between France, Germany and Belgium and encouraged Robert Schuman to take forward proposals for the European Coal and

Steel Community (ECSC) and then for the Messina Conference and the EEC.

Adenauer was a visionary and, with the help of his some-time ally Ludwig Erhard, it was he who led the German people back onto the path of peace and prosperity. I hope I won't be thought excessively partisan in noting that, as it happens, most of his problems in dealing to the UK were with the Labour Government led by Clement Attlee (though he never much liked Harold Macmillan either). Adenauer always felt that Labour went out of its way to favour the newly reformed SPD over the CDU and, understandably, he took a dim view of such behaviour. There was another problem too, of course. Unfortunately he spent rather too much time with General de Gaulle and went along with French opposition to British accession to the EEC. It fell to a later generation of leaders, in both France and Germany, to play their part in building that crucial political bridge across the English Channel. All of us who have been to Cadenabbia can attest to the fact that Adenauer's erstwhile party has latterly proved very warm and welcoming towards colleagues from the United Kingdom.

Adenauer was twice widowed and sought consolation both in the company of his children and in places that offered a sense of tranquillity and sheer beauty. He discovered Cadenabbia on Lake Como in 1957 and, thereafter, regularly held court there, using it as his base for extended breaks in both the spring and the autumn, usually in the company of one or more of his devoted daughters. Within two years he had alighted upon the Villa Collina, up in the hills with its commanding views over town and bay. He fell in love with the place at once and, for weeks or even months at a time thereafter, the Federal Republic of Germany would be effectively run from within the walls of this beautiful building and over the years ahead the Grand Old Man summoned to it statesmen of every description, as well as family and friends. It was here, in 1964, that Konrad Adenauer at last began to labour in earnest on his much talked-about memoirs and also, in 1966, where he spent his last ever holiday. The place is positively dripping with history and, despite the advent of large-scale tourism in the town, for those of us lucky enough to be invited there by the foundation that bears Adenauer's name, it remains a place of magic and enchantment, where politics for once implies engagement and friendly rivalry rather than animosity, and where confidences can be shared in the certain knowledge they will go no further.

The particular success of Cadenabbia was always built upon secure foundations. Many of us in the United Kingdom and Germany grew up in the twin Young Conservative (UK) and Young Christian Democrat (FRG) organisations in the 1960s and 1970s. There was always some communication between the two groups, but until the UK's historic accession into the EC in 1973 there were relatively few forums in which we could meaningfully pursue shared interests or objectives. We could discuss our common problems – inflation and unemployment, social upheavals and the ominous shadow of the Russian Bear – but there wasn't a great deal any of us could do about it all. We didn't let that get in the way of good times and robust, lasting friendships. After all, the mood in the UK from the mid 1960s on was pretty much unmistakable: sooner or later (and ideally sooner) we would end our costly isolation in Europe by becoming members of the EEC, as we should have been from the outset. Once we were in, we would need friends and allies within the other member states.

Both Volker Rühle and Matthias Wissmann became President of the Junge Union and I was National Chairman of the Young Conservatives. We also became officers of what was known as the Conservative and Christian Democratic Youth Community (which traded under the slightly unfortunate acronym COCDYC), which later became DEMYC. We had therefore already to some degree grown up together in politics when, in the early 1980s, we found ourselves poised for lengthy periods in Government when all of us were on a rising curve in our parliamentary careers. After the Conservative Party under Margaret Thatcher came into office in 1979, we kept in close touch with our Christian Democrat colleagues and it seemed only natural that we should all accept Volker Rühle's invitation in 1984 to John Gummer (who was then chairman of the Conservative Party) to travel to Bonn for a meeting with Helmut Kohl, who had become *Bundeskanzler* two years earlier. To justify our visit we had a seminar and we have followed that pattern virtually every year since.

Before embarking on that first trip, we were told very firmly that the Chancellor could spare us only half an hour out of his busy schedule. In the event, however, he effortlessly gave us an extended and majestic *tour d'horizon* and all of two hours flashed by in a thoroughly enjoyable meeting. It is indiscreet of me, but I do recall that Dr Kohl was rather less commanding when it came to the *minutiae* of policy. Tim Eggar asked him about the Eurofighter and he did a rather poor job of concealing the fact that

he knew nothing whatsoever about it. We Brits quickly learned at that meeting that the marvellous simultaneous translation provided by the *Stiftung* could make light of any language difficulties. Our indefatigable and endlessly cheerful translators, led by Ute Kirstein Moog and Jutta Merz, have really been indispensable and integral parts of the team. That first seminar was held in Bonn and, for a year or two, we became political itinerants, going hither and thither for our gatherings. Then, the Anglo-German parliamentary meetings organised by the Konrad Adenauer Foundation really came home at last – to Cadenabbia.

It's quite impossible to recapture the magical moment of first seeing the Villa Collina. Suffice it to say that the place is truly idyllic, as well as historic. For all of us now it also has so many personal memories. I recall particularly vividly the occasion when a delegation from the revived CDU in the German Democratic Republic – the old East Germany – joined us for the first time. The CDU in the East had long been colonised by the Communist regime and populated with its fellow travellers as a means of giving some appearance of democratic legitimacy to the regime; and our new colleagues were part of a new generation of CDU leaders who were attempting to bring the party back to its moderate centrist-conservative, ecumenical roots. Some of them had never travelled outside the grey, socialistic confines of the old GDR before and Cadenabbia must have presented them with a fairly profound culture shock. As we sat outside in the magnificent gardens of the Villa Collina one sunny summer evening, being serenaded by a quartet of singers from *La Scala*, one of the East Germans whispered to me that this was like a "different world". I was in the Government whips' office at the time and, at one session that year, the representatives from the GDR asked me about the methods we employed to bring wavering MPs into line. I gave them a few examples. Jim Spicer recalls that they emerged white-faced and shell-shocked from that session, one of them muttering to Jim that "these Government whips sound even worse than the Stasi".

Another feature of the Cadenabbia visits has been the walk to the little chapel on the hillside. Alistair Burt, a keen footballer and later Michael Howard's parliamentary private secretary, was always the fittest, although I like to think that even he had to be on his mettle to see off challenges from me, David Curry and Quentin Davies. Our German colleagues usually thought better of joining the mad Brits for this morning constitutional and pre-



ferred to remain behind, sipping coffee over breakfast. Quentin may not have been the fastest among us, but he was certainly the most dogged, almost invariably undertaking a longer walk than the rest of us could face. Every Saturday afternoon we would take a boat on Lake Como, going sedately across to Bellagio and the lakeside villages.

Solidarity is often the order of the day. On one notable occasion, I found to my horror that, having been whisked through the VIP facilities at Heathrow, I had forgotten my passport. As we approached Milan Malpensa Airport, I shared the problem with my then fellow Minister, Peter Bottomley, who was at the time Parliamentary Under-Secretary of State in the Northern Ireland Office. Peter just said "leave it to me". As we approached Customs, I saw Peter being met by the *Carabinieri* with a substantial military escort. I saw them pointing in my direction. Peter called me over. "This is my personal security man", he explained. I received a comradely nod from Italian security. "Follow me," said Peter and so I entered and left Italy without a passport, doing my best to look official and slightly martial. My final problem was overcome when I was met by my driver on the return journey to Heathrow Airport and he was holding my passport.

No mention of our Saturday afternoon experiences on Lake Como would be complete without noting the fact that at the beginning of the excursion every year, a supposedly far-sighted, knowledgeable and intelligent group of politicians could invariably be seen in an undignified tussle for the very back seats of the boat. This is in defiance of the fact that, whenever there is anything like a breeze on the lake, it is always those seats that bear the brunt of it, their occupants being liberally splashed by wind and wave. I am told that there are some excellent photographs of the then Chancellor of the Exchequer, Ken Clarke, manfully attempting to retain his jocularly and poise whilst being utterly soaked through. Elmar Brok, not a difficult target for either wind or wave, was often to be seen selflessly protecting his colleagues from the elements by absorbing as much as possible of what they were hurling at us.

Sometimes the boat required another form of protection on board, notably when Volker R uhe was federal defence minister and seemed to have half the vessel filled with his security force. It is never easy to combine summer dress with a concealed weapon, however, and on one occasion, Alistair Burt was alarmed

to see, as he followed one of the protection officers, that his light jacket had ridden up, revealing his holster and pistol. Always one for action rather than words, Alastair tugged the jacket down gently – just having the time to explain in gesture what he had done as the policeman turned sharply with an initial demeanour suggesting that a by-election might be imminent!

As the years went by, the *Stiftung's* iconic man in London, Ludger Eling, began to experiment more and more. Different combinations of people were given the opportunity of meeting their German opposite numbers both at Cadenabbia and in Germany; it is only unfortunate that the heavy Conservative defeats in 1997 and 2001 have deprived us of a new, younger generation of politicians who could usefully be given the opportunity to breathe in the rarefied atmosphere alongside Lake Como. Yet all the way through, the "old crowd" continued to gather. Some people have been more or less "ever-presents" at Cadenabbia, even as they have established their public reputations outside. It is impossible to imagine the gatherings without thinking of Norbert Lammert, Elmar Brok and Karl Lamers on the German side and Jim Spicer, John Gummer and Quentin Davies for the Brits. All have served their homeland with particular distinction, as have my old friends Matthias Wissmann and Volker Rühle. At the height of his political powers, Matthias of course served as federal transport minister, while Volker became a notable federal defence minister. Simultaneously back in the UK, I had the privilege of serving in the cabinet under both Margaret Thatcher and John Major and several other Cadenabbia colleagues ran their own departments in the UK too. As the process of European integration continued, our areas of common interest became expanded and the opportunity to engage in informal, bilateral discussions with colleagues from Germany often enabled us to short-circuit the sometimes bureaucratic and time-consuming routines of Brussels and its ministerial meetings.

When I arrived at the Department of Employment in the spring of 1993, the domestic debate about the Maastricht Treaty and its social chapter was at its height. The Conservative Party was split badly over Europe: we had been forced to leave the Exchange Rate Mechanism of the EMS and John Major had felt obliged to negotiate "opt-outs" for the UK from the proposed single currency and the social chapter. Within a few weeks, I had to wind up a critical debate for the Government on the social chapter (or protocol as it had become when it was removed from the main

body of the Maastricht Treaty at our insistence). I confess now that I felt very uncomfortable. I knew how disappointed our friends in Germany were with our refusal to sign up to the whole package at Maastricht, but I knew also, thanks to the marvellous lines of communication that Ludger Eling and the Adenauer Foundation had established, that our German allies at least understood the difficulties we were in and had no desire to exacerbate them for us in any way. Nonetheless, there was no disguising the strength of feeling about the way in which the Conservative Party, which had taken us into the EEC in the first place, appeared to have turned its back on Europe. The Government lost that day and we were forced into a vote of confidence 24 hours later. It was arguably the death knell of the Major Government.

A more amusing episode from my time as Secretary of State for Employment does not involve Cadenabbia as such, but it demonstrates how the crucial influence of the Konrad Adenauer Foundation extends far beyond the confines of even so distinguished a location. It came when officials were preparing me for my first ministerial meeting in Brussels. I was told that I must not expect to meet my German opposite number, Norbert Blüm MdB, because he was in the habit of sending his deputy for these meetings. This seemed odd and I enquired further. Under pressure, my officials informed me that Norbert, who had held the office of labour minister since Helmut Kohl had first been elected a decade before, hadn't attended a single one of these meetings in some four years and none of my predecessors had ever clapped eyes on him. Neither had any of the civil servants. The Konrad Adenauer Stiftung had made me proud of my excellent links with CDU/CSU colleagues, however, and I was determined that this situation must not be allowed to stand. One of my senior officials actually bet me that I would never manage to meet Norbert, and that was a red rag to a bull. I put my special adviser, Michael McManus, a German speaker, onto the case. He discovered from Ludger Eling that the CDU were planning to hold a special pre-election conference in Hamburg the following February and, after some lobbying on my behalf, Michael succeeded in eliciting an invitation for him and me to attend as fraternal delegates from the Conservative Party.

On a frozen late winter's day, we flew to Hamburg's beautiful new airport and were whisked off to the conference centre. We listened to a couple of sessions, while Ludger drew on all his diplomatic skills to get at Norbert Blüm, who was ensconced on the

platform. At tea-time we met at last and got on like a house on fire. Indeed Norbert even invited me back onto the platform with him. Ludger took a series of photographs of the two of us together there, one of which was circulated throughout the Department once we returned, to general amazement. It was a real moment of history – all thanks to the good offices of the *Stiftung*. On a more sober note, the conference itself was deeply impressive, demonstrating how even a party in government can re-mint and reinvent itself, replacing tiredness with energy and staleness with freshness. The trip was hugely worthwhile: I was deeply impressed by the evident determination of the CDU leadership to hold onto the reins of power. I was also pleased to have got one over my civil servants by meeting Norbert, though I did decide against causing a minor scandal by donning the CDA lapel pin he had given me when I next went to Cadenabbia.

I returned from Hamburg to London reinvigorated and attempted to spread this message to various of my ministerial colleagues, suggesting that the Conservative Party might attempt something similar. There was no response. Perhaps, though I had not apprehended it myself, there was already something of a death wish plaguing the party by then. When the patient is already preparing to die, there is little point in attempting to discuss possible treatments with him. A look at the agendas for Cadenabbia in the mid 1990s shows how both our parties were coming slowly and painfully out of denial about the period in opposition we would soon all be facing. We pushed back the evil day in 1992, as Helmut Kohl did in 1994, but 1997-98 ushered in dark times for us all. Looking back to that period when the British Conservative Party gave up the ghost but the CDU pulled itself together for one more stint in government, I think the new policy platform adopted in a freezing-cold Hamburg in February 1994 really does stand up amazingly well today.

It was the occasion on which the party opted for an "ecological" as well as "social" market and I'm convinced the Conservative Party in the UK must sooner or later follow suit. We need to re-state the "social" in order to give the lie to suggestions that we are all about selfishness and don't believe in society; and, faced with a predominantly urban Labour government that seems positively determined to ruin our countryside, we need to be far more "ecological" in our outlook. After all, if we are supposed to be Conservatives, then it's important that we have a least some policies that would involve conserving something. I also think we

should learn something from the clear philosophical approach that underpins CDU policy:

"Our community exists on the foundation of spiritual principles which are neither self-evident nor secured for all time. It is the special, self-imposed responsibility of the CDU to protect and strengthen the essentially Christian basic values of our liberal democracy. This fundamentally differentiates us Christian Democrats from socialist, nationalist or liberalist ways of thinking. The basis and orientation of our political dealings are the Christian understanding of humanity and the those basic values, such as freedom, solidarity and justice, which derive from it. Our fundamental values support and define each other. They are indivisible and valid regardless of national frontiers. We must always be ready to re-evaluate them, ensuring they are relevant to the political challenges of our time.

As a socially responsible being, the individual is able to take decisions and act in a reasonable and responsible way. It is the task of politics to ensure that the individual has the necessary freedom. Freedom encompasses both rights and responsibilities. He who demands freedom for himself must recognise the freedom of his fellow citizens. The liberty of the individual finds its boundaries in the freedom of others and in the shared responsibility for future generations and for the protection of creation".

The policy lessons we have been able to exchange at our Cadenabbia meetings were not academic abstractions. I like to think all of us are serious and practical politicians, who would have had little or no interest in a mere talking shop. Our discussions have played a crucial part in taking forward our shared values in Government. In the early years it was perhaps those of us on the British side of the table who had more lessons to pass on. We had three more years' experience of government and we were already into the pre-election autumn of 1982 when Helmut Kohl swept the SPD from office. By the time of the first British-German Round-Table meeting, we had been in office for five years and had already been handsomely re-elected once, with an increased majority. For a decade it seemed as though both our parties had discovered a form of political alchemy as we watched the social market economy flourish in Europe while state socialism collapsed. By the end of the 1990s, however, we were concerned not

with the immediate problems of government, but with how to turn ourselves into effective parties of opposition. In the spring of 2000 a joint working party of Conservative and CDU politicians and academics produced a discussion document "A New Constitution of Liberty and Responsibility – Political Principles for a Social Market Economy", under the auspices of the Adenauer Foundation. It provided the basis for some of the most interesting sessions we have ever had at Cadenabbia. I won't claim that "the recovery started there", but we did all head for home with a renewed sense of purpose and unity. We felt better about ourselves and our parties.

Perhaps the most important section in that document, which was enthusiastically received by the "Cadenabbia gang", was the powerful restatement of the connection between economic liberty and social and political liberty that lies at the very core of the social market ideal. Whatever Tony Blair and Gerhard Schröder may proclaim, I remain convinced that this insight, this ideal even, belongs fundamentally to the parties of the centre-right. To quote the pre-amble of that important document:

"Perhaps the clearest distinction between our parties and the Third Way is our belief in the intrinsic connection between political and economic liberty. We believe that the social market economy is not merely a source of economic efficiency ... [it] is the foundation on which the politics of liberty and responsibility are built".

It is possibly rather disreputable of a politician to quote himself or herself, but I was inspired a decade ago by our Cadenabbia Round-Tables to commit some of my own thoughts to paper, in the shape of a pamphlet, *Right Ahead*, which was published by the Conservative Political Centre. It inspired Ralph Harris into a protracted denunciation and it prompted Joe Rogaly, one of the few leading journalists of that time to wish the Major Government well, to proclaim that "it should be read". Even if I say so myself, it wasn't a bad bit of work, though the task of formulating a lasting synthesis of German Christian Democratic thinking with whatever the Tory Party is endorsing has not got any easier with the passing of the years. I think I would still feel pretty comfortable with the broad conclusions I drew back then:

"The great insight of the first Christian Democrats to endorse the social market economy was that those people who are economically active and make a success of their lives are the

very people who contribute most to community life too, through providing jobs and opportunities and through voluntary work and other positive activities. Successful capitalism does *not* breed selfishness ... we rule by consent, we are of the people, and we must always show how our policies go with the grain of the people, offering practical answers to their needs, their fears and their aspirations – whoever they are, wherever they live and whatever their background.”

I like to think that these sentiments belong in the absolute mainstream both of the best traditions of the Conservative Party and of the Christian Democratic tradition which has flourished in the past 60 years, bringing such success to mainland Europe. Under William Hague, Iain Duncan Smith and Michael Howard, British Conservative MEPs have worked closely with their EPP colleagues right across the board (though they have never taken the plunge and actually joined up) and I think the era of globalisation, with its accompanying challenges in the fields of migration, economics and the environment, has brought us closer together. We have never become full members of the EPP family in the European Parliament – our different histories have left us with a tricky legacy in terms of our parties' respective positions on that knotty old issue of European integration – but, through Cadenabbia and the good work of the Konrad Adenauer Foundation, we *are* family in a much more important way – friends and family.

The international work of the Konrad Adenauer Foundation has been an absolutely fundamental part of its mission from the very beginning. As I understand it, work outside Germany accounts for a round half of the foundation's total budget and, if my own experience is anything to judge by, that is money well spent. For over twenty years, the foundation's office in London has played an absolutely central and fundamental part in the political life of our capital city and the likes of Ludger Eling, Bernhard Lamers and Thomas Bernd Stehling have all done sterling work (no pun intended) in improving the relationship between our two countries – indeed more, perhaps, than any of our leading politicians can claim to have done. Konrad Adenauer, Ludwig Erhard, the CDU/CSU, the Foundation – all represent enlightened, mainstream German thinking at its best and its most effective. As we rightly celebrate the twentieth anniversary of the British-German Round-Table meetings, let us also celebrate the goals of the international work of the Konrad Adenauer Foundation more generally, which includes encouraging democracy and develop-

ment, promoting mutual understanding across national and cultural boundaries, providing help towards self-help, and combating the root causes of poverty and environmental destruction and contributing to peace and freedom on a truly global scale.



## Chapter 2:

Norbert Lammert

### The Myth which is Cadenabbia

Lake Como is a tradition-rich centre of European civilisation. The contribution made by this region to art and cultural history goes back many centuries. Numerous poets, artists, architects and musicians from all corners of Europe, together with leading figures from business, academic, church and political circles, have lived and worked here, either temporarily or permanently: Leonardo da Vinci, Giuseppe Verdi, Stendhal, Lord Byron, Franz Liszt, Hermann Hesse, the physician Alessandro Volta, art patron Heinrich Mylius, the German-Italian Vigoni family and the Brentano family of merchants.

For many decades, Cadenabbia was a small, charming, but little-known place on Lake Como. Cadenabbia's fame was increased by Konrad Adenauer who transformed it into a magnet for visitors during his time in office through his legendary vacations here. It has now almost become a political myth, less so for Italians than for the Germans and the British.

### Meetings of German and British parliamentarians

In the beginning there was Helmut Kohl. Or Ludger Eling. Upon close inspection, both. At any rate, the admirable tradition of meetings between German and British parliamentarians is equally closely linked with the date when Ludger Eling took over as representative of the Konrad Adenauer Foundation in London in 1981 as with the beginning of Helmut Kohl's chancellorship the following year. The Chancellor's suggestion that contacts in particular between younger parliamentarians from the CDU and the Conservative Party should be cultivated and intensified stemmed not only from the realisation of the usefulness of good German-British relations, but possibly also from the nature of the relationship between the German party leader and British Prime Minister Margaret Thatcher, which was, from the outset, rather strained. In 1983, the first meeting of hand-picked parliamentarians from both countries took place in Bonn. The climax was an encounter with Helmut Kohl at the Chancellery. Kohl's suggestion for a "Christian-Democratic Königswinter", inspired by the Ger-

man-British talks organised by the German-Anglo Society since March 1949, developed in a way which could not have been predicted at the time, but was certainly desired, into regular annual meetings in Adenauer's holiday villa on Lake Como. This tradition is now twenty years old.

The meetings were attended by a variety of young party hopefuls from both countries. They were familiar with history, but had not suffered personally as a result of the injuries inflicted by both sides. They were, and remain, interested in a joint future.

Alongside the political situation in Germany and the United Kingdom, the talks frequently centred on Europe and its perspectives for development, a subject on which opinions often did not concur. The two countries' relationships with Europe had been shaped in quite different ways by contemporary history: Germany was able to profit from its inclusion in the process of European integration to rebuild its economy, its political sovereignty, its moral reputation and, finally, its national unity. The UK, on the other hand, was still grappling with the relinquishment of its leadership role in the Commonwealth and was able to warm to the idea of an important, but not dominant, member of a Continental European community.

Since reunification, Germany has become the largest member state of this European community; its vital national interests have been secured and full political sovereignty achieved – thanks, amongst other things, to the partnership and friendship which unites Germany and the UK and of which the meetings of German and British politicians in Cadenabbia have become an established part, as Federal Chancellor Kohl wrote in his message of greeting for its tenth anniversary: "the German-British meetings of parliamentarians have helped to build up an exemplary network of contacts, which prove their worth in particular in difficult times".

The beginning of the meetings was facilitated in part by personal ties which already existed, such as those between Volker Rühle and David Hunt, who already knew and admired one another from their cooperation in the working group linking the Christian-Democratic and Conservative youth associations of Europe, the "Conservative International".

One of the initial achievements of the meetings of German and British parliamentarians was the consolidation of relations be-

tween the two parties in a framework of personal ties and trust; these strengthened relations took on increasing significance as members of the circle from both sides assumed important party and government offices over the years: David Hunt, Chris Patten, Volker Rühle, Matthias Wissmann, Angela Merkel, Lynda Chalker, Christine Lieberknecht, Arnold Vaatz, Ludolf von Wartenberg, Peter Hintze, Ian Taylor, William Waldegrave, Virginia and Peter Bottomley, Kenneth Clarke, David Curry, and many others. Over a considerable period, this not only shaped and facilitated relations between the two parties, but also occasionally government contacts, in the European Councils of Ministers, for example, during a significant part of the CDU/CSU's time in office. It is questionable whether the British Conservatives would ever have joined the European People's Party Group in the European Parliament had it not been for these personal ties established in Cadenabbia, indeed it seems unlikely that this would have been the case. And had relations not been thus cultivated, Prime Minister John Major would certainly not have uttered such positively euphoric words on bilateral party relations as he did in 1991:

*"The Conservative Party already enjoys immensely warm and profitable relations with the CDU. It is a special kind of relationship, closer I think than with any other party. Politicians of my generation know our Christian Democratic colleagues well. Much of the credit for this belongs to the Konrad Adenauer Foundation. In the ten years the Foundation has been in London it has become part of our Conservative political family. We value its work enormously (...). As like-minded parties we can achieve great things together in Europe and for Europe. Our MEPs co-operate ever more closely in the European Parliament: I would like to see that relationship develop further."* (The Evolution of Europe, Speech to the Konrad Adenauer Foundation in Bonn on 11 March 1991).

One of the essential factors which contributed to the success of the meetings was the unique atmosphere of a landscape which was formed in the Ice Age, but radiated an inspirational beauty and warmth capable of transforming the most austere of conferences into a feast for the senses. Joint games of boccia, evening concerts performed by members of the Milan Scala, high-spirited boat trips on Lake Como: all of this helped create an environment which strengthened feelings of solidarity, even when opinions on policy issues differed. Furthermore, trust was nurtured, for in discussions in Cadenabbia, participants were able to reveal

chinks in their party's armour without reservations, a need to protect themselves or the fear of being quoted in the media in their home countries. Participants were frequently more open, direct and authentic in describing the political situation in Germany and the UK during Cadenabbia, than they would have dared to be at home. This meant that, often, in the ensuing debates, the Germans made more precise recommendations for the strategy which the Conservative Party ought to adopt than they had for their own strategy, whilst the British participants did the same for the German side – an interesting division of responsibilities – in particular when the General-Secretary of the CDU or the Conservative Party Chairman was amongst those present.

Ludger Eling, who played a central role in initiating and developing these meetings, represented the Konrad Adenauer Foundation brilliantly in London for a whole 16 years, making him a rare and positive exception to the general rule. The farewell ceremony hosted by the British Chancellor at 11 Downing Street for the highly decorated Eling was attended by half the British cabinet, along with numerous Members of the House of Commons and House of Lords, of whom many had become personal friends. These friendships had developed partly as a result of Eling's skill in selecting participants for the meetings of parliamentarians. There was a saying that "Ludger picks the winner", for he had regularly succeeded in selecting British Cadenabbia participants later to be found in important party and government offices. The existence of a cause-and-effect relationship, though not proven, is taken as read by the participants.

In 1997, Bernd Lamers succeeded Ludger Eling as London representative of the Konrad Adenauer Foundation. During his three-year term in office, Lamers also invested an equal amount of energy in the Cadenabbia meetings. During this time, it became obvious that UK policy under Blair was shaped by similar doubts about further steps towards political integration to those which existed in the policy of previous British governments – at any rate doubts about deeper cooperation are generally expressed more openly than the belief in the necessity of such cooperation.

Thomas Bernd Stehling, in turn, took over from Bernd Lamers the agreeable but challenging task of bringing together British and German parliamentarians to discuss paths for the UK "at the very heart of Europe" (John Major, 1991). Stehling, introduced new ideas and approaches and showed the same commitment as his

predecessors to this project, one which has not been made any easier to manage as a result of changed circumstances: neither the Conservatives nor the Christian Democrats were in government and the closer the idea of a united Europe has come to being achieved, the more it has lost its popular appeal, at least in comparison with the early years in its development. The "United States of Europe" which Winston Churchill called for in his 1946 Zurich speech and from which Harold Macmillan formally distanced himself when the UK first applied for EEC membership in 1961, was also removed from the German party programmes many years ago. This means that bilateral relations between large EU Member States in particular now take place in a changed, but probably more important, context.

Today, almost fifty years after the signature of the Treaty of Rome and over thirty years after the UK's accession to the European Union, we have moved further forward politically than we imagined at the time, yet not as far as is necessary for the future. The EU is larger than ever before, but not necessarily stronger. Its economic strength is as unsatisfactory as its institutional structure is controversial. Following the European elections 2004 and the signing of the Constitutional Treaty for Europe by the heads of state and government, German-British relations once again take on particular importance. The words of Helmut Kohl in his message of greeting for the 10th Cadenabbia meeting still apply today: "So long as consensus exists on the vital questions of our joint security and our joint responsibility for peace, freedom and prosperity in Europe and worldwide, differing approaches to and positions on the odd individual question are no reason for the kind of bleak prognoses on the future of European integration which appear to be coming back into fashion."

Cadenabbia isn't a fashion – it's a cult. When Vittorio, the only Italian present, long since adopted by both the Germans and British, performs, with his inimitable charm, the role of impresario and master of ceremonies, Peter Bottomley takes up his flute and floods the magnificent park of the Villa Collina with enchanting melodies, Robert Jackson sings romantic songs by German composers, accompanied by his wife on the grand piano, Chancellor Kenneth Clarke turns his skilled eye to events around the world and in the UK, a defence minister like Volker Rühle feels so at ease as to dispense with his bodyguards, Elmar Brok holds forth on the historic nature of the European integration process, British colleagues (whose names have naturally slipped my

mind...) complain of their own government's narrow-minded approach to Europe, German and British participants embrace each other enthusiastically outside the conference room, proclaiming that their concept of "modern conservatism" is the true core of the new Europe: we know this has to be Cadenabbia. A myth. Forever.



**Part II:  
Parliamentarians speak**

**Domestic and International Challenges  
for Britain and Germany**





## Section II.1. Domestic Challenges



## Chapter 3

David Curry

### Devolution in the United Kingdom

Britain has become a quasi-federal state. Since it came to power in 1997 the Labour Government has created national legislatures in Scotland, Wales and Northern Ireland and has created a London government under the leadership of a directly-elected mayor. As part of the constitutional agenda it has removed all but 92 hereditary peers from the House of Lords. Further progress on this agenda is hampered by the conflict between the advocates of a directly-elected second chamber and the proponents of an entirely nominated chamber (and enthusiasts for various points between the two.)

In parallel with formal devolution there is a process of administrative regionalisation. The nine English Government Offices for the Regions crown this edifice – in fact the creation of the previous Conservative Government seeking to bring the various departmental offices under one roof as a "one stop shop." Each region has a regional development agency and regional bodies with strategic and consultative responsibility for, variously, planning, waste, transport, learning and skills. Fire and Rescue services have joined the list of bodies subject to regional strategic supervision but in all cases the ultimate decision-taking authority remains with the Government. Nonetheless the "creeping regionalisation" is under attack both from local authorities from which some of the strategic powers are drawn and residents and community groups who complain about the role of non-elected quangos.

Devolution in Britain is asymmetrical. There is no standard model. The Scottish Parliament and Welsh Assembly resemble each other only in being unicameral chambers elected by the additional member system of proportional representation. Westminster retains important "reserve" powers in the case of Scotland and all legislative competence in the case of Wales.

The assemblies have brought a new politics to the UK. The construct of the Northern Ireland assembly is deliberately intended to require a power-sharing executive representing the main unionist, nationalist and social democratic strands of political allegiance. Scotland has been governed by a Labour-Liberal coali-

tion since the formation of the Parliament; Wales by coalition or a minority Labour administration.

The new politics have, inevitably, left some ragged edges between Westminster and the devolved parliaments. Most political argument has revolved around the role at Westminster of MPs from parts of the UK where powers have been devolved to national assemblies. Scottish MPs at Westminster, for example, can vote on policies for England when they have no say on exactly equivalent matters in Scotland – dubbed the West Lothian question. The Government has responded by reducing the number of Scottish Westminster constituencies in the 2005 general election. The Conservative Party argues that a constitutional issue inevitably arises when a policy which will apply in England but not in Scotland is carried against the majority vote of English MPs. It is suggesting a system whereby the Speaker would certify which matters were of purely English interest and where, in consequence, Scottish MPs would not vote. The problem here would be the definition of a “purely” English interest. If English universities charge “top-up” fees is the knock-on effect on Scottish universities with no such powers a legitimate Scottish interest?

One of the main arguments used by Labour MPs representing Welsh seats at Westminster against granting more powers to the Welsh Assembly is that it would mean a scaling down of Welsh representation in London. The issue has delicate implications for Northern Ireland where the British Government remains the guardian of the peace process with the power to suspend the devolved Executive and resume direct rule from London – the current situation.

There have been some unintended consequences of devolution. The Conservative Party, which voted consistently against devolution, came out of the 1997 general election without a single parliamentary seat in Scotland or Wales. In 2001 it won a solitary Scottish seat, in 2005 two seats. But thanks to the list element of the electoral system for the devolved assemblies it has achieved a political resurrection in both countries. The same system has forced Labour into coalition or minority government. Continental politics are perhaps being born in the devolved administrations of Britain!

The English response to devolution is un-finished business. The Labour Government originally proposed devolution to English regions and offered assemblies in the three northern regions. It

then decided to hold only one referendum in the North East due to public apathy and growing resistance from Labour MPs. The Liberal Democrats would build much stronger directly elected regional governments though some regions are either very heterogeneous in economic character (the South West for example) or lack in any real sense of coherence of identity (the South East.) The Tory policy of "English votes for English matters" may run into serious practical difficulties. The issue will only come to a head if a government can only be sustained in London by the votes of MPs from Scotland (since the Welsh Assembly has no legislative powers the same issue does not arise.) Even then it will only be relevant to issues subject to devolution and it may be possible to manage these through Parliamentary "understandings" which eventually crystallise into convention.

Policies are, of course, diverging. Scotland has always had its own legal system and distinct education policies. Now health policy is departing from the English direction and CAP reform of the EU will be implemented in different ways in the constituent parts of the UK. Even with powers over policy application as opposed to legislation the Welsh Executive is differentiating itself from its fraternal Labour Party in Westminster.

It is becoming more common to speak of the "nations" of Britain. The English may not identify themselves in political terms – demands for an English Parliament are still voices from the outer fringes of politics – but the sporting identity is gaining strength. The Football World Cup in Japan; the Rugby World Cup in Australia; the European Football Championships – all have seen the flag of St George remorselessly displace the Union Jack. God Save the Queen is now an English (and, depending on politics) a Northern Irish anthem but Flower of Scotland and, with more conviction, Land of our Fathers rule in Edinburgh and Cardiff respectively.

Even the most passionate nationalist would be hard put to claim that devolution has struck a deep chord of loyalty in the breasts of the Scots or Welsh. The escalation of the cost of the Scottish Parliament building from £40m to £440m is probably the best-known fact about devolution north of the border while the Welsh Assembly, which came into existence on a wafer-thin referendum majority (and, ironically, sits in a location which voted solidly No!) has won scant respect and little affection. The spirit of the age is one of scepticism about politics and cynicism about politicians.

No party is committed to un-doing devolution but there is no evidence yet that devolution will buck the trend of declining voter turn-out or political engagement.

Nonetheless the fact that devolution is irreversible shows how far we have come since the first attempt to create a parliament in Scotland crumbled with few tears shed in the face of voter indifference.

This chapter deals with devolution in Britain. Northern Ireland is excluded less because the sheer complexity of the background could command a volume in its own right than because the attempt to achieve a power-sharing executive in Northern Ireland must be seen within the long continuum of Anglo-Irish politics stretching back to Gladstone and beyond. It is separate from and different to devolution in the three nations of mainland Britain.

## **Scotland: a kind of independence**

At the beginning of this chapter I described the UK as a "quasi-federal state." It is important to understand what that term means. Britain is not creating a federal structure in the German sense. The German regional governments and parliaments enjoy autonomous constitutional legitimacy. The devolved parliaments in Britain do not. The Government's White Paper published in 1997 setting out its plans for a Scottish Parliament states: "The UK Parliament is and will remain sovereign in all matters: but as part of the Government's resolve to modernise the British constitution, Westminster will be choosing to exercise that sovereignty by devolving legislative responsibility to the Scottish Parliament without in any way diminishing its own powers."

This is crucial constitutional doctrine. Westminster endows the devolved assemblies with power; they exercise authority by grace of Westminster; and Westminster can draw back those powers if it wishes to. In practice devolution is irreversible in any foreseeable circumstances – hence the designation quasi-federal.

Scotland and England have had a common sovereign since James VI of Scotland ascended the English throne on the death of Elizabeth I in 1603. Elizabeth had ordered the execution of his mother Mary Queen of Scots: it was, perhaps, Scotland's revenge to provide England with probably the most incompetent dynasty ever to rule over it – the Stuarts.

In 1707 the Act of Union brought (or, perhaps, more accurately *bought*) a single parliament. From that date to the end of the 20<sup>th</sup> century Scotland furnished the UK with nine of its 51 prime ministers, provided disproportionately the soldiers and colonisers who conquered an empire on which the sun never set, and more than its share of the engineers and scientists who fuelled the industrial revolution.

Devolution has a long pedigree. In the decades up to the First World War Liberal governments sought to quell rebellion in Ireland (and deadlock in Westminster) by providing "Home Rule" for Ireland provoking Unionist revolt in Ulster. The 1916 Easter uprising in Dublin furnished Irish nationalism with its necessary heroes and myths. Independence for the southern (Catholic) counties of Ireland followed in the early 1920s and was the occasion for a bloody civil war.

It is easily forgotten that a Scottish Home Rule Bill had passed its second reading before being overtaken by the war. One of its sponsoring MPs was the Liberal member for Dundee – Winston Churchill. This was the period when the "white" imperial possessions – Canada, Australia, New Zealand and South Africa – were obtaining self-rule over internal matters and at least rights to be consulted over imperial policy in the shape of Dominion Status. The notion of devolution within the UK sat relatively comfortably with that concept except in the violent political and social circumstances of Ireland. A form of administrative devolution for Scotland had already been established in 1885 when a Scottish Office, headed by a Cabinet minister, was created as a department of UK Government assuming responsibility for many of the issues which in England and Wales were dealt with by Whitehall departments like health, education, justice, agriculture, and fisheries.

The issue of devolution began to emerge again in the 1970s when the Scottish National Party began to threaten the traditional Labour hold on Scotland. The Labour Government of James Callaghan – already in its death throes in 1979 – held a referendum on the creation of a Scottish assembly. Opponents of the project had managed to insert into the legislation the requirement that, to be valid, the Yes vote had to represent 40 per cent of the Scottish electorate. In the event the Yes vote mustered only 33 per cent and the devolution momentum drained away. Prime Minister Thatcher, entering office in 1979, had no time for devolution, but the Conservative Government's economic re-



forms and refusal to bail out "sunset" industries caused a haemorrhage of electoral support leading to the loss of every single Tory seat in Wales and Scotland in 1979.

In 1989 Labour, and Liberal Democrats, together with representatives of civil Scotland – churchmen to the fore – came together in a Scottish Constitutional Convention to draw up a blueprint for a directly elected Scottish Parliament with wide legislative powers. The Scottish National Party ended up supporting the broad proposals as a stepping stone to its ambition for total independence. The convention's proposals, published in 1995, formed the basis of the White Paper published by the incoming Labour Government in 1997.

A referendum took place on September 11, 1979, exactly 700 years to the day from William Wallace's victory over the English at the Battle of Stirling Bridge – one of the rare Scottish triumphs in the long history of Anglo-Scottish conflict. The referendum posed two questions: "should there be a Scottish Parliament?" and "should the Parliament have tax-varying powers?" On a turnout of just over 60 per cent 74.3 per cent voted in favour of a Parliament and 63.5 per cent in favour of allowing the Parliament to increase or decrease the basic rate of tax by up to 3 per cent.

Following the passage of the necessary legislation in Westminster the Scottish Executive and Parliament were convened on July 1, 1999, a date which marks the transfer of powers in devolved matters previously exercised by the Secretary of State for Scotland and other ministers to Edinburgh.

Westminster retains specific "reserved" powers, of which the most important are constitutional matters, foreign policy, defence, Britain's EU functions, macro-economic policy and taxation, overseas trade, employment and social security policies, energy, immigration and nationality, most transport matters and broadcasting. The devolved powers embrace health, education and training, local government, social work, housing, planning, economic development and financial assistance to industry local transport, law and home affairs, the police and fire service, the environment, agriculture forestry and fishing and sport and the arts. A Memorandum of Understanding asserts the authority of Westminster to legislate on any issue, devolved or not, but accepts the convention that it would only normally do so with the consent of the devolved parliaments.

Inevitably, policy areas cannot be isolated with clinical precision. National ministers consult their devolved counterparts on issues where establishing a common view makes sense – for example, the UK position on European issues. Individual departments have negotiated "concordats" with the devolved administrations under an over-arching Memorandum of Understanding. So a non-statutory framework of practical co-habitation is growing alongside the formal framework. On top of that there is formal machinery for joint discussions under a Joint Ministerial Committee.

The devolved administrations are largely funded by block grant from the UK Government. In the case of Scotland increases to the block grant have been determined by a formula devised in 1978 and christened the Barnett formula after its author. It applies to Scotland a proportionate share of any increase (or decrease) in comparable English spending programmes based on population shares. The practical effect is to ensure for Scotland a higher per capita share of public spending than England – a cause of constant grievance within England which none of the national political parties has yet shown any inclination to address for fear of jeopardising Scottish support.

Scotland has a Parliament of 129 members (MSPs) of whom 73 are constituency members elected by first-past-the-post with seats exactly (with two exceptions) co-terminous with Westminster constituency boundaries elected by first-past-the-post and 56 drawn from on regional lists. The 2005 British general election saw the number of Scottish Westminster MPs reduced to take account of devolution.

Elections are on a four-year fixed term basis and the Parliament operates a four year sessional sitting cycle rather than the annual cycle used at Westminster. It has an 11 strong ministerial executive under a First Minister but, unlike Westminster, the committees perform both scrutiny and legislative functions since they can prepare and introduce their own bills.

The election results show just how different the voting system has made Edinburgh from Westminster. Labour dominates the constituency section of Parliament. In 1999 it took 53 of the 73 seats, a total topped up to 56 from the regional list. The Scottish Nationalists came second, but 28 of their 35 MSPs owed their election to the list. The Liberals, traditionally strong in the western and northern parts of the country, garnered 12 constituency

seats and 5 list members. The Conservatives managed no wins at all in constituencies but owed their entire strength of 18 to the list. With no party large enough to govern alone Labour formed a coalition with the Liberal Democrats which has proved durable if not always harmonious whilst the Conservatives and Scottish Nationalists – very unlikely bedfellows – have co-operated informally in opposition.

The second elections took place in May 2003. Labour gained 35 per cent of the constituency votes (46 seats) and 29 per cent on the list (an additional four members). The Conservatives won their first constituency seats (3) but remained at 18 overall while the Liberal Democrats also remained unchanged gaining one constituency seat and losing one list MSP. The Scottish Nationalists had a bad day dropping to 27 MSPs overall as their decline in vote bit into their list entitlement. The Scottish Socialist Party, entering the fray to re-assert the national Socialist tradition against Labour's broad social democracy owed its 6 seats to the list whilst the Greens collected 7 list MSPs.

Scottish and English policies increasingly diverge. In the first Parliament the two strikingly distinct Scottish policies were the abolition of university tuition fees (there will be no top-up fees either) and the provision of free personal care for the elderly. In the current Parliament the Executive has agreed in principle to introduce proportional representation for local government (the single transferable vote in multi-member constituencies). Scottish schools have never been faced with the demands for testing English-style. The single farm payment will be applied differently than in England under the EU's CAP reform. Scotland will not create "foundation hospitals" (partially independent) on the English model: indeed, the Scottish Executive shows little inclination to follow the Labour Government's move to introduce more market mechanisms into public services under the banner of consumer choice.

Devolution to Edinburgh had long roots in Scotland's distinct sense of national identity and more immediate origins in Labour's fear that its traditional hegemony north of the border was under assault from the Scottish Nationalists. The Nationalists continue to argue that full independence could bestow the sort of benefits that Ireland has enjoyed with its role in the EU and "Celtic tiger" economic status. But the party seems, for the moment at least, to have lost momentum and is finding it difficult to con-

vert from the party of protest to the role of parliamentary opposition. The Liberals have tasted government for the first time in well over half a century but, ironically given the traditional Liberal advocacy of proportional representation, have not done as well from it as they might have expected. In particular Liberal voters have been willing enough to vote for the party in constituencies but have strayed on the vote for the list. The Greens stood in no constituencies but based their campaign entirely on urging the electorate to give the party their second (i.e. list) vote.

Nor has Labour particular cause for rejoicing. The PR system has made it possible for Nationalist or Socialist MSPs to range over Labour-held constituencies waging guerrilla war against its strongholds. Obligated to govern in coalition, Labour has sought to differentiate itself from the UK Government.

The biggest winner in absolute terms is the Conservative Party – that most inveterate of all opponents of proportional representation. PR has given it life after death. Annihilated in 1997 it has re-branded itself as the Scottish Conservative Party and is comfortable in the role of opposition. In the 2001 general election it won one Westminster seat, in 2005 it managed to win two – hardly a triumph but at least a new beginning.

What happens next? In the medium term there is at least a possibility that the electoral system will change so as to eliminate the list system. It is unpopular with Labour MSPs in Edinburgh and with Scottish Labour MPs at Westminster because of the political marauding it allows to parties of protest. A single transferable vote in multi-member constituencies would preserve the proportional system within the constituency framework.

## **Wales: a modified dependence**

When the Scottish Parliament came into existence it could be argued that Scotland was simply reclaiming a political nationality which had never been extinguished. The same could not be said of Wales. The Welsh Assembly stuttered into existence and has limped along in the face of public indifference and scepticism about its activities. There are three main reasons for this: the bare legitimacy of its birth; the deficiency of its powers; and the pretty unremitting hostility of the Welsh establishment in the shape of its Westminster MPs.

Wales had been governed from London since the end of the thirteenth century when King Edward I subjugated a country which had, until then, been a half conquered land under the Norman and Angevin kings. The Statute of Rhyuddlan codified the settlement and saw the imposition of English common law in the principality on all matters except land claims. The great string of Plantagenet castles – Beaumaris, Caernarfon, Conway, Harlech – formed a ring of stone to hold down the conquered principality. English settlers, enticed by free land grants and the jurisdiction of their own law, brought the authority of the English church. Edward arranged for his son to be born in Caernarfon and the future Edward II became the first Prince of Wales in 1301.

Wales was formally brought into the Union by two acts passed in 1536 and 1542 under Henry VIII. Amongst other things they forbid the use of the Welsh language in the administration of the country. In 1746 an act of Parliament stated that that any law passed by Parliament that referred to England automatically included Wales. It remained law until 1967.

As in Scotland, the Callaghan Government held a referendum on devolution for Wales. The country voted NO by 956,330 votes to 243,048.

The industrial changes of the Thatcher years saw the demise of the Welsh industrial heartland based on coal and steel. The only challenge to the virtual one-party Labour monopoly in Wales was Plaid Cymru, the Welsh Nationalist Party. But although a Campaign for a Welsh Assembly was formed the Welsh Labour Party would have nothing to do with it and established instead its own policy commission. The Government set out its plans for Welsh devolution in July 1997 and held a referendum on September 18, 1997, one week later than the Scottish referendum.

In a turnout of just 50 per cent 559,419 voted for an assembly and 552,698 against – a majority of 0.6 per cent. The consequent legislation provided for an Assembly of 60 seats, two-thirds elected in constituencies and 20 from regional lists. In the 1999 elections Labour won 28 seats, all but one in constituencies, Plaid Cymru 17 including 9 constituency wins, the Conservatives 9 of which 8 were list seats and the Liberal Democrats 6. Fewer than half the electorate voted. Labour sought to govern as a minority party under a leader condemned as a London placeman but was defeated in a vote of no confidence and he resigned. It was re-

placed by a Labour-Liberal coalition under a First Minister and eight other portfolio holders.

The second set of elections in 2003 saw a turnout of just 38.2 per cent. Labour gained two seats to hold exactly half the assembly total – all in individual constituencies. Plaid Cymru slipped to 12 and saw its share of the vote fall by 9 per cent mirroring the decline of the Scottish National Party. The Conservatives edged up to 11. Labour has formed a one-party administration.

The Welsh Assembly is a pallid body compared with the Scottish Parliament. It does not have full law making powers and cannot initiate primary legislation. Ministerial powers and functions over secondary legislation have been transferred to the Assembly. The Assembly delegates the executive powers to the First Secretary, who appoints a "cabinet" from the Assembly and these members sit on the relevant subject committees which have a policy-making and scrutiny role. From the beginning, then, the notion of executive and parliament is much more blurred than in Scotland even though the tendency has been to try to establish a clearer identity as the Welsh Assembly Government by separating legislative and executive functions and promoting the scrutiny power of backbenchers. There is no bar on the First Minister or cabinet members holding ministerial office in a UK Government.

The legislation setting up the Assembly also shows starkly the differences with Scotland. Whereas the legislation for Scotland listed the powers reserved to London, the Welsh act lists the responsibilities devolved: agriculture and fisheries; culture; economic development; education and training; environment; health; highways; housing; industry; local government; social services; sport and tourism; town and country planning; transport; water; and the Welsh language. The Assembly exercises its power by passing subordinate legislation made under an Act of Parliament.

So whereas the Scottish Parliament can make Scottish law the Welsh Assembly can only apply Westminster law. This is not to dismiss the role of the Assembly, but it does mean that Welsh administrations define themselves more by differentiation from the policies of the Labour Government in London than by creating an autonomous programme. So Wales is resisting bringing new providers into public services. It has abandoned the English panoply of tests in schools; it has its own structure of CAP reform. And, like the Scottish Parliament, the Assembly has almost complete freedom over how to spend the devolved budget.

In July 2002 the Assembly set up a commission under Lord Richard of Ammanford (a former UK commissioner in Brussels) to review the scope of the Assembly's powers and the number and method of election of Assembly members. It reported in the spring of 2004. It recommended that Wales should have a legislative Assembly, preferably with tax-varying powers. To meet the tasks of handling primary legislation its size should increase to 80 members and the Assembly should be reconstituted as a separate legislature and executive. The electoral system should change to one of single transferable vote. Pending these changes – which should be in place by 2011 – the competence for delegated powers should be extended.

The report makes important points about the difficulties of depending on the UK parliament for primary legislation. While the Assembly had persuaded Westminster to pass the primary legislation necessary to meet its most urgent priorities the time the process took to deliver change was frustrating. Having to make arrangements for Wales was a complication for Whitehall departments.

The problem was particularly acute in Westminster where substantial policies for Wales initiated by the Assembly executive might receive little scrutiny: the UK Government timetabled all legislation in Westminster and opposition parties were unlikely to focus on Welsh affairs in the time they allocated to scrutiny of different parts of the bill concerned, especially if the bulk of it referred to England. Because "real-life" problems rarely fitted into the definitions of the devolved powers the executive had been pushing against the limits of its powers and whilst those close to government had got to grips with what the Assembly could and could not do it still represented a major barrier to real accountability to the people.

Such changes could only come about, of course, by Act of Parliament at Westminster.

The official response of the Welsh government is still to come. But the enthusiasm has not been contagious. The Assembly is caught in the classic problem of the chicken and the egg. It cannot, its partisans say, really establish its political legitimacy and identity without new powers. But, say its detractors, it does not deserve new powers until it has proved that it can discharge effectively its present role and win public esteem.

The Conservatives have taken cautious refuge behind the argument that any significant change to the Assembly's competence would have to be approved in a referendum. Plaid Cymru and the Liberal-Democrats reacted broadly favourably to the proposals. The real vitriol has come from Labour's Welsh contingent at Westminster. Already unsympathetic to the Assembly and the activities of its members the bulk of them oppose additional powers and additional Assembly members because it would have the inevitable and necessary consequence of cutting the number of Welsh Westminster MPs (as will occur in Scotland at the general election.) The heavy over-representation of Welsh (overwhelmingly Labour) MPs at Westminster could not survive the loss of Westminster's legislative role for Wales. It would be a brave – and perhaps foolhardy- government in Westminster which embraced the Richard conclusions. If ever there was a candidate for that most valuable of golfing metaphors – the long grass – this is it.

## The English patient

What is the English response to Scottish and Welsh devolution? Devolution has turned the UK Government into a de facto government for England in many respects. If Scotland and Wales have been endowed politically with a national identity, what about England?

One answer is that there is no need to invent a problem. There is no indication of burning English resentment: as the vast majority of the inhabitants of the UK they are confident and secure. Another is to argue the case for an English Parliament, but this remains the proposition of a tiny fringe and is fraught with practical difficulty given the disproportionate size of England within the Union.

The Government's response was to argue the case for directly elected assemblies in the English regions. The Liberal Democrats, long-standing supporters of devolution, supported this policy on the grounds that whatever modest beginning Labour managed to engineer would inevitably grow with time. The Conservatives opposed it, preferring to argue for the return of as many regional functions as possible to local government and for a slimming down of Government regional machinery.

The White Paper "Your Region Your Choice" set out the basis for elected regional assemblies. It outlined fairly minimalist assemblies of 30 – 35 members elected by proportional representation



on a single regional list with a broad over-view of planning, development and housing strategies but virtually no executive power. In order to counter the argument that this represented a new tier of government the Prime Minister pledged that if a regional voted for an assembly this would entail the abolition of two-tier structures of local government and their replacement by all-purpose unitary councils.

The Government took soundings to gauge the public appetite for assemblies and on the basis of what can only be described as a perfunctory response decreed that referendums would take place in the three northern regions – the North East; North West; and Yorkshire and the Humber. However, the first referendum on a regional assembly for the North East failed in November 2004. 77.9 per cent of the people voted No. The turn out was only 47.7 per cent. The two other referendums were subsequently cancelled.

The heart of the No campaign was to attack regional assemblies as adding a new tier of government, which is the case in areas already under unitary councils – between two thirds and 90 per cent of the population of the three regions. The assemblies, denied real power, would search for new competence, probably at the expense of existing local government whilst the elected members would have no discernible constituencies, no identity and no obvious accountability. Whilst the problems of the region were real enough, the assemblies would do nothing to answer them.

The Government's "public information" campaign rested on the proposition that taking strategic decisions locally will promote those policies which will narrow the economic divide between the regions and bring the legion of quangos under democratic control. It talked of regions taking control of their "destiny." The popular rejection was a blow to Deputy Prime Minister John Prescott – the real driving force behind regionalisation. But the overwhelming public response was one of apathy.

## **London: Mr Livingstone I presume**

If devolution to Scotland and Wales can be described as policy departures, London is very much a case apart. A political identity for London dates from the 1888 creation of the London County Council (LCC, excluding the Corporation of the City of London – the Square Mile of the financial quarter) with 137 members

governing 117 square miles. Its powers were limited – for example it had no power over Police or public utilities. It took over elementary education in 1905 though there were still 16 ad hoc bodies running services like Police, transport, the utilities and health. Meanwhile a lower tier of 28 boroughs were brought into existence in 1899. By 1939 the population of Greater London numbered 8.6m, and 20 per cent of the British population lived in it.

After much debate and a weighty Royal Commission the Greater London Council (GLC), taking London to its natural boundaries within the Green Belt, succeeded the LCC. An Inner London Education Authority assumed responsibility for education and the lower tier was reorganised into 33 boroughs.

The local elections of 1982 saw the Conservatives lose control of the GLC. Enter Ken Livingstone who, in an internal Labour Party coup, seized the leadership of the majority group. He took the GLC into heavy alternative politics – issue based activities which involved supporting causes as varied as IRA hunger-strikers, gay and lesbian groups, and striking miners. Unemployment figures were paraded on the façade of the grand GLC edifice immediately across Westminster Bridge from the House of Commons. In short, he set out to taunt the Thatcher Government. The era of the “loony left” council was born.

Mrs Thatcher was not accustomed to taking taunts in her stride. She decapitated the entire superstructure of London local government leaving in its place 33 all-purpose London boroughs. Mr Livingstone migrated to the House of Commons as MP for Brent East where he continued to practice alternative politics more to the discomfort of his own party than of the Conservative Government.

Labour came to power pledged to set up a strategic London authority. But it proceeded with immense caution – certainly tempted by nothing which could resemble the GLC. Its solution was to opt for a directly elected executive mayor with responsibilities for transport, economic development and Police (these competences took some time to devolve) and a Greater London Authority of 25 elected members.

The electoral arrangements put in place by the 1999 Act were complex. Voters pick a first and second choice for mayor, the second preferences being allocated until there is an overall winner. The boroughs are grouped into 15 first-past-the-post con-

situencies to elect the members of the Assembly with a second list vote to top-up the total to 25 (as for Scotland and Wales). So each elector has four votes.

The Assembly's powers are largely confined to monitoring the GLA budget which is funded by a precept on the council tax collected by the boroughs.

Re-enter Mr Livingstone. Livingstone has made London almost synonymous with himself – helped by massive mishandling by the Labour Party. So determined was the Labour Government to keep Livingstone out of the mayoral job that it put up its own candidate. Livingstone stood as an independent in the first elections in 2000 and galloped to victory taking 39 per cent of the vote on the first ballot against 27 per cent for the Tory candidate and a miserable 13 per cent for the hapless Labour candidate. With second preferences counted Livingstone took nearly 58 per cent against 42 per cent for the Conservative. Significantly the turnout was just a third of the electorate. Labour and Conservatives tied at nine seats each for the Assembly followed by Liberal Democrats with 4 and Greens with three.

Livingstone proved no less a sore in Labour's side as he had for Mrs Thatcher. Leaving aside his spectacular disagreements with the Government on matters of foreign and domestic policy (Iraq, the Middle East, health and education policy) he waged a long war against Gordon Brown over the latter's insistence that London Underground modernisation had to be funded through a public-private partnership – a battle Livingstone finally lost. His most high-profile action has been the introduction of a £5 congestion charge for traffic within inner London during the working day.

Relations with the boroughs have been difficult largely because of the size of the budget demand. He has also spoken of merging the boroughs into five super-authorities: not something within his power. Both running costs and staffing have increased whilst the Government Office for London still retains an important role.

There is a debate about whether the mayoral powers are adequate, with calls for the devolution of powers over local government funding, health, higher and further education and housing finance. Livingstone argues that it would be inconsistent for the proposed regional assemblies to have competences he lacks – for example, housing, funding for sport and the arts and neighbour-

hood renewal. But there is no sign that Labour is tempted by further devolution: indeed it has specifically rejected the idea of "piggy-backing" more powers for the London mayor on the legislation to set up the regional assemblies.

By the time of the second set of London elections in 2004 strange things had happened. Ken Livingstone had been readmitted into the Labour Party with the Prime Minister's praise tinkling if not ringing in his ears. His election literature required a microscopic examination to detect any mention of the Labour Party whilst his fierce opposition to the Iraq war and his helpful suggestion that the Saudi royal family should be strung up at the nearest lamp-post indicated that the independent had come to the help of Labour rather than the other way round.

In the event he was returned as mayor with a reduced majority over the Conservative candidate. In the Assembly elections the Conservatives held at nine members, Labour slipped to seven, the Liberal Democrats gained one to five, Greens were down one at two while the United Kingdom Independence Party won two seats, the latter three parties owing their representation to the list. The changes made it possible that Livingstone would face more opposition over his budget and development plans than in the first mayoralty. It is not expected that this situation will achieve Livingstone's metamorphosis into a shining light of Labour loyalism.

## Conclusion

Regionalism is a developing agenda in Britain. To what extent regionalism is accompanied by devolution is the key question. No party has declared that it will abolish Labour's new structures. A question mark sits over the future of regional assemblies – should they ever come into existence. The wider constitutional agenda, notably the future role and composition of the House of Lords, is still in the air. Britain remains a centralised state tempered with devolution. The tectonic plates of politics may not have shifted: there have been, nonetheless, a series of modest tremours. Since there is still no sign of Tony Blair delivering on his 1997 promise to reconcile Britain to an unequivocal engagement in Europe the changes in the governance of Britain may well stand as his eventual political legacy.

## Chapter 4

Roland Koch

### German Federalism and British Devolution: Two Sides of a European Debate

Within the member states of the European Union, the term "federalism" has different connotations. This is especially true of Great Britain and Germany. On the island, "federalism" is frequently used as a synonym for Brussels' inclination towards centralism and a European superstate. In Germany's political discourse, on the other hand, federalism is a familiar term which runs like a thread through the entire German constitutional history. It is also a symbol of the successful historical development of the Federal Republic of Germany after World War II, of cultural diversity and moderation. In Germany, federalism describes the relationship between the Federal Government and the Länder (Federal States) as formulated in the German Constitution, the 'Grundgesetz'. In this context, the term is used neutrally and indicates neither a pronounced federalist nor unitarian tendency. Federalism is a dynamic term. It describes a process between unity and diversity that helps to cope with the new challenges that the government is faced with, thereby contributing to a common identity. For this reason, the debate itself about German federalism and its British counterpart – devolution – is first of all a natural and necessary reaction to the challenges of change. This explains why the discussion has regained momentum with the largest expansion in the history of the European Union. In Great Britain, there is an on-going debate about the establishment of additional regional parliaments, and in Germany, a commission for the modernisation of the federal structure was set up in November 2003. As is known, it concluded in December 2004 without a result. However, the challenge remains. Among the core issues of these discussions are the relationship between citizens and the state, the legal balance between local authorities, the Federal States (Länder), the nation state and the supra-national unit as well as measures to safeguard livelihoods, the problem-solving competence of public agencies and – last but not least – competitiveness in an increasingly interlinked world. The terms 'federalism' and 'devolution' are the expression of an ordered system which exists between the various levels and, at the same

time, help contribute to the solution of existing problems; they are the subject as well as the object of political discourse. Based on my six-year experience as Minister-President of the Land (Federal State) of Hesse, I will be referring primarily to the German example, without, however, losing sight of the British debate.

The debate about German federalism and British devolution is inextricably linked to the experiences that the Germans and the British have had with their respective governmental systems, with nation and nation state to how they feel about handing over state sovereignty to a higher as well as a lower level. At first, it seems easier to find differences than common ground. Unlike Great Britain or France, Germany has no historically evolved centre. In Great Britain and France, the birth of the nation occurred at a time when Germany still had no political sense of togetherness whatsoever. The principle of federalism pre-dates both the German nation state and its modern state structure. Federalism was a feature even of the Holy Roman Empire in the late middle ages. Imperial reform has been attempted many times since the late 15th century. It was needed as – due to the complex territorial situation – it was impossible for the Empire or any single large territorial state to guarantee the preservation of peace and law within and without against feuds and to ensure self-help. The Holy Roman Empire's political ability to act was closely linked to the dualism of the emperor ('Kaiser') and the estates represented in the Reichstag (Imperial Diet). This was even truer of the development after 1648.

Above all else, the *ius foederis* was an expression of territorial sovereignty while the powers of the Empire were rather limited. In his treatise "De statu Imperii Germanici", published in 1667 under a pseudonym, Samuel Pufendorf undertook a scathing analysis of the state of the Holy Roman Empire, and, measured by Aristotelian theories on the different types of state, spoke of an "irregular and monstrosity-like structure"; in the course of time, through "the negligence of the emperor, the ambition of the princes and the machinations of the clergy", it developed "from a regular monarchy into such a disharmonious form of state", into a monarchy that was limited in appearance, but that was not yet a federation of several states. Pufendorf called this interim phase a "permanent source for the deadly disease and the inner revolution of the Empire" so that G.W.F. Hegel in his treatise on the Constitution towards the end of the Holy Roman Empire would use the image of a tree that had lost its fruit.

It was not until the time of the French revolution, when the Germans first prepared to become a nation, that political hopes in Germany were associated with the term "federal". The German national movement was never so centralist as to be against an ancient traditional and regional pride. However, the model of the German Federation, created without consulting the people and from the top down, clearly shows the lacking problem-solving capability of confederate organisations. The issue of a federal state versus a confederation of states therefore was the subject of long and passionate debates in the 19th century. The bitter controversies in the Frankfurter Paulskirche (St. Paul's church in Frankfurt) in 1848 have become part of our collective memory. The problems of the German Empire of 1871 partially stemmed from its constitution which, in theory, was based on a confederation of states, whereas in reality it was more of a federal state, with Prussia in a hegemonic position. To achieve the right balance between unity and diversity was a challenge to the Weimar democracy and continues to remain one for the political order of the 'Grundgesetz' (German Constitution). Unitarism cannot explain the rise of Hitler, but it is significant that the destruction of the federal order was one of the first steps taken by the National Socialists once they had seized power.

During the almost six decades since the establishment of the Federal Republic of Germany in 1949, the federal system has served Germany well. The very origins of the 'Grundgesetz' were guided by clear federal principles. Although the historic and regional background was not always respected by the occupation forces in the Länder which they established, these Länder nevertheless managed to develop into reliable entities and political units with their own identity. From the outset, functioning federalism in the Federal Republic was linked to the participation of the Länder in shaping the federal government's political will. The independent existence of the Länder with their own legislative power and independent administration, and the decision to have a Federal Council (Bundesrat, Upper House of Parliament) representing the governments of the Länder, are an expression of this compromise. This is where any reform of federalism must start.

Since 1949, the system as defined by the 'Grundgesetz' has continuously shifted in favour of the central power. Simultaneously, the tasks of government action have changed. The European Union triggered a qualitative jump in this respect, which concerns all states. European unification is not conceivable without

handing over some sovereignty. There is no doubt that even today the European Union has some characteristics of state quality: It is an acknowledged subject of international law; it concludes international agreements; ambassadors from nations across the world are accredited to the EU, and it has independent organs.

Federalism cannot remain unaffected by these changes. The increasing transfer of sovereign powers to the European level, a higher level of conflicting legislation, the growing number of joint tasks – all these developments have diminished the autonomous responsibilities of the *Länder*, and the question of establishing a new balance must clearly be addressed urgently. The increasing disentanglement of tasks inherent in this makes it more and more difficult for the citizen to perceive and understand governmental action. However, this is no indication of a crisis of federalism. On the contrary – federalism has proved that it works well as a regulatory principle. What we have to decide on now are the rights of the Federal Council, the reduction of mixed financing, and on who is responsible for the implementation of EU law as a consequence of the present conditions.

By comparison, the term 'devolution' has a different meaning in the British constitution. It cannot be compared with the German experience. However, again it can only be understood in a European context. In British constitutional history, decentralisation does not have a long-standing tradition. Yet in the last few years, there were larger shifts in this area than were considered possible for a long time. The 1997 referenda have cleared the way for elections to independent parliaments in Scotland and in Wales, and the re-introduction of a parliament in Northern Ireland gave new impetus to a difficult debate. There remains a difference that has to do with constitutional law and goes beyond our different experiences: Federalism sees sovereignty as the sovereignty of the people, while in devolution, the term relates to the sovereignty of parliament. Devolution can thus be best understood as a decentralisation decision by the British Parliament without any guarantee that it will last. As in Germany, the devolution debate in Britain is used as a political instrument. The central state regards devolution as an instrument for stabilisation, the regions see it as a step on the way towards greater autonomy. However, there is no desire to bring the United Kingdom in line with German conditions. Devolution is no political panacea, but its con-



sequences show – for example regarding the introduction of a second vote for regional lists – how quickly even well-proven traditions like the one-party system can end up under a microscope. In the end, the term 'devolution' describes the task of finding new ways of political participation.

The German term "Bürgernähe" (closeness to the citizens) is an incomplete description of what is at the heart of democratic legitimacy. Europe's political unity will not emerge on its own; it is not automatic. Quite the contrary: Europe as a political project needs a democratic legitimacy which continuously renews itself. Just as our nation states, Europe needs the approval of its people. This means that decisions must be made in close proximity to the citizens, i.e. at a level where these decisions have the utmost efficacy and credibility. Putting into practice the idea of subsidiarity will decide the success of the project of European integration. This idea takes us back to the issues that must be dealt with at the national level, i.e. with regard to the relationship between federal state and member state.

Regarding the German discussion, a critical analysis shows intensely interwoven decision-making levels of the Federal Government and the Länder. According to German constitutional law, joint tasks are those where the Federal Government and the Länder are jointly responsible for planning, decision-making and financing with regard to tasks that are mainly in the Länder's areas of competence. The extensive use of conflicting legislation, which the Federal Constitutional Court did nothing to prevent, has furthered this development. In accordance with Article 75 of the 'Grundgesetz', and on condition that "equal living conditions" are ensured or that legal and economic unity is maintained, the Federal Government is entitled to create a framework of regulations for the legislation of the Länder. This becomes even clearer when we look at the financial system. Article 104 a of the 'Grundgesetz' bans the Federal Government and the Länder from financing projects that do not necessarily fall within their purview ("principle of connexity"). It is the Federal Government that determines the level of tax and the different tax rates, thus limiting the options of the Länder to set up their own independent tax policies. As, in addition, a large amount of any additional tax revenue collected by the Länder is redistributed on the basis of the equalization law of revenue and costs between Government and Länder ("Länderfinanzausgleich"), tax-paying citizens are losing their influence on shaping the political will in their own

Federal State since they are only indirectly able to hold those who decide on politics responsible for their actions.

Therefore, the issue at the centre of the present debate, in the Commission 2003-04 and beyond, about federalism reform in Germany is to set the right general conditions for more competition between the individual Länder, with the aim to disentangle the federal system and to strengthen the options of the Länder to determine their own legislative responsibilities. As a result, there has been a creeping shift of competencies from the Länder to the Federal Government as well as a growing entanglement of financial competences and an increase in allocations, joint tasks and tasks with mixed financing, with the Länder ending up with sole financial responsibility in the vertical relationship between Federal Government and Länder. This burden could be eased by taking several steps: the principle of subsidiarity should be strengthened by limiting the federation principle to "help to self-help", there should be a reduction of mixed financing, the Länder could have tax autonomy for example regarding general property tax, property acquisition tax and inheritance tax, and, finally, by reforming corporate, income, and corporation income tax.

This situation is the starting point for action. What needs to be done is to find new room for action without endangering the underlying balance. There are obvious parallels to the European Constitutional Convention. It is no coincidence that the issue of competence distribution was at the centre of the work on the draft of the European Constitution. Here too subsidiarity is the key. One of the key policy shaping issues of the future is whether it will be possible to maintain the balance in the new greater European Union. In order to achieve the right balance between unity and diversity, between plurality and integration, other levels such as political culture and general living conditions have to be considered. Up to now, Europe has fared well with this diversity. And every time Brussels has gone overboard with control mania – examples such as the regulation of tractor seats are well-known – , it rightly met with opposition. The German experience with regional plurality and highly diverse political cultures has been good. It is the *discordia concors* that has always been the charming side of German federalism. What works in a small context – for the diversity within the nation states – must also be true of the big context – the Europe of 25. Ultimately, the coexistence of phenomena that cannot really be compared such as "German

federalism" and "British devolution" are proof of unity in diversity, Europe's secret recipe for success. The increasingly tight-knit Union and the qualitative and quantitative push of EU expansion are a particular challenge. Very British qualities will be in demand once again if we are to succeed in dealing with this challenge: common sense, tolerance, and the ability of never losing sight of the core issue of political union – the welfare of the people.

## Chapter 5

David Willetts

### Conservatism and Christian Democracy: Three Principles of Public Sector Reform

A contribution to a book on 20 years of Cadenabbia calls to do the obvious: to compare and contrast British Conservatism and continental Christian Democracy. I do so not as an academic exercise but because these differences help us to understand an issue that is at the heart of today's political debate in Britain – our public services.

It has become more and more clear that despite the many things that Great Britain has achieved it has under-performed catastrophically compared with other European countries in public services. Our healthcare system is rated by the World Health Organisation as less responsive to the needs of patients than most other advanced Western countries (17<sup>th</sup> behind the USA, France, Germany). Our educational system has its weaknesses too. 36 per cent of adults of working age lack basic school leaving qualifications, compared to 28 per cent in France and just 17 per cent in Germany. Something has gone wrong. This is where we in Great Britain have much to learn. I want to try to set out in this chapter what that might be. But first, some history.

British Conservatives used to pride ourselves on our political success, a striking contrast with much of the Continent. The Centre-Right was strong in Britain and in government for two-thirds of the 20<sup>th</sup> century. Yet on much of the Continent the Centre-Right was weak and often out of power. A crucial reason for this weakness was that it was divided between several different political parties. Usually this division took the form of a rural, communitarian, traditionalist, Church Party and separately a liberal, rationalist anti-clerical pro-market Party. In Britain these different forces were held together within one mainstream political party. It remains to this day the clue to the distinctive identity of British Conservatism. To understand this contrast between the Continent and Britain we have to look right back into history.

The first distinctive continental European expressions of what one might regard as a Conservative disposition appear in the late

18<sup>th</sup> century and early 19<sup>th</sup> century, when Europe first faced a revolutionary political doctrine. It was when Edmund Burke created what we now recognise as British Conservatism in his brilliant critique of the French Revolution and the radical view of the world on which it rested. On the Continent Conservatism first appeared slightly earlier and in a rather different context – opposing enlightened absolutism and the rationalist reform plans of powerful monarchs. That then easily became opposition to Napoleon, the most formidable enlightened despot of the lot. Napoleon tried to complete the process of destroying the medieval structure of principalities, autonomous cities, and loose federations which still survived across much of Europe. It is a rationalist, progressive arrogance which still lives on – one of Tony Blair's advisers reportedly commented on coming to power in 1997, that 'we inherited a medieval state and will turn it into a Napoleonic one.'

Jerry Miller's recent anthology of Conservatism includes the essays of Justus Möser of Osnabrück who spoke up in the 1770s and 1780s for small German principalities and the rights of traditional guilds against monarchs trying to break down local jurisdiction, social barriers and closed shops. This defence of local difference outraged the rationalists of the enlightenment. Voltaire mocked the patchwork of jurisdictions in which you could be guilty in one town of an offence which didn't exist in the next town. Karl Mannheim, in his great essay on Conservative thought, identifies this defence of the local and particular as one of the most distinctive features of Conservatism. During the 19<sup>th</sup> and 20<sup>th</sup> centuries this strand of thought was represented on the Continent by rural or small town parties with links to the Church. In Germany it took the form of Catholic opposition to Prussian aggrandisement and bureaucracy in Bismarck's great *Kulturkampf*. That was the origin of what we now recognise as Christian Democracy.

During the nineteenth century Europe also saw the development of a very different political movement which was metropolitan and rationalist. It was often anti-clerical. It represented modernity and the market place. It was linked strongly to the business community. Rural areas were suspicious of its cosmopolitanism and failure to value their traditions. It often became a Liberal Party. There might even be a separate small town, small business party as well. Indeed, the eponymous Monsieur Poujade died only this year.

This fragmentation on the Centre-Right left it vulnerable to a powerful challenge from organised labour and the Left. There was no clear and united centre-right alternative to socialism. Instead, a variety of political parties had to form coalitions in order to govern.

British Conservatism could have gone the same way. Edmund Burke brilliantly held together, not least through the sheer power of his writing, a strong commitment to personal freedom in the market place, whilst at the same time valuing order, tradition and the local community. But that distinctive mixture was unstable and split in the 1840s on the great issue of Protection when Sir Robert Peel left the Conservative Party on free trade. As a result the mid-19<sup>th</sup> century Conservative Party was the closest Britain has ever come to a continental European country party. If you look at a map of seats which the Conservatives represented in the mid 19<sup>th</sup> century they were almost entirely rural – and indeed a map of British Conservatism today after the triple defeats of 1997, 2001 and 2005 doesn't look very different. We could easily have been the Party which simply celebrated the distinct institutions and ways of life of the English countryside – beautiful, valuable, tinged with melancholy, and not enough to be a great governing party.

Disraeli had the vision to realise that this comfortable option was not enough. In a series of powerful speeches he committed the Conservative Party to the elevation of the condition of the people. And above all that meant the condition of the working classes in the great cities. He identified the party with social reform and took it from its rural heartland to start winning urban seats once more. He took us from being the party of rural England to a great national party with a governing mission. That message of social reform is at the heart of Conservative renewal today.

Disraeli secured one great election victory for the Party – in 1874 – but it was not enough to rival the Liberals. Then in 1886 the Liberal Party, having dominated British politics for nearly 50 years, split on Ireland. The Liberals who believed in the union with Ireland, the Liberal Unionists, moved into coalition with the Conservatives. That is why we are still officially to this day the Conservative and Unionist Party. Those Liberal Unionists brought with them crucial new groups – the City of London, big business, the big cities, Scotland – which had not been Conservative. That was when we took the crucial step fulfilling Disraeli's vision, avoiding the division of the Centre-Right on the Continent.

I was brought up in Birmingham. It could not possibly have been a seat held by the Conservative Party in the mid-19<sup>th</sup> century. But the vigorous tradition of Chamberlainite social reform and urban renewal took that City from Liberalism to Unionism to Conservatism. My party will be back in government again when we once more hold seats like those in Birmingham which we used to hold throughout much of the 20<sup>th</sup> century.

The clue to the electoral success of British Conservatives throughout the 20<sup>th</sup> century is that we held together in one political party these two different political forces which were divided into two different parties on the continent. We are the party of tradition, the local community, often most powerfully embodied in the life of the countryside. But we are also the party of personal freedom, the market, social reform and enterprise.

Insofar as there is any coherence to what I have written about Conservatism over the past 15 years it is a belief that this combination held in creative tension is the distinctive strength of British Conservatism. It is as topical today as it ever was. It is not a simple, geographical divide, though you can see it in the pattern of constituencies we represent. The real reason it still strikes a chord to this day is that it is also a tension within everyone of us. On the one hand we all enjoy the power of the consumer in a modern, free-market economy – free, mobile, individualistic. We believe in a society based on contract, not status. It is innovative, restless and enterprising. But we want something else too – to know who we are, bound by ties of affinity. We want to feel we have roots and are not just leading a life which is a series of meaningless acts of consumption strung together. We want to be linked to the past through traditions and institutions that are far bigger than any individual. We want a society where there are thick local ties and lumpy local loyalties, not one which has been finely graded into individual grains moving frictionlessly past each other.

My Conservative Party was driven back to its mainly rural heartland in 1997 and 2001. Some urban seats were regained in 2005. The simple historical measure of the challenge which we face is that we have to regain the seats which the Liberal Unionists brought to us in 1886. We have lost most of our previous seats in London and the big cities, and in Scotland. At our time of maximum weakness after the 1997 and 2001 elections, Tony Blair dreamed of realigning British politics so that we could never re-

build that Conservative Party again. The trouble was there was always a deep confusion about what this realignment might be. In the first model it was to be a Lib-Lab pact against the Conservatives. But the pendulum inevitably swings. No governing party can expect to rule indefinitely. Then more recently, as relations between the Liberals and Labour have deteriorated, so the realignment was supposed to be a new battle between Labour and Liberals in which Conservatives became irrelevant. But how can Liberals replace us when at the same time they are trying to locate themselves on the political spectrum to the left of Blair's Labour Party?

We can see our challenge very clearly. It is to break out from our rural heartland to the cities of England and once more to make gains in Scotland and Wales. We can do so by rediscovering that Conservative tradition which Disraeli embodied so powerfully – the elevation of the condition of the people. That means a distinctive Conservative approach to poverty, to welfare reform, and above all to transforming our public services. This is sometimes seen as being a Conservative agenda for the inner cities. But it is not just the inner cities; it is urban life as a whole. It is places where the shape of the community is not conveniently defined by the boundary where houses end and fields begin. Instead there is a community shaped as much by the school run and the nearest shops. It still seems rather odd to me if you look out of a bedroom window and see blackness rather than comforting rows of sodium lights stretching out into the distance. Representing as I do one of the Conservative Party's most socially mixed seats, I am absolutely clear that it is suburban Britain we need to represent once more.

Meanwhile, what about continental Christian democracy? Conservatives have been wary of European Christian Democracy because it lacked the spice and dynamism of a belief in the market economy. We Conservatives have been slow to recognise what has been happening to the centre-right in Europe. I hope those days of a Continental Centre-Right divided between a Christian Democratic party and a pro-market liberal party are coming to an end. The collapse of Communism has led to convulsions in party political structures across Europe. In Italy and France the Communist party disappeared. In Italy it took old Christian democracy with it. In Spain a new post-Fascist political system has emerged. In much of Europe we can see a new sort of centre-right party. Angela Merkel in Germany has expressly recognised



that Germany needs economic reform and has criticised the Schröder Government for not going far enough. No longer will the CDU be leaving a shrunken FDP as the voice of business and market reform in Germany. In France the old battles between the more rural Gaullists and the liberal, rational Giscardians, seem to have been resolved in a united centre-right. We could see the effects with a Prime Minister, Raffarin, trying to deliver an economic reform programme. The former Secretary-General of the EPP-ED Group, Klaus Welle, has described this process as "completion." By that he meant breaking free from the old interest group corporatism of traditional Christian democracy and instead creating new, broad-based Centre-Right parties. These look much more like, dare one say it, British Conservatism, aiming at a broad social base, and combining respect for a country's traditions and institutions with a commitment to economic reform.

I don't wish to imply that all this is a sudden desire by Continental parties to copy British Conservatism. Looking back in post-war Europe one can find Continental examples of such a combination. Perhaps the most powerful and attractive is the post-war Germany created by Konrad Adenauer and Ludwig Ehrhard. Adenauer represented Catholic small-town Germany. Ehrhard represented Protestant, rational free market economics. Together they embodied exactly that alliance which I see as lying at the heart of successful Conservatism. I am not claiming it is uniquely British.

I myself have become aware how Continental Christian Democracy is changing through my role as my party's spokesman on pensions and welfare issues in the years after 2001. It used to be so simple. We prided ourselves that Britain had achieved a great post-war success in creating a mixed economy in pensions whereas on the Continent pensioners were too dependent on the state for their incomes. Now all that is changing. In Britain we have seen the collapse of our funded pensions, and our social security pension is being overtaken by means-tested welfare. Soon three-quarters of pensioners will be claiming means-tested welfare and reporting to officials the details of their personal circumstances down to the last few pounds. This is an enormous, expensive and intrusive role for the state which we wish to reverse.

Meanwhile, on the Continent the first steps are being taken towards serious reforms of pensions and welfare. Germany intro-

duced the Riester reforms which cut the value of social security benefits and for the first time gave tax relief for personal pension contributions. Sadly, they have not stimulated personal pensions as was hoped. Later the Rürup Commission put forward bolder proposals for further reductions in the value of social security benefits and an increase in the pension age. The CDU's Herzog Commission looked at even more radical proposals for reform of the welfare state. Italy has implemented one set of proposals for pension reform already. They were a small step in the right direction. The Government is already looking at a further round of reforms. In France Prime Minister Raffarin tried to tackle the central issue in French pensions – the cost of public service pensions. I am not saying that suddenly Continental Europe's pension problems have been resolved but I do detect a strong impetus for reform coming from centre-right parties both in Government and opposition. Meanwhile, in Britain we are hiding behind absurdly optimistic forecasts of future public spending on pensions which just don't capture the long-term costs of welfare dependency. At current rates of progress, continental pension arrangements and Britain's will converge. We will face declining funded pensions with more dependence on means-tested benefits, whilst on the Continent we will see cuts in public pensions and a gradual shift towards funded pensions instead.

I hope we can see an increasing interplay of ideas between British Conservatives and the centre-right parties of the continent. There is already a Centre-Right think-tank, the European Ideas Network, devoted to precisely this task.

What can we British Conservatives learn from this? The obvious area is public service reform. Not only do German trains run on time but hospitals are cleaner and state schools more rigorous. This is not just a matter of managerial competence though that may be part of it. We need to look deeper in the Continental tradition to find how it has produced these services that work so much better. I believe that at least in part the explanation is to be found in that central feature of the Christian Democrat tradition, the attachment to the local institution. This is easily dismissed as the corporatist element in Christian Democracy because, unlike in Britain, it has not always been leavened by a commitment to economic reform. Where Christian democracy has been strong is in the social element of Conservatism. After all the Catholic Christian democracy of Konrad Adenauer had developed in sturdy opposition to Prussian bureaucrats attacking their

local institutions. That original Conservative defence of traditional guilds against rational enlightened despotism has carried on for two centuries and left many parts of continental Europe with a much more intricate and diverse pattern of provision of social services than we have in Britain.

I recognise that we in Britain have often been uncomfortable with traditional Christian democracy's association with corporatism, and, as we see it, exercise sensitivity to the claims of interest groups. There are deep questions here. Is it perhaps that the very protection of these diverse local institutions has itself impeded economic efficiency? Must the pursuit of economic efficiency involve breaking down old interest groups? Mancur Olson warned that mature economies would enjoy lower and lower growth rates as interest groups gradually built up their power to block necessary economic reform. The heroic achievement of Thatcherism was to raise the underlying growth rate of a mature industrial economy – an incredibly difficult thing to do. Maybe the rich social networks that are an alternative to a big welfare state are also an impediment to economic dynamism? These are difficult issues which I have tried to tackle elsewhere. But I don't think they are impossible to resolve. One area where they clearly have been resolved more successfully on the Continent than in Britain is the public services. It is to that that I now wish to turn.

The experience of the Second World War left the State deeply tarnished on the Continent and the result was a further urge to strengthen the interest groups and corporations that stood between the individual and the state. They gave a richness and diversity to German public services and indeed civil society which we can now appreciate. That is why the German constitution protects the rights of families. That is why no-one would have dreamt that in reconstructing Germany after the War the central state should own and finance all the main public services. Churches were protected. Charities and sickness funds went way beyond the local community to be genuine alternative networks for financing and delivering social services.

Meanwhile, in Britain we learnt the opposite lessons from the war. A command economy had successfully fought and won a war against evil. The state appeared benign. Perhaps the military model which triumphed so successfully in the war could be applied more generally. The Fabians had mounted their first attack on the rich diversity of Victorian social provision at the time of

the First World War. It was the Second World War and Attlee which finally did for the rest. Nowhere is this symbolised more vividly than in town planning. On the Continent bombed cities were painstakingly reconstructed to restore their original appearance. Even impoverished Poland rebuilt old Warsaw. The East Germans had a go at restoring Dresden. Meanwhile, in Britain we were determined to modernise and were busy knocking down many of the buildings which survived the War. Even the cities which were not heavily bombed looked as if they had been.

There was another powerful element in the mix as well – our experience of empire. The benign, rational, all-powerful District Commissioner came home after the Second World War, and his spirit lived on in post-war bureaucracies. Michael Frayn puts his finger on this brilliantly in his play, *Benefactors*, where the action takes place in a depressed inner city street called Basuto Road. Somehow the imperial mission was domesticated – only now the cities and neighbourhoods of our own country became the colonial outposts.

Conservatives were not blind to this. In 2003 I was appointed, to my great delight, the Chairman of the CRD, the old Conservative Research Department. One of the great Directors of the CRD, David Clark, wrote in 1947 a pamphlet called *The Conservative Faith in the Modern Age*. It is a deeply thoughtful critique of the Attlee welfare state. In it he draws a clear contrast between the Conservative approach to our public services shown in Butler's Education Act, and Labour's approach shown in Bevan's NHS. Butler's Education Act explicitly aimed to protect the distinct character of historic schools as well as also the religious character of Church schools. By contrast Bevan, in creating the NHS, nationalised the charity hospitals and took over many of the functions which had been carried out by local authorities. It was not a "Morrisonian" model at all because Morrison fought a losing battle to keep some role for local government in healthcare.

When we got back in 1951 we were committed to doing something about this. But we set off on the wrong track. Our attack focused entirely on the cost of the new welfare state. There were a range of Treasury studies in the early 50's – Gillebaud, Phillips and others aimed at trying to dismantle the Attlee welfare state on the grounds that we couldn't afford it. But as the economy surged forward during the 1950s this argument seemed weaker as every year passed. And although cost is a real problem there

are other problems too which can capture the public imagination. What really was happening was that something beautiful and precious and human in the pattern of our social services was being lost in the interests of iron uniformity.

Successive governments then started arguing about who could manage them better. The agenda became a managerialist one with organisations and re-organisations aimed supposedly at delivering central control better. Blair's Labour Government did not reverse this; it took it to its logical culmination. Here are the figures on what they have done which I have just calculated. Since 1997 they have produced more than 250 Acts of Parliament filling more than 15,000 pages. They have set about 900 targets. Government spending on public services is up 50 per cent. If laws and targets and public spending were the way to create a better society with better public services then we would be well on our way to utopia by now. But we aren't. Labour have failed to deliver reform and there is the beginning of a fascinating debate about what has gone wrong. The debate was and continues to be between the Prime Minister and his Chancellor. We can construct the debate out of their public utterances on the subject.

This is the real big conversation.

We know what the Prime Minister would say if he could put his thoughts on the website, because they have appeared in various obscure places.

I can construct the exchanges – like a classicist piecing together an ancient drama from a few surviving fragments. Here it is.

*Tony Blair: "On public services, we need to explore the usefulness of choice and contestability to extend opportunity and equalise life chances. Social Democrats must reconcile both the claims of choice and equity. We must develop an acceptance of market-orientated incentives with a modern re-invigorated ethos of public service. We should be far more radical about the role of the state as regulator rather than provider, opening up health-care, for example, to a mixed economy under the NHS umbrella. We should also stimulate new entrants to the schools market and be willing to experiment with new forms of co-payment in the public sector."*

Note that final crucial clause. But then, the then Chancellor's Chief Economic Adviser comes back.

*"We have to have the confidence to accept that there is a limit to how far you can apply market principles ... you run grave risks*

*with the ethic of public service ... if you go down the road of thinking you can apply market principles to a good like health, the evidence is that you end up with inefficiency and escalating costs, two-tierism and you can do grave damage to that ethic of public service ... I think the same is true of education.*

(Ed Balls in an interview to The Guardian, November 4<sup>th</sup> 2002).

The Prime Minister then replies:

*"But unless we want the result to be poorer services, we need to address the balance between what the citizen pays individually or collectively."*

(Tony Blair in an article following speech to Progressive Governance Conference 11<sup>th</sup> July 2003)

Now the Chancellor comes back with the conventional socialist view.

*"The very same reason which leads us to the case for public funding of healthcare on efficiency as well as equity grounds also leads us to the case for public provision of healthcare."*

(Gordon Brown in Speech to Cass Business School, 3<sup>rd</sup> February 2003)

This is partly a clash between the two personalities at the heart of the Labour Government. But it is also an institutional clash as well. The Treasury ultimately believes in its macro control over the public spending totals. Its fear has always been that micro freedoms will end macro control. A Fabian command model for the public services is a useful tool for traditional Treasury control over public finance. Gordon Brown is just the latest exponent of this traditional Treasury view.

It is important to understand the forces pushing us towards ever greater centralisation in order successfully to reverse the trend. We are uncomfortable with local diversity. England is a unitary political culture with a national press and what one might call, following Labour's pretentious new initiative, a single national conversation. Whitehall remorselessly aims to implement total equality between different areas. It is very difficult to keep the spirit of local differences alive. The ultimate expression of this belief is the extraordinary theology that lies behind the structure of the rate support grant. The essential idea, though it is now much compromised in practice, is that a funding formula should ensure that £1 of extra local tax raised in one part of the country should

have exactly the same impact on local services as £1 raised in another part of the country. I know of no other western country that has such an ambitious attempt at achieving perfect equality across the country.

There is another way we try to achieve this geographical equality, and it is rarely remarked on. Whitehall regularly remakes the boundaries of all the jurisdictions beneath it. The ward, the smallest administrative and governmental unit represented by a councillor, is not, as it ought to be, a bastion of stability in a changing world. Ward boundaries are endlessly being redrawn so as to help ensure everything from balance in elections to balance in finances. If there is one obscure statistic which captures the instability that is created by the endless pursuit of rational and equitable boundaries by Whitehall, it is that 75 per cent of all local boundary changes in the EU take place within the UK. Whitehall is actively destabilising local communities year by year.

There is another reason for central government involvement in a locality. That is the relentless pursuit of ministerial activism. Anyone who has been in government recognises the pressures on the Secretary of State for Health or Education or the Home Secretary if something goes wrong in any particular hospital or school or prison. It is very hard for them to say that they do not have responsibility. No government can really wash its hands of such matters. My colleague Nick Gibb has reminded us forcefully that politicians can't really wash our hands of responsibility for services which are publicly financed. We force the voters to pay the taxes – this gives them a say in how the money is spent. There has to be a framework which shows where responsibility lies. One of the problems we have in Britain is that we have become deeply confused about where we rightly expect national standards and where diversity should rule. We have national pay bargaining but computers in GP's surgeries and hospitals which can't talk to each other. We have standardised the wrong things. It must be an important part of any new political settlement for our public services that we think afresh about where we need standardisation and where we encourage diversity.

Let me now try to pull the threads together into key principles that shape our public services reform agenda. Back in 1979 we had a famous Conservative policy of the people's right to buy their council houses which they rented from the council. Our policy today seems to me to rest on three very important rights.

First is the right to choose. There is nothing that beats the dynamism of individuals being able to choose better doctors or, advised by their GPs, to choose between hospitals, or to choose between schools for their children. We are sometimes told that this talk about choice is all very abstract and far removed from the reality of life in our toughest areas. The evidence disproves this. It shows enormous suppressed demand to choose. Of all secondary school admissions in England, parents appeal against 11 per cent of decisions about the school their child should attend. 76 per cent of these appeals are unsuccessful. This is striking evidence of a frustrated desire to choose. And what do we find in our poorest areas? Is this willingness to appeal against decisions some feature of fussy middle class behaviour? Far from it. According, to data from 2003, our poorest areas 19 per cent of parents, even more than average, appeal against the school allocation of their child. And a shocking 82 per cent of these appeals were unsuccessful. These figures show that the idea of choice is far from some empty abstraction.

But there has to be some ability for suppliers to respond to what people are choosing. One of the Government's problems at the moment is that they have increased expenditure on the main public services but because supply is so constrained, not least because of their own over-regulation, all this extra money goes into higher prices rather than into extra services. Unleashing choice could have the same effect as well unless supply is liberalised. We will just have large numbers of unhappy parents if we tell them they can choose their school but access to popular schools does not expand. So the right to choose has to be enforced with a second right, to which I now turn.

Second is the right to supply, without which choice becomes meaningless. Everybody focuses in Britain on the demand side of the equation – how much we spend. That is important and I am going to turn to it in a moment. But at least as important is what happens on the supply side – how easy it is to provide these services. In particular we have what the economists would call barriers to entry. A particular example of this is the pernicious surplus places rule in our schools. That means that a good school can't expand unless a less popular school in the area has shrunk. We need to think much more imaginatively about how we break down such barriers.

One of the shrewdest investigations of the problems of the Third World is Hernando de Soto's book *The Other Path.* It was an ac-



count of what it was like to try to set up a legitimate small business in Peru. The story was appalling. There were so many different permits, rules and regulations that it was virtually impossible to create a new business within the legitimate economy. You could only really function if you paid bribes and kickbacks or just went straight into the black economy. If Hernando de Soto visited Britain today he could write a similar book on the obstacles in the way of someone trying to supply those key services that people most demand. How long would it take you to set up a new nursery anywhere in the South East? What if you did want to open a new school in Birmingham? What if you did wish to treat patients as a new GP practice in Manchester? The obstacles to supply are enormous. Tackling them is the solid unglamorous task of looking at how planning rules work or how long it takes to get people's names cleared by the Criminal Records Bureau or how many different inspectors come to call. Yet it is an important part of reforming our great public services.

There is one other important aspect of the provision of these great services. One of the mistakes we made with the Citizens Charter, in which I was involved as a member of John Major's Government, was that we focused so much on the rights of citizens as consumers that we forgot about the proud professions at the heart of many of our great public services. They have a distinctive ethos which is precious and worthy of respect. They are not simply the passive recipients of instructions from on high. Any government that tries to treat them like this, as this Government has, will find it is destroying something very precious indeed. So we need to protect professional status. Our legal and political system is good at protecting the rights of individuals but less good at protecting the rights of institutions and professions. We need to respect the professional status and look at ways in which this can be enhanced. A doctor who is the servant of his or her patient has a professional self-respect which is much greater than that of a doctor who is a servant of the state.

After the right to choose and the right to supply there is a third crucial right, the right to spend. It ought to be possible to mix public spending and personal spending in our great public services. This is not a matter of imposing charges – that is a negative and depressing way of looking at the problem. Instead it is a matter of making it easier for people to mix their personal money with state spending. There are limits to what can be done but where feasible we should be adding to the opportunities for peo-

ple to add their own spending to the state's. If we don't we will end up with a candy floss economy when you can't spend your own money on important things. Enabling them to mix is far better than the alternative which is more and more people leaving the system altogether and paying entirely for their own care.

These three principles – the right to choose, the right to supply, the right to spend – lie at the heart of our political agenda for improving our public services. They are the foundation of the major policies that we have announced and are developing further

We Conservatives are putting transforming the public services at the heart of our political agenda. It goes right back to Disraeli's belief in improving the condition of the people. It draws on the Conservative critique of the Attlee welfare state at the very time it was being implemented. It is heavily influenced as well by what we have seen on the Continent as we admire the diversity of both provision and finance in public services there.

But this agenda is not just about the public services. It gets to the heart of everything we believe about the role of the state in society. It has often been seen in Britain as an economic argument but what economics is it? Is it Cambridge economics or Austrian economics? I first learnt economics in the Cambridge style. There was a very clear and rigorous definition of perfect competition. It had an almost algebraic purity, it showed with mathematical force that a perfectly competitive market maximised human welfare. But this perfect competition was a very odd sort of thing. There were no transaction costs. There were no transport costs. There was no brand loyalty. There were no big players in a market. Everyone was a price-taker. It was a very abstract idea of perfect competition and after you had spent the first term learning it you spent the rest of the course being taught that in reality, competition was "imperfect" and this licensed all sorts of government intervention. You still hear it as part of the British Treasury's case for interfering in markets today. But there is a different sort of understanding of the market economy which comes from Austrian economics. This is not a matter of neat mathematical formulae. Instead it says that a market is a place where information and knowledge are dispersed and there is a relentless process of innovation and discovery. The real problem with government intervention is that planners can't possibly have all the information which is dispersed in a modern market economy. This way of thinking is by far the most contemporary way of setting out the

case for a market economy and for reforming public services. It strikes a chord with everyone. The Government is still trying to operate a mainframe system when we all know that nowadays the future lies with a dispersed set of PCs and Apple Macs. It ties in with the way in which environmentalists argue their case as well. We wouldn't trust a planner now to say there was one genetically superior breed of sheep and all the rest should be eliminated so that we could focus on the best. We understand the importance of genetic diversity as nature endlessly experiments. It also ties in with our British love of the local and the particular. It is the way in which we can make common cause with Christian Democrats across Europe, despite the differences in our two traditions. It is the right way forward for all of us.

## Chapter 6

Matthias Wissmann

### The Challenge of Public Sector Infrastructure: Overcoming the Back-Log of Investments in a Partnership with Private Enterprise

Germany's infrastructure is one of the major locational advantages of the country, but the good image does not hold up under close scrutiny. Unfortunately, damaged road toppings, endless tailbacks and school buildings that are badly in need of repair are not isolated incidents. According to the "Deutsches Institut für Urbanistik" ("German Institute of Urban Affairs"), the German municipalities alone need investment to the tune of 670 billion euros between 2000 to 2009. In short: Germany is experiencing an investment back-log. Although over the last few years, important investments have been made in the former GDR within the reconstruction scheme for the new federal states (Länder), which generated a jump in quality in new public sector investments, the new as well as the old Länder continue to have an enormous need to invest not just in new infrastructure but also in restoring old infrastructures. In the near future, there is little hope of relief for the public authorities which are lumbered with excessive debt; the economic upturn needed to fix this problem is still not in sight, and without it, Germany remains stuck in the trap of public debt. If Germany wants to keep up with an expanded European union, if it wants to avoid being left behind in the age of globalisation, and if it wishes to reclaim its leading international position, the creeping process of investment cuts must be stopped. It is a frightening fact that in 1992, the municipalities' investment volume was ten billion euros higher than it is today; investments in municipal construction projects are gradually declining – even though it is common knowledge that economic success is not possible without modern and efficient infrastructure. Hence, it is high time to reconsider the actual tasks of public spending and embark on new directions. More than any other country, Great Britain has shown us how the involvement of private business can play an important role.

#### **Empty public coffers and a multitude of tasks**

Never before have public sector budgets in Germany faced such an enormous mountain of debt. And there is no change in sight

– on the contrary: The huge new public sector borrowing in 2004 and, as things stand in 2005, does not leave sufficient room for investments. The sad result: Today, the amount spent on investments makes up barely half the amount of the accumulated debt. This means that the public sector is no longer capable of seeing to its multi-varied tasks. Therefore, we will now be facing some hard decisions: Should, for example, the running of a swimming pool really be the responsibility of a public body? What about sewage plants? The motto of municipalities, of the Länder and of the federal government must be to concentrate their efforts on essential things, on their core tasks. What is at stake is nothing less than a redefinition of the tasks undertaken by the public sector and an answer to the basic question of which tasks must actually fall into the domain of the state alone and where it makes more sense to use private involvement – in any form from volunteer support to assistance by companies. This involvement can take any form; it can range from a partnership-based approach such as Public Private Partnerships (PPP) to the actual privatisation of services. However, it is very important to weigh the risks implied very carefully – two negative examples show us how not to do it: the initial motorway toll fiasco in Germany and the debacle in the privatisation of the British railways system. Still, it would be a mistake to shy away from further cooperation projects with private enterprise. Opening fields of activity that used to be in the state's sole domain to private enterprise must no longer be taboo for any responsible government.

For it is a fact that the citizens' demands on public infrastructure have not decreased, in spite of empty public coffers: good roads, busses which run on time, clean schools and modern hospitals – Germans expect no less, and rightly so. Every citizen, independent of income and place of residence, should have access to adequate public institutions and services. Ever more Germans seem to realize that private enterprise should participate in delivering these services: In a 2004 survey, 61 per cent of the people asked said that they were in favour of involving private partners in the delivery and financing of public services. There are clear expectations linked with this wish: Less bureaucracy, cost reductions, more competition, and more efficiency are expected from Public Private Partnerships. As desirable as these goals may be – one must never forget that such cooperation between private business and the public sector can never do more than complement policies and public services. On the basis of their obligation to the

common good, the federal government, the Länder and the municipalities will continue to be responsible for handling certain public tasks. This will and must not change with the future involvement of the private business sector.

## Public Private Partnerships – an introduction

Let us be very clear about one thing: Public Private Partnerships (PPP), or, as they are now sometimes called in German because of their gradually growing acceptance, "Öffentlich-Private Partnerschaften" (ÖPP), are no panacea and certainly not some super weapon against budget gaps. However, the close cooperation in a partnership between the public sector and private business represents one important alternative to the state's exclusive handling of the huge infrastructural tasks in Germany and can open up space for much-needed investments. It seems there will now be an increase in the number of Public Private Partnerships, but we must all be aware that they will be based on professionalism, on being prepared to take certain thoroughly considered risks, and on comprehensive planning, and not on magic.

The goals of implementing public infrastructure measures with the help of PPP are clear: The public-private cooperation is geared towards combining and trading finances and know-how to be able to achieve better results. More efficiency, more flexibility, cost cuts, the public sector focussing on its core competences – all these characteristics of PPP are precisely what Germany urgently needs. They fit into the movement towards reform and its target of modernising Germany and making it more competitive internationally.

Such partnerships between private business and the public sector are by no means a new invention. However, something that, as a basic principle, had been used to build the Suez Canal in the 19th century has for a long time been met with a lack of interest, which is particularly true for Germany. PPP are still so rare in Germany that they make headlines. Many European neighbour states or the United States were much quicker, as becomes evident when looking at the estimated level of worldwide investments made within the framework of PPP: almost a two-digit amount in billion euros. PPP obviously are no fleeting trend when it comes to the implementation of infrastructures.

One explanation is the versatility of the PPP approach. The PPP model is not limited to specific government departments. Often,

there is a large share of PPP projects in the transport sector – in Great Britain, which has had much experience with PPP, the Department for Transport leads the way with one third of the PPP contracts awarded –, but it has become evident that the model is flexible enough to be used in other areas such as the school system, prisons, and health care. Examples of how it can be used are:

- operating models where private partners run public institutions completely or partially,
- franchise models where private partners are entitled to finance their costs directly by charging the end users of the infrastructure, as well as various
- cooperation models where private companies and the public sector establish a joint venture with a private legal form.

## **International overview of PPP – Great Britain leads the way**

From the Netherlands to France and Greece – it seems all of Europe has discovered the PPP model. However, other countries beyond the borders of Europe are also very interested in it – for example in Asia, where Japan has gained some PPP experience in more than 300 projects. The international trend towards PPP is almost always triggered by the same reason: empty public coffers. Spain, which has already had some PPP experience, is at present considering PPP especially in the transport sector, as is France. In the Netherlands, where public-private cooperation is relatively new, the idea of PPP fell on fertile soil. The country is now introducing PPP models for the construction of universities and in the health sector. However, the country that truly leads the way as far as PPP are concerned is Great Britain. Much earlier and with greater courage than other countries did John Major's conservative government approach the PPP issue. One reason is the Anglo-Saxon tradition according to which people do not necessarily assume that the state must deal with the handling of public tasks. As early as 1989, Major created the basis for involving private business capital for the financing of public projects by abolishing a number of regulations, which had previously prevented this. In 1992, a detailed concept was presented – PFI (Private Finance Initiative), a basic model which to this day serves as the basis for the majority of PPP projects in Great Britain. This

is a model which takes into account the whole life cycle of an infrastructure from the planning stage through to its construction and operation, and it links the public sector's obligation for financing to the delivery of services. This means: The state buys the service from private suppliers and hands over essential tasks – design, construction, financing and operation – to private companies. Fees will be charged for the services rendered. After a long-term timeframe agreed on beforehand – in most cases between about 25 to 30 years – the infrastructure is returned to the public sector – naturally with an option of extending the contract.

Since the early PPP models have been introduced, many different approaches have been tried. Mistakes were made, corrections undertaken, experience was gained. The following figures clearly show that PPP will be here to stay and have become an integral part of the delivery and financing of public services in Great Britain:

- in excess of 530 PPP projects have been started so far; every year, at least 30-40 new transactions are added to that number;
- since the early 1990s, PFI projects to the tune of more than 24 billion British pounds have been signed;
- about 20 per cent of British net investments in the public sector are handled through PPP models, which amounts to an investment volume of about nine billion euros annually;
- according to the evaluation of the British National Audit Office (NAO), compared to conventional implementation, efficiency gains of 10-25 per cent could be established; for the fiscal year 1999/2000, this meant around one billion euros;
- due to PPP, an estimated amount of four billion British pounds is released for additional investments per annum.

There is no doubt that Great Britain has developed a certain routine as to the implementation of Public Private Partnerships. PPP are now considered as "safe bets" – in other words, as safe and reliable arrangements. The National Audit Office confirmed this; it carried out an assessment of the economic efficiency of PPP projects compared with projects operated by the public sector and found clear efficiency gains (average: 17 per cent). According to a study carried out in 2001, British authorities also seem to be content with the results of PPP projects: More than 80 per cent thought that the PPP cost-benefit ratio was at least satis-



factory. However, there is much more: PPP projects showed 70 per cent fewer price overruns and 66 per cent fewer delays in completion. These numbers, which describe a decade of PPP development in Great Britain, clearly indicate that cooperation between private enterprise and the public sector can work very well. Public Private Partnerships are worth the effort.

## Slow start in Germany

Not least of all because of the positive results with PPP projects in Great Britain, interest in PPP increased in Germany as well. However, the development of PPP in Germany cannot be called anything but sluggish. While the British were busy correcting their PPP course, PPP in Germany were still in their infancy. By now, Germany has gained more experience with Public Private Partnerships, but, as yet, we are far from having a set routine yet. Before we move on to an analysis of the present state of affairs regarding PPP in Germany, it is worth to look briefly into the past in order to explain why Germany is lagging so far behind.

For several decades now, the German public has become accustomed to a high standard of public sector services. Germany's road and railway systems have enjoyed an excellent reputation for many years and provide tangible competitive advantages vis-à-vis neighbouring countries. At times of constant economic growth, the public sector – at the level of the municipalities, the Länder, and the federal government – had sufficient funds to deal with a wide variety of tasks. The principle of competition had no priority. This meant that private enterprise in Germany was practically excluded from the planning, financing, and operating of infrastructures, while in the 1980s, Great Britain already experienced its first wave of privatisation and was getting ready to integrate more private companies to provide public infrastructures. In the end, two factors brought about a financial transformation: the weakness of the economy and German reunification. However, it was at this point that Germany's sluggishness became obvious: The country hesitated for too long; the fear that public sector tasks would be privatised in a creeping and underhanded manner was too great, and a large number of public sector employees were too steeped in bureaucratic ways of thinking. For a long time, concepts such as efficiency and a "leaner state" were nothing but slogans; the decision-makers shied away from their implementation. In addition, many stakeholders needed to be considered at the various administrative levels in the municipal-

ities, the Länder and the federal government. For these reasons, the idea of a close cooperation between the private and the public sector in Germany took a long time to get off the ground.

### Example – PPP in the transport sector

As did other countries, Germany first tried public-private partnerships in the transport sector. When I was Minister of Transport in 1994, I had the opportunity to take one important step towards PPP: The law on the private financing of motorway construction created the legal basis for new operating models in Germany (the so-called F models named after the first letter of the law in German, *Fernstraßenbauprivatfinanzierungsgesetz*). Up to now, however, Germany has gained very little experience in this area. The law has been in force for ten years now, but the number of actually completed F model projects, on the basis of which tunnels, bridges, and mountain passes are built and operated privately, is still negligible. During that phase of PPP pilot projects, in some cases the model of private advance financing was tested. In the case of the much-used Engelberg tunnel in the federal state of Baden-Württemberg it became obvious that it was essential to implement this type of infrastructure projects quickly and not to delay them because of lacking budget capacities. However, the aspect of using private know-how to realize efficiency gains and cut costs only played a minor part at that time. Today, the situation has changed: The key goal of Public Private Partnerships is a win-win situation with maximum efficiency.

The initial heavy goods vehicle (HGV) toll fiasco in Germany, the initial introduction of which was delayed due to technical problems, clearly showed that PPP, in spite of everything now known about them, are still potentially risky undertakings where the devil is in the preparation and in the detail. The lesson to be drawn from this is: Only projects with realistic planning and risk assessment as well as a fair and intelligent distribution of risks can be successful. The toll example thus became an important factor delaying PPP. So it seems that instead of moving ahead at full speed, PPP are stuck in heavy traffic for the time being.

However, we can learn from the experiences which others have made in the past. Unfortunately, an example of a failure occurred in one of the new members of the European Union – in Hungary. There, the construction and operation of the motorway M5 had been handed over to an Austrian-French consortium. The major-

ity of motorists ended up avoiding the toll by using minor roads. In the end, the state had to take over the company operating the road and nationalize this previously underused section of the motorway. The transport sector clearly shows that the operational efficiency factor must play a larger role if PPP are to be successful and found acceptable by private business. It must be understood that not any road construction project is suitable for a Public Private Partnership. A functioning cooperation between the public sector and private enterprise is possible only in those cases where taking part in a PPP is economically viable. Both sides will have to approach each other: In Germany, the federal government and the Länder must offer industry adequate projects, and industry must offer tailor-made and fair solutions.

## Laws & taxes

Often, however, it is legal and tax issues which are still unresolved and prevent a successful cooperation between public and private sector. In this respect, political action is required. While in Great Britain many important legal barriers were abolished before the PFI initiative was actually embarked on, the corresponding procedure in Germany has been delayed. Pilot projects, which have already begun, are proof that the implementation of PPP projects in Germany is possible under the current legal conditions, but there are still a number of stumbling blocks – for example, with the regard to the laws regulating the budget, allocation, and taxes. These obstacles have by now been identified and must be removed as quickly as possible. It must not be forgotten that what this is all about is not preferential treatment for PPP models. Instead, it is about creating conditions that permit fair competition. Only if tax and legal insecurities and the specific disadvantages that the PPP approach is facing are removed, will the PPP concept become a success story in Germany as it has in Great Britain.

It is also important to keep in mind the European legal framework. Fortunately, there is progress to be reported in this area as well. In April 2004 the EU Commission presented a Green Paper as food for thought intended to start a debate about the PPP issue at European level. Since there is no special system for PPP in Community law, an adequate regulatory frame must be created at EU level. Within the framework of a public opinion survey, the subject of Community regulations for public contract award processes and for licensing are to be closely examined – a posi-

tive sign for the development of PPP, since what is primarily at stake is the question in how far the existing legal framework may turn out to be an obstacle for business participants and how insecurities can be eliminated. This is a good opportunity to establish how rules and principles affect the day-to-day running of PPP, and at the same time it is an important step towards legal security in PPP projects.

### **PPP – a matter of economic efficiency**

The target of PPP is efficiency gains. Therefore, a partnership between public sector and private enterprise must make economic sense when compared with the traditional creation of infrastructure. We have already seen that the issue of financing is not all that is involved in PPP projects; if decisions were based on finances alone, state financing almost always would be at an advantage because of its low interest rates. However, what is at stake is the entire life cycle of a project, and this leads to the issue of a suitable instrument to analyse economic efficiency. Such an instrument must be able to take into account such factors as construction costs in excess of original estimates; and operating costs, which make up almost 70 per cent of all costs of a property. It is obvious that without such an instrument, a fair comparison of economic efficiency will not be possible. In Great Britain, the so-called Public Sector Comparator (PSC) was developed for that very purpose: to provide a yardstick to compare the cash value of the cash flow of conventional implementation with one where a PPP model is used. Here again, Germany is lagging seriously behind: There still is no such yardstick. It is high time to close this important gap and add this vital link to the PPP chain.

The evaluation of efficiency is the key factor for the development of PPP. In Great Britain, the National Audit Office is not the only entity carrying out such an evaluation: A study conducted by the Institute for Public Policy Research (IPPR), for example, showed that the advantages of PPP were most obvious where prisons and transport are concerned. Other sectors – such as education and health – needed more innovation and flexibility, according to the IPPR. These are important results which show how individually tailored PPP models must be to achieve their greatest efficiency.

Another factor that needs to be pointed out is cost transparency. In Great Britain and in Germany, the economic efficiency of

the PPP model is not devoid of controversy. Some point to the risk of potential shadow budgets with mountains of debt that may accumulate unnoticed and burden future budgets. However, this can only happen if PPP are seen as a mere method of financing. The fact that the life cycle approach has become internationally accepted changes the picture altogether: Public Private Partnerships can create new transparency. The cost of financing is no longer the only factor taken into consideration, but also the considerable component of the operating costs of institutions, which frequently are much higher than the original financing costs. In this way, cost-intensive faulty cost estimates, which used to be fairly common, can now be avoided.

The importance of having an instrument to analyse economic efficiency as well as the holistic approach to the evaluation of PPP projects are indications that the evaluation of project efficiency is a lengthy and also a costly process. For this reason, many critics believe that this process takes up too much time and involves the use of too many expensive consulting firms. These time and cost factors must be included in the evaluation of the efficiency of a project and are absolutely necessary to be able to guarantee the efficiency of an entire project. A standardisation of PPP procedures can facilitate this process.

## **Standardisation without loss of flexibility**

During the initial experimental phase of PPP in Great Britain, it soon became clear that planning and coordination are vital for the implementation of PPP. However, due to the initial euphoria over PPP, too many projects were started in too short a time. Instead of achieving efficiency gains in the first phase, it was quite frequently the opposite result that was achieved. Although Germany did not start PPP projects until later, similar mistakes were made: There simply were no standards for PPP. In many places, there was experimentation, but hardly any learning curve. As a result, many municipalities created their own PPP framework, which was often very time consuming and required a high level of personnel. The wheel was being rediscovered again and again. Especially in view of the enormous importance which PPP projects have because of their high investment volume and their long-term effect, it is essential to establish standards so that municipalities and Länder will have a secure basis for their work with PPP. There can be no blanket solutions in the PPP sector, and an

individualised approach is generally needed; but a certain degree of standardisation could clearly improve the chances of implementing PPP in Germany.

In this field, Germany should have been quicker in learning from Great Britain where several years ago a PPP task force was set up which was to serve a broad range of tasks and functions: advice centre for private and public entities, gathering point for PPP experience, examination of legal and tax-related aspects, development of an instrument to compare economic efficiency, development of standards. Similar official state-run institutions also sprang up in other countries such as the Netherlands and Ireland. By now, in Germany too there are PPP units – at the federal as well as at the Länder level –, an arrangement which mirrors the federal structure of Germany. For example, there is a PPP initiative in North-Rhine Westphalia and another PPP competence centre in Berlin-Brandenburg. At the federal level, a steering committee was also set up in 2002 composed precisely of those who actually deal in their daily practice with the maintenance and creation of infrastructures: representatives of the Länder and the municipalities as well as members from the construction and banking industries and from the National Chamber of Architects (Bundesarchitektenkammer). The target is the establishment of a Federal Competence Centre which deals specifically with public sector building construction.

This development of competence centres is an important step towards a positive development of efficient PPP. Without the political will to back it up, the PPP approach cannot be successful. However, even here are traps to beware of: Without efficient harmonisation and cooperation of the various PPP initiatives in Germany, the desired learning effect will not materialise. At the same time, there is the danger of creating a new layer of bureaucracy. The tasks of a German PPP competence centre must be clearly outlined and limited to establishing sound foundations such as sample contracts and sample concepts for bid procedures. Basic standards and guidelines help both the public sector and private enterprise as they save time and money. However, any measures that exceed central specifications will lead to a loss in flexibility and to additional bureaucracy. In the late 1990s, the British PPP Task Force itself was turned into a Public Private Partnership – the "Partnership UK". In Germany too, it must be understood that PPP are a step towards a leaner and more efficient state. This must become the beacon which guides German policy.

## PPP in Germany – hope without illusions

After a long lean period, it seems that finally, Public Private Partnerships are finally on their way in Germany. Obviously, a real push towards PPP will not develop without political initiative and political support. The example of Great Britain has been ample proof of that. A start has now been made in Germany, but apart from the politicians' important task of creating adequate framework conditions, everyone else involved must have sufficient information and must actually be willing to use the great potential that Public Private Partnerships have to offer. Politicians, the public administration, architects, construction industry entrepreneurs, providers of financial services – all of them will have to prove their flexibility and their will to take risks so that PPP can flourish in Germany too. Finally, we must not forget the end users of public infrastructure – the citizens without whom it will not be possible to have a true PPP culture in Germany. It must be clearly explained to them that Public Private Partnerships can never do more than supplement policies and public tasks. Today, more than half of all Germans expect a private provider to be better suited to carry out tasks that can be undertaken by the state as well as by a private sector enterprise. That fact gives rise to the hope that the PPP model does have potential for further growth in Germany.

We must succeed in Germany to see Public Private Partnerships as what they are: sophisticated cooperation schemes which can achieve significant efficiency gains – no more and no less. It is important to embark on PPP with optimism. In spite of positive approaches, we are sure to suffer repeated failures and setbacks, just as the PPP pioneers in Great Britain did. On the way to a successful implementation of PPP models we need stamina to ensure that the term "PPP" – Public Private Partnerships – does not come to stand for "Pleiten, Pech und Pannen" (bankruptcies, bad luck, breakdowns). At the same time, the expectations put in PPP should not be unrealistic. PPP are not a panacea. Great Britain is proof of this: After more than one decade of PPP projects, about one fifth of public investments today is based on PPP. Not every infrastructure project lends itself to the use of Public Private Partnership; however, where larger and integrated infrastructure measures are concerned, the PPP approach may show the way out of investment backlogs. Great Britain has shown us the way; now Germany must close the gap because, among other reasons,

the EU enlargement is opening up new possibilities to implement Public Private Partnerships which can also benefit German industry.



# Chapter 7

Christian Wulff

## Future Tasks for Germany

### Tasks for the future – current problems

Anyone in Germany and elsewhere who is giving any thought to the tasks that lie ahead must be ready to face the question: "Have we actually undertaken the tasks that need urgent attention today? Have we solved the problems which are the focus of today's public debate?"

After careful consideration, that question must be answered with a clear "no" – in spite of health care reform and Hartz IV.

The situation in Germany today is not exactly encouraging. While the world economy is slowly recovering and an economic upturn is expected over the next months, the "German model" seems to be on the wrong track:

- We are lagging behind in our economic performance. In 2003 we were clearly below EU average for the first time. Our growth rate is no better. For years, Germany has been at the tail end in Europe. And while the world economy is gradually recovering, in 2005 we will once again be propping up the growth table in Europe – and this after years of stagnation to begin with. If the forecasts of the research institutes prove to be true, our growth will not be enough in the medium term to kick-start the economy and increase jobs with sufficient force.
- At over 40 per cent, social insurance contributions have reached an extent that destroys jobs. And the costs resulting from the demographic problems in pension and health insurance are still ahead of us. If conditions remain unchanged, they will cause further contribution hikes in social insurance.
- The number of unemployed, at over five million, remains almost unchanged. Those who are undergoing further education or training measures offered by the job centre are not even included in this figure. And if you add those who appear in no statistics because they have resigned and given up on employment, the actual level of unemployment in Germany is in excess of six million.

- Even today, unemployment costs us more than 80 billion euros every year. An inconceivable amount. For social insurance alone, this means lower revenues of about 16 billion euros per year. The costs of the Federal Labour Agency are not even included in this.
- This shows very clearly that our social security systems will not work unless we acquire a grasp on the problems in the labour market. Or, put differently: if we cannot manage the growing incidental wage costs, we will not be able to solve the problems in the labour market.
- But that is not all: Over the last few years, the number of wage and salary earners has been in almost constant decline.
- We are, however, champions when it comes to accumulating debt. For several years now, Germany has surpassed the maximum budget deficit allowed by the growth and stability pact, which was set up at our instigation in 1997. If there are no changes in the growth rate in the near future, it can be safely assumed that we will once again knock down the bar of the deficit criterion in 2006.

This is not pessimism, but a realistic assessment of the actual state of affairs.

## Future tasks for Germany

Today's economic situation does not give cause for optimism when thinking about the tasks that lie ahead. No one contests the daunting size of these tasks any more.

On top of the great challenges of unemployment and the age structure of the population, there is globalisation and the intense competitive pressure resulting from it: From a purely economic viewpoint, globalisation means a growing international division of labour and a closer interlinking of national economies through trade with goods and services. It means increasing investments by companies between individual countries and growing international financial flows.

As an export nation, Germany has profited from this development in the last decades. Here in Germany, the per capita income has grown by almost 500 per cent since 1950 – from about 5,000 euros to approximately 24,600 euros.

However, globalisation stands for more than just economic growth. Globalisation has many faces. First and foremost, it means a free exchange of information, thoughts and ideas. It means much greater mobility. It is no exaggeration to say that globalisation has contributed to the dismantling of the Iron Curtain. At the same time, it has taken on new dynamics with the countries which were formerly on the other side of the Iron Curtain entering the worldwide economic stage.

Globalisation itself is neither good nor bad. It is rather a development that provides opportunities and involves risks and – as everywhere – there are winners and losers. The interlinking of countries will increase, whether we like it or not. Globalisation is not something that has developed only recently. It has always existed.

Entrepreneurs and workers are competing more than ever before. Therefore, one result of globalisation is the fact that companies turn their back on Germany and relocate to other countries. The jobs involved are lost.

We must stop this process without questioning globalisation as such. We must see to it that companies do not leave Germany but set up businesses and create jobs here. What is at stake for us is simply to make use of opportunities and to minimize the risks. Put in a nutshell: Globalisation requires political input.

One of the great challenges of the future is the ageing population. Not much needs to be said about this. The numbers speak for themselves.

- The number of the elderly and/or pensioners is steadily increasing. At the same time, the number of younger people and wage and salary earners keeps shrinking. This means that increasingly fewer younger people will have to pay for more and more older people.
- The population in Germany will stagnate in the near future and then decrease. The number of inhabitants of Germany is sinking – according to calculations of the Federal Statistical Office from almost 83 million today to 75 million in 2050.
- At present, only one out of four Germans is older than 60. In twenty to thirty years, this ratio will worsen dramatically at the expense of the younger generation.

The reasons for this are well known:

- More and more people live to grow very old, which is surely a pleasant fact.
- At the same time, fewer and fewer couples decide to have children. Germany, together with Greece, has the lowest birth rate in Europe. On average, the birth rate per woman in Germany is barely 1.4 children. In other countries such as Sweden, France or the United States it is clearly higher.

At present, demographic changes are almost always discussed in the context of a reform of social insurance systems. Yet, they do not touch upon those alone, but upon almost all other areas of life as well. Even today, regions in the former East Germany are fighting a population decline.

In some areas in southern Lower Saxony, the situation is not much different:

- From 1990 to 2001, the population in the five districts of the Weserbergland and the Harz region, Holzminden, Osterode, Northeim, Goslar and Salzgitter, has shrunk by a total of 14,000 people. At twenty-one per cent, the number of senior citizens is four and a half per cent above the German average.
- In 2000, with 21.9 per cent of its total population over 65, Osterode was the "oldest" district in all of Germany. Forecasts assume that these southern districts of Lower Saxony are likely to shrink by approximately 18 per cent by 2020.

If these forecasts prove true, we will have fewer chances to celebrate the inauguration of schools and kindergartens. We will be more occupied with systematically reducing the number of buildings or even tearing down whole blocks of houses.

In spite of the changes ahead of us, I am convinced that we will be able to address the problems in our country. What we need most is courage and confidence. Future, after all, can be shaped. This is the essential difference between the past and the future: In principle, we can know everything about the past, but we cannot change it any more, while we know basically nothing about the future, but we can shape it.

But what must be done to be able to take on the tasks of the future? How can our country get out of its difficult position and be more dynamic? How do we prepare the ground in order to ensure that Germany will be able to return to the path of prosperity in the long term, and how can we secure this prosperity in the long run?

## Agenda 2010 is not enough

Given the challenges ahead of us, one thing is clear: The Agenda 2010 is not sufficient to solve today's problems.

It is true that some of its steps are pointing in the right direction. However, these are merely first steps, and others, second and third steps, will have to follow. What is being discussed at the moment is barely enough to make up for the mistakes of the past years.

It is not enough to lower taxes gradually while a fundamental simplification of the tax laws is put off indefinitely. It is not enough to keep social insurance systems alive with ever new emergency operations while we are avoiding the much-needed structural reforms. It is not enough to hand over all long-term unemployed to a centralistic agency, which cannot even handle the unemployed for whom it was originally responsible. This will not be enough for the simple reason that in 2003, almost 40,000 companies in Germany went bust, and once again, many jobs were lost for Germany. Also in 2004 there was a very high number of insolvencies.

To make things worse, Germany has the highest energy costs. In part, this is due to government taxes and fiscal charges. Germany's energy policy should ensure energy prices that combine the general conditions of a competitive economy with a commitment to climate control. What is needed is less ideology and more determination.

It is alarming when people in Germany take to the streets in spite of the rather sluggish and insufficient reform process. In the summer of 2004 there were demonstrations for a fair republic in Leipzig, Magdeburg and other places in Germany. The "Monday demonstrators" were applauded. They had the support of the population, of the social associations, the churches, the trade unions, and also of Gregor Gysi and Oskar Lafontaine.

Also today, many believe the reforms go much too far. They do not agree with a policy of saving money and changing things. They think a lower increase in pensions is "indecent", many jobs are unacceptable to them, low wages and longer working hours are "unsocial". This is frequently the expression of an attitude that the state has to ensure the welfare of its citizens, and according to many, it is the state which must provide the necessary jobs.

To a degree, this behaviour is understandable. Who wishes to give up a privilege held for a long time? But this attitude does not solve any of the problems.

All of this is reminiscent of a situation that the French philosopher Alexis de Tocqueville described so well in his book "Democracy in America" in 1835: "Placed in the middle of a rapid stream, we obstinately fix our eyes on the ruins that may still be descried upon the shore we have left, while the current hurries us away and drags us backward towards the abyss."

## Surmounting the weakness of growth

To solve the tasks of the future, we must first solve the problems of the present. In Germany, this means: We must finally move Germany forward again and overcome the flat growth. It is not so very long ago that the term "growth" was hardly mentioned, even in speeches about the economy. Growth was frowned upon since the term was associated with the destruction of the environment, the exploitation of resources etc. The only thing considered tolerable was so-called "qualitative growth".

Today we know that growth is a decisive factor for the prosperity of a country and that of its citizens. The last three years – during which there was hardly any growth – have made this abundantly clear. All of us have now had the painful experience of what zero growth and stagnation actually mean in concrete terms.

The first people to feel it are the ones who have no more work or cannot find a training place. After that it is the wage and salary workers and pensioners whose incomes do not grow, or who even have to live with clear cutbacks, who notice it. Finally, the state feels it because it can no longer afford to do what is desirable and is hardly able to pay for what is necessary.

Only new growth will be able to create new jobs. And only new growth can consolidate the revenue base of the state, renew the foundations of the social insurance systems and secure the necessary investments in the future, in education and research, and in this way safeguard our children's future.

Therefore, efforts to create more growth in Germany must have absolute priority. To this end, we must use our potential. And here is another problem: For years, Germany has not used its growth potential. The world economy grows at an annual average of six

and seven per cent. We should be able to profit from this in some way. Germany should be able to reach a growth of at least two and a half or three per cent. Then, we would finally have more employment again, since experts say the threshold for the creation of new jobs is a growth of approximately 1.8 per cent.

## Faith and confidence

Growth does not create itself. Growth is like a tender plant that you must lavish care and attention on. To this end, we need reforms. These can be implemented only with the people, not against them. We must involve the people. Therefore, it is certainly counterproductive to tell horror scenarios which have very little to do with reality. This will not help us get ahead. It makes people insecure and hampers their will to reform. Pessimists will make people turn away from the necessary reform process with horror.

I fully agree with our former Federal President, Johannes Rau, who, in his final Berlin speech, said the following: "Where there is no trust, insecurity rules, even fear. Fear of the future is certainly not the way to win it. Fear paralyses our ability to act and blinds the eye to the fundamental changes that are needed to reform state and society, and to what needs to be adjusted to new conditions and what must be retained at any cost."

At the same time, we should beware of smooth talking the situation. It will not help to make people believe that the problems can be fixed with a few minor changes. This attitude must not be the basis for reform, let alone a political guideline. We have done this for too long, and this is the reason why Germany is stuck in a rut. People are entitled to know where they stand.

This extra in confidence that the former President expects from us does not happen overnight. Confidence is built only where people have faith in politics. This is where we have a problem. Politics today is considered as generally unreliable and dishonest; politicians are often labelled as liars or windbags. The gap between politics and citizens is getting wider and deeper.

It is true: These days, it is popular to speak of people's exasperation with politics. Those who publicly scold politicians are widely applauded. Scolding politicians has become an almost daily occurrence.

It is not necessary to take everything that is said in these debates seriously. Certainly, some of the criticism is not justified. At the same time, politics is not totally without blame regarding this state of affairs.

After all, how can the citizens have trust in politics when they are told for years how important it is for the public purse to save money, and shortly afterwards, the opposite course is taken? The Federal Government under Schröder did many turn-arounds in fiscal policy. One should not forget that this was the second 180 degree turn after the resignation of former finance minister Lafontaine.

What is a citizen to think if he is told for years that there will be an easing of the tax burden and a simplification of tax laws, while the ensuing debates deal primarily with an increase of various taxes? Let me name but a few: the discussion about removing tax breaks for home owners, the increase in value-added tax, and the demand for the cancellation of the tax exemption status for Sunday and holiday premiums. How can citizens understand politics when just a few years ago they were told that, according to calculations, their pensions were safe and that there was no need to worry, while today, there are massive pension cuts and thoughts about raising the retirement age? Finally, why should anyone invest in the future without knowing where the journey will lead?

What is sorely missing in Germany is trust in politics. It must therefore be one of the major tasks of politics to win back the trust of the people. Only those who have trust in the political leaders, in the economy, and in society will once again be able to instil some trust in people. We must give a direction to politics, with clear targets and a clear course. People will accept change only if they see the light at the end of the tunnel.

It will not be possible to take the people along with us on the road to a good future unless they no longer associate the necessary reforms in the economy and in the social insurance systems with lower wages, the loss of social security and greater injustice, but instead see in them the prerequisite for more growth, a higher degree in social stability and a positive perspective for their own future. Only if this is achieved will they accept the challenges. Only then will they join us on our way and be prepared to lend their assistance. Only then will people invest in the future once again.



## Urgent reforms are needed

Overcoming today's flat growth is just one side of the coin. It is a necessary precondition to face up to the challenges of the future, but taken by itself, it will not be enough. Further reform is needed, above all, in the labour market, our tax system, and the social insurance systems.

We must create a climate in which companies once again invest more in Germany so that foreign companies set up shop in Germany and bring jobs back to the country. We have to implement a general concept with courage, consistency, and determination. And we must do it soon – former Federal President Roman Herzog made us take the following to heart years ago: "The world will not wait for us!"

## Reform of the labour market

If we want more employment in Germany, we need, first and foremost, more flexibility in the labour market. This should be our starting point.

Together with the Social Democratic Federal Government we decided on a reform of the labour market which includes the combination of unemployment and social benefits. This was and is – in spite of the practical errors made in its implementation, and in spite of wide protests – the right way forward.

Some consider this path as an attack on human dignity or as poverty prescribed by law. But the alternative is: Further alimention of people by unemployment or social benefits. And it does not alter the truth that after decades of taking care of people, on spending funds on qualifying and training measures, it is frightening to see how little has actually been achieved. There is probably no other country in the world with a labour market policy that is as expensive and as unsuccessful as the one in Germany. This was the easy route for a long time. However, in social terms, it has been extremely unfair.

Also, Hartz IV does not just make unreasonable demands on the unemployed, quite the contrary: there are also substantial improvements. A house used by an unemployed person for himself will remain untouched; the possibilities to earn extra income have been improved, there are premiums for children, and finally: The labour agency is paying social insurance contributions.

Of course there are demands, too, but this is still a lot. What is crucial now is to offer, if at all possible, the opportunity to work – if necessary, even within the framework of jobs subsidized by the Government. And perhaps, more than before we will have to raise low wages to an appropriate level by adding on government subsidies.

Combining unemployment and social benefits in the new “Unemployment Benefit II” is not enough. Further reform will be needed if there is to be movement in the labour market once again:

- We must see to it that unions and management feel they have a responsibility for the unemployed. Their future decisions must take into consideration the high rates of unemployment in Germany.
- When a company is in trouble, everything should be done to guarantee that the company can go on and that jobs are kept. In times where many people are looking for work, this should be self-evident. For this reason, cooperation between employers and employees at company level must in principle be possible; within its framework, employers, the works council and employees should be in a position to arrange individual agreements. As in other countries it must be possible for German employees to support their company and, in this way, try to preserve their own jobs.
- At the same time, we need more flexibility regarding dismissal protection. Compared to the United States, it is three times more difficult in Germany to lose a job, but twelve times more difficult to find a new one. In other words: Once you are unemployed in Germany, it is damned difficult to find a new job. I think that too is unfair: Those who have work are well-protected and enjoy dismissal protection – probably the best in the world. The others are left out in the cold. They cannot find new employment, among others things, exactly because dismissal protection is so good. What employer will hire an unemployed worker if he is not sure what his order situation will be next year and cannot be certain whether he will be able to get rid of the employee? He will be on the safe side and not hire anyone in the first place, letting the others work overtime instead. This is particularly true of the older ones among us. Their chances of being re-employed are very low. This is why I believe dismissal protection should be relaxed. This is not to say

that we should abolish it completely. Nor does it mean that the people who have employment should suffer. For them, everything should remain the same.

- If we initiate reforms in the labour market and lessen the burden for companies by doing so, we must lower the unemployment insurance contributions at the same time. I am convinced that, if unemployment insurance were to refocus on its core tasks, it should be possible to lower unemployment insurance contributions considerably. This would help to create new dynamics in the labour market and could also signal to the citizens: Look, if we just try hard enough, we will actually manage to lower incidental wage costs.
- First and foremost, we need a low wage sector in the labour market to be able to give unskilled workers a chance to work. In this area, we Germans have the largest deficits in Europe since the share of long-term unemployed in Germany has been rising almost constantly in the last few years. In Germany, about 1.7 million people are unemployed for longer than one year. By now, this is almost 40 per cent of all unemployed. A low wage sector is the key to more employment in this area. This is the issue we need to tackle if we want to cure the "the German disease" – as it is now called. If we do not proceed, we might as well give up and say: There is nothing we can do. I do not think it would be sufficient to introduce a low wage sector exclusively in the Federal States of the former East Germany, as some have demanded. It does not really matter whether they live in the old or the new Länder: For any person without work and without prospects it is always better to have a low-paying job than to remain permanently unemployed.
- And: We must return to longer working hours. In international rankings, our level of annual working hours is at the bottom of the list. Thirty-eight or thirty-five hours per week is not enough to be able to hold one's own in international competition. Just one more working hour per week means an additional growth of over one per cent. It would be fatal if we were to ignore this potential.

## Reform of the tax system

In Germany, companies and consumers are burdened with high taxation and an overly complex tax system. This does considerable damage. The German tax legislation with its countless spe-

cial and individual regulations is no longer accepted by the citizens, and even less understood. Tax laws which are so complicated because they are trying to please every- and anybody are no longer perceived as just by the citizens. They are simply too complicated and confusing. In the end, no one knows who contributes how much to tax revenues. It is seen as particularly unjust that the man in the street always ends up paying while, at the same time, year after year, profitable industrial heavyweights get off more or less without paying any taxes at all.

Therefore, we need a completely new approach to income and corporation tax. The target must be to have a massive simplification of tax laws and an easing of the tax burden:

- The tax system must become simpler: every taxpayer must be able to see why and to what extent he must pay taxes. For this reason, a completely restructured income tax law needs to be at the heart of any tax reform.
- The tax system must become fairer: To this end, all types of income must be recorded, while exemptions, subsidies, and privileges should be cut back systematically. This will increase the transparency of taxation, reduce the possibility of tax evasion and lead to greater fairness and therefore better acceptance in the population.
- Finally, the tax system must reward hard work. To this end, tax rates must be lowered permanently and across the board. We can call upon both entrepreneurs and employees to take on more responsibility only if, once more, they have more money in their pockets.

Time is of the essence. In view of the stagnation of our economy, the unemployment which is still way too high, and growing international competition, we can no longer afford to sit and wait for an improvement of the economic situation via a global economic upturn.

We must take control again – it is up to us, not to some “world economy” or other “globalism”, whether we will finally manage a breakthrough in this area.

## **Reform of the social insurance systems**

Statutory additional wage costs still are the key factor that determines the profits or loss of a company and affects jobs in Germany. The Ifo Institute recently established that it is the high lev-

el of incidental wage costs that plays a bigger role in a company's decision to relocate than the high tax burden. For this reason, we must try everything to lower statutory incidental wage costs on a permanent basis.

We took a first step with the health care reform, which we passed together with the Federal Government under Schröder. The first results are encouraging. The health insurance companies are still very hesitant in lowering their premiums, but if the trend continues, this too will show that the reform is working. The path embarked upon is the right one. However, the reform will give us just a little breathing space, no more. We may have won a little time before we start working on the fundamental reform of our health care system.

The reform of compulsory health insurance adopted is not the end but rather the beginning of a fundamental reform. Regarding both the financial side and the benefit side, we want to put compulsory health insurance on a new foundation by separating labour costs from health costs. We want to lower the statutory incidental wage costs considerably by introducing a type of health poll tax. Social balance will no longer be achieved through social insurance, but through the tax system. This is the only way to increase our chances of creating new jobs. If this model is implemented, the Federal Government's advisory council of experts expects up to 1.4 million new jobs!

No one denies the need to reform the statutory pension system any more. The decision of the Federal Government to reintroduce the demographic factor is a step in the right direction. This in itself, however, will provide neither security for the pensioners nor reliability for the young generation. I fear that we will have to start work on the next pension reform within a few years. For this reason, we should finally begin to put the statutory pension system on a solid and sustainable foundation. The so-called Riester pension also needs general revision. First of all, it must be made simpler.

There is a need for action regarding nursing care insurance as well. This does not only apply to the implementation of the ruling made by the Federal Constitutional Court to ease the strain on families with children. Here, the Federal Government is striving for a minimal solution, which will make no one happy. The necessary structural reform, on the other hand, is put off indefinitely once again. Social nursing care insurance shows new

deficits every year. For the time being, we can live off the reserves, but in 2007 at the latest, increases in contributions loom large, with the usual negative consequences for the economy and jobs. An increase in the contribution and thus in incidental wage costs would be poison for the stagnating economy and must be avoided at all cost. Nursing care insurance must remain a long-term central pillar of a social insurance system based on solidarity and financed by contributions. Yet, even here contributions must not increase either.

## Trust needed for reforms

In spite of the reforms that the Federal Government under Schröder instigated in the last few months with help from the CDU, immense tasks lie ahead of us. We must not make people feel insecure by conjuring up horror scenarios. On the other hand, we should not smooth talk the problems either. Those who want to solve the tasks of the future have to address the problems of the present first and will have to set the course accordingly. Much needs to be done. The most important thing is to overcome the flat growth rate. This will only be possible if people regain their trust in politics and in the elites. This will not happen overnight because trust needs to be earned.

Things must be fair. In our time and age, it is not fitting for employees to have to tighten their belt because their Christmas premium is cut or they are facing unemployment, while at the same time, entrepreneurs shamelessly help themselves to everything in order to get richer. Something is wrong in a country where the salaries of managers have gone up in spite of bad results, while at the same time the pensioners, the sick and the unemployed are facing considerable cuts. If a company is in bad shape, it cannot only be the workforce that suffers – it is only fair that management makes some sacrifice also. The same applies to the state: If it is in bad shape, all of us have to make a contribution – for what is the state but us?

We will get people's approval regarding the necessary reforms only if the majority of the population says: I do not like the cuts but I can see that it is not just me but also my neighbour and my colleagues who are affected by them. If everyone makes a contribution, then I too am willing to take part in this effort.

Let us begin to regain the trust of the people. Trust creates confidence. Ultimately, it is only with confidence that we can solve the tasks ahead of us.

# Chapter 8

Tim Yeo

## The Challenge of Public Service Reform: Transport, Health and Education

The period of peace after 1945 saw the European nations rebuilding their economies after the years of devastation. Social reform was part of the package. R. A. Butler's Education Act of 1944 shaped the pattern for the free schooling of 6 to 16 year olds for the rest of the century. The Beveridge reforms four years later created Britain's National Health Service, providing free health-care for all at the point of use. Both of these reforms envisaged a protective state setting up monopoly structures to provide social benefit. They were widely welcomed by the public and accepted by both major political parties in the United Kingdom, Conservative and Labour. Indeed, health and education were arguably the two public services least affected by the Thatcher reforms of the 1980s.

The other public services included transportation, the utilities and the telecommunication and postal services. Looking back to the time when Margaret Thatcher took office, it is hard to remember that British Airways, itself an amalgamation of the British Overseas Airways Corporation and British European Airways, was under national control. So was the telephone service, now a successful private company called British Telecommunications and the model for many similar transfers from state to private ownership in the telecoms sector. The country's major airports were nationalised, too. So were the companies which generated and distributed electricity, the utility companies which supplied water and gas, the Post Office, and the National Coal Board which ran the UK's coalmines.

These services all fell within a model that rested on both social and economic assumptions. The social assumption was that service infrastructure belonged and should continue to belong to the state for the benefit of its citizens, and that only in this way could the public interest and quality of life be protected. Public ownership was held not to mean ownership by investing members of the public, but ownership by the Government of the day. The economic assumption was that such services needed to be support-

ed by tax revenues. The notion that they could be run on commercial or competitive lines was anathema. Profits were felt for many of these industries to be unachievable or irrelevant and insofar as they might be earned, they were considered to belong to the state. The notion that profits might be earned by businessmen and shareholders out of what was a social entitlement for all was regarded by the left as being immoral.

For there was, of course, a political assumption, as well as social and economic assumptions. For thirty years after the resumption of peace, there was an unspoken concordat among people who thought of themselves as reasonable men or women of the centre. Quite simply, the idea that state ownership might be challenged was unthinkable.

The Thatcher achievement was that, for the first time in Britain, those who argued for privatisation won the intellectual debate. There were too many flaws in the existing system. The nationalised industries were inefficient. They were protected from competition. They did not offer choice to consumers. They set administered, rather than market, prices. They were run by two sets of managers: those in the business and the civil servants of Whitehall, each lobbying both the Treasury and their sponsoring Ministers for support. They were often at the mercy of unreformed and over-mighty trade unions whose leaders enjoyed their power politics more than improving the efficiency of their industries, and who did nothing to help managers break down many years of restrictive practices. These industries were a massive drain on the taxpayer, requiring cash injections for capital investment and to fund revenue losses.

The wave of privatisations under Margaret Thatcher resulted in massive consumer benefits in terms of price, choice and quality; a reduction in the public sector; greater labour market movement and flexibility, and a much needed increase in the dynamism of the industrial sector. Much of Europe, including Germany, followed Britain's lead, and the rewards are visible today in all the major European economies.

The move from public sector to private sector ownership has not been without risk. There was, initially, much anxiety that service and quality levels might be threatened by commercial pressures, including the need to give investors a return. In the early years after privatisation, some senior managers awarded themselves unreasonably high salary and bonus packages, but these abuses



were fairly short term, as the disciplines of the market were felt, including scrutiny by the media and pressure from powerful institutional shareholders.

More significantly, it was necessary for the Government to safeguard the public interest against monopoly abuse until market liberalisation had its full effect. Before the Thatcher reforms, nationalised industries were subject to efficiency reviews by the Monopolies & Mergers Commission. These reviews were intermittent, taking place only every few years; and partial, covering only specified aspects of the industry's operations. Most of the newly privatised industries were made statutorily subject to independent Regulators, who had responsibility for monitoring prices and efficiency, and in certain cases imposing a price regime.

Other concerns about the risks of moving from the public to the private sector included human safety and the environment. After the privatisation of British Rail and its break-up into smaller regional rail transportation groups, a small number of tragic accidents occurred involving injuries and some loss of life. Subsequent analysis showed that, contrary to public perception and to the claims made by some political opponents and trade unions, the safety record of the industry was no different under private ownership from what it had been before.

Today, five broad areas of public services remain in Government ownership. These are health, education, roads, the postal services and nuclear energy. Each of them poses particular challenges to the Conservative Party. It is convenient to deal with them in reverse order.

Britain's nuclear energy capability falls, for peaceful and civil purposes, within British Nuclear Fuels Limited (BNFL), a wholly state-owned business. BNFL has had an uncomfortable time under the present Labour Government which has been unwilling to give any commitment to supporting the industry after the present nuclear power stations reach the end of their natural life. Despite the merits of nuclear power as a means of achieving climate change targets, ministers have said little about where Britain's national energy will come from as North Sea oil reserves become depleted and the Government seems to be assuming that much of Britain's future energy needs can be met by imports of natural gas from Russia through pipelines across Germany, completely ignoring the strong strategic case for the UK, as an island na-

tion and one of the world's largest economies, remaining substantially self-sufficient in its energy.

Two health issues arise from the generation of nuclear power. The first is the safety of generating plant post Chernobyl and the second is the safety of nuclear waste disposal. In both these cases, the science community has expressed confidence in current technology, despite the doubts of the green lobby. At present, Britain's energy strategy and the jobs of workers in the energy sector are blighted, and expert graduates and technicians are migrating to other countries. An assessment of the competing considerations and a clear-sighted strategy are needed.

Britain's postal services, which once led the world, have now sadly been reduced to a very poor state by government mismanagement. Under the last Conservative Government, the Post Office Corporation produced large annual surpluses for the Exchequer and service levels for the first and second class mail were high. After 1997 the Corporation collapsed into alarming losses. Faced with the liberalisation programme imposed from Brussels, the organisation failed to build on its past achievements.

The Government preferred spin to substance, re-branding the organisation as Consignia, a name which appeared to one critic as rather like left luggage on the Appian Way. The losses mounted and the Government installed new management who renamed the company the Royal Mail Group and reduced service levels. The industry Regulator judged that during the past year the Group failed to achieve every single one of its objectives and targets.

While the UK's postal services have been floundering, Germany's survived reasonably well, given recent economic and market conditions. Deutsche Post is now Europe's strongest postal service. Privatisation has enabled it to recruit expert commercial managers and provided it with quoted equity capital with which to make external acquisitions. The purchase of the international carrier DHL is notable example.

No such clarity is evident at Royal Mail. Indeed, the Group consists of two businesses that are entirely different in their characteristics. These are Royal Mail itself, primarily a national and international letter-post carrier, whose objective is to handle 80 million pieces of mail in the face of mounting competition, and Post Office Limited, responsible for about 17,000 retail

branches, almost all of them under franchise to sub-postmasters, which provide government financial and administrative services in their local communities.

The challenge now is to equip these two businesses for the future. What is the right solution for one of them is not necessarily right for the other. Should they be left as two divisions of a single corporation or demerged as separate entities? Should they remain as nationalised industries or should one or both be privatised? The post office franchises are already owned by the sub-postmasters. To what extent should the workforce of Royal Mail be allowed to participate as shareholders in their business, whether or not it receives a flotation? The public wants an appropriate balance being struck between public service and greater efficiency and effectiveness. In the twenty-first century, it is more important to have high standards of service delivery and quality, acceptable choice and low cost, than to support a particular ideology about ownership.

Roads are part of essential national infrastructure, as vital as water, energy and telecommunications, for they are one of the nation's lifelines through which products, as well as people, flow. Britain's road building and maintenance programme over recent years has left much to be desired. Currently, virtually all the road network is funded from general taxation. In Switzerland, private and commercial users from outside the country make a financial contribution through a licence fee to Swiss roads. In other European countries, motorway access is conditional upon road tolls. Whether one or other of these approaches is the best way to encourage the necessary increase in investment in roads remains to be decided but it is beyond doubt that if Britain is to remain economically competitive its transport infrastructure must be modernised.

Finally, there are the two great public service areas of education and health. It is now roughly sixty years since the present education and health systems were established. They have done immense good to the country, and the British people are rightly proud of them. But their shortcomings are becoming increasingly clear. Each has become expensive to run and, under the Labour government, excessively centralised and bureaucratic. Ministers and civil servants have tried to micro-manage schools and hospitals, setting hundreds of targets and monitoring results in such detail that the impact has become counter-productive. The user,

whether parent, pupil or patient, is trapped by a monopoly bureaucracy. Teachers, doctors, nurses and managers are compelled to meet administrative, rather than professional objectives, and to report on them in painful detail. The challenge now is how to build on the good, while introducing the better.

There are many ingredients to be considered, but the over-riding question concerns choice. Conservatives believe that the exercise of real choice leads to lasting economic and social benefit. If service users and providers are given greater freedom of choice, then benefits will flow in the form of higher standards, more competition, and greater capacity. If choice is to deliver benefit in terms of better value with better quality and service, then there has to be extra capacity, too. The 1940s model envisaged state monopolies, protective and self-protecting. The 21<sup>st</sup> century model must look for a dynamic partnership between public-sector and private-sector provision.

So, the Conservative Party in Britain is committed to giving parents more choice in the selection of schools for their children, as a means of driving standards up. To create this choice, it will be necessary to provide extra school places, both at existing schools and through the provision of new schools. It will be necessary to free the governors and head teachers from petty rules which limit their ability to expand good, popular schools, and to encourage qualified entrepreneurs and voluntary and religious bodies to create new schools. Choice, diversity and excellence are the objectives.

Similarly in the field of health, the inert state monopoly must give way to change. Conservatives are thinking of a national health system, involving the best of public and private sector care, rather than a National Health System that is purely inward-looking. Under Conservative proposals all patients will have the right to make an informed choice, assisted by a qualified clinician, about their programme of treatment or care. This will apply not only to those who require elective surgery in hospital, but also to those suffering from chronic diseases. In addition doctors, consultants, nurses and managers will be freed from the present plethora of government targets and directives to use their professional skill and judgment more effectively.

Within the new national health system, as in the schools system, funds will follow the individual, not the institution. This practical exercise in consumer democracy will discourage poor stan-

dards and top-down bureaucracy. It will force mediocre providers to improve. It will encourage good providers to become the best. This will be no quick fix, but a programme to deliver lasting excellence in the public services. This will be one of the greatest challenges of the 21<sup>st</sup> century for the Conservative Party in Britain.

## Chapter 9

Peter Müller

### Integration and Migration in Germany – Challenges for an Immigration Policy for the Future

#### Immigration – a test case for our country's political culture

There is hardly any other political issue in Germany that attracts such a level of emotional outpourings and frequently downright hysterical prejudices as the debate about our national identity. From the historians' dispute to the Goldhagen debate and to Martin Walser, the personified literary scandal residing on the shores of Lake Constance, – every conflict involving semantics, science or the aesthetics of literature seems to open up old political wounds which are in some way connected to the constitutive inner core of our democratic identity in Germany. What political and ethical obligations can be derived from our historical view of ourselves as the Federal Republic of Germany and what is subsequently our attitude towards the national interests of Germany in an age of Europeanization and globalisation? Do we now have a well-developed and robust understanding of democracy lending us a feeling of identity, and where is the line between a healthy sense of national identity and irresponsible historical oblivion? The many-voiced crowd of those who wish to forget the past at last and to return to so-called normalcy seems to be growing every year.

The debate about the influx of immigrants into Germany seems to oscillate between irrational exaggeration and illusionary trivialization and is typical of the problem we have with our identity, our lack of national sovereignty and inner calm. It is with longing melancholy that we Germans look to the natural self-confidence of our French neighbours who are proud of their "Grande Nation", of their naturally grown French "Leitkultur" (lead culture), its 'Civilisation Française'. Wolf Biermann, in the daily "Die Welt", asked: "How can one love a people that despises itself? .... We are not at ease with ourselves... . In this, peoples probably resemble individuals: Those who are sure of themselves

have the calm confidence needed to get involved with others." And right he is! Having Biermann's calm confidence would be a great blessing when adopting a practical approach to the social, economic, political and cultural consequences of immigration in our country. There are two reasons why migration problems have become a litmus test for our political culture: Firstly, the problems and burdens of a largely uncontrolled immigration and the worries this causes people must be taken more seriously than before, and secondly, at the same time it must be conveyed that immigration offers a wonderful opportunity to enrich our society – and not just in economical terms.

The discussion about a German "Leitkultur" ("lead culture") has shown how difficult it is in Germany to find a sound middle ground between multicultural indifference and expectations, based on a fixation on identity, for migrants to assimilate. Yet, the person who coined this political term, Islam expert Bassam Tibi from Göttingen, did not refer to a German, but a "European" leading culture, and helped create a useful political differentiation: He is neither interested in the cultural domination of immigrants by the German receiving society, nor the tolerance – let alone promotion of – 'parallel' i.e. separate Islamic societies to be accepted on the basis of the principle of tolerance stipulated by the German 'Grundgesetz' (constitution); he is undoubtedly right in speaking out against both a multicultural feel-good naivety, and a bigoted assimilation by force based on the so-called "leading culture".

The debate shows: As far as integration policy in Germany is concerned, it takes a certain effort to speak out in favour of a healthy compromise that takes into account the population's fears on the one hand and the chances for enrichment on the other. As an answer to the fundamentalist threat to the liberal Western societies, Bassam Tibi, university professor with a German passport and of Syrian-Muslim descent, recommends a return to the integrative bond of common European values: "Putting reason before religious revelation or other absolute truths, individual human rights before the rights of groups; promoting religious freedom, democracy, pluralism, tolerance." It seems to me that this is still not enough for a comprehensive integration policy that takes into consideration the justified expectations of the migrants as well as the social, cultural, and economic interests of the receiving society. Although this academic contribution may have been very helpful and important in making the debate more objective, it is

doubtful whether such a civil society consensus, whether constitutional conformity and cultural pluralism alone will be sufficient for a workable and modern integration policy in 21st century Germany.

### **Foreigners in Germany – between exclusion and self-exclusion**

The debate would be much more objective if the different ideological sides were finally willing to acknowledge the migratory realities in this country. It is simply a fact that Germany has been an immigration country for some time now, and that this trend will continue with the Eastern enlargement of the EU. In early 1999, an excess of seven million foreigners and 4.5 million ethnic Germans, who had arrived from Eastern European countries, were living in Germany. Foreign nationals make up approximately nine percent of the entire population. Based on generally long periods of residence, foreign residents have become an integral part of the German population. For example, at the end of 1997, 30 percent of all migrants had lived in Germany for twenty years or more; 40 percent had been here longer than fifteen years and 50 percent longer than ten years. The average length of stay of foreign workers and their families from the countries that Germany formerly used as recruiting ground is even longer: Almost two thirds of all Turks and Greeks, 71 percent of Italians and 80 percent of Spaniards have lived in Germany for ten years or longer. In spite of these long stays, the social and economic living conditions, especially for immigrants from non-EU countries, often remain unsatisfactory. One main reason is that since immigration to Germany has up to now not been properly regulated, the question of whether the migrants are ready, able and given the opportunity to integrate into our economy, society and culture has been given way too little consideration. The extent of immigration is not the only problem; another huge problem is the social and demographic profile of many immigrants, who have specific deficits in language competence, professional qualifications, work mentality and readiness to integrate. The negative results of this lack of integration and adjustment to the German way of life are reflected in the statistics.

- Above average share of foreign nationals in criminal activity (ca. 20 per cent)
- Above average unemployment among foreigners (ca. 20 per cent)



- Above average proportion of foreign nationals getting social benefits (poverty trap)

Hence, it does not come as a surprise that many Germans see the current, largely unregulated immigration not as an enrichment but as a threat. On the part of the immigrants – just as understandably – there has been a process of isolation and self-exclusion, which has been labelled “re-ethnicisation”. This interplay of exclusion and self-exclusion leads to a growing tendency to form ghettos and to establish isolated niche cultures, which is above all apparent in large German cities and here in particular among the Turkish immigrants.

In the meantime, immigration history in Germany has created a specific migrant infrastructure, which permits for example the Turkish part of the population to live a quasi autonomous life that is completely detached from German society. Due to Turkish shops, discos, and service providers – from Turkish doctors to Turkish solicitors – it is possible to lead an every-day life with almost no contact with the German population. Another established component of this infrastructure is the immigrants' own media, so that in principle, there is hardly any need to adapt to the receiving society (this frequently makes it just about impossible to integrate female immigrants, given the often patriarchal structure of family life). Overall, this leads to the creation of a clearly separate socio-cultural environment, which even big companies have now discovered as an attractive clientele that they try to reach by putting large ads, for example in Turkish newspapers. There can therefore be no doubt that parallel societies have come into being – and not only Turkish ones. A similar process can be observed with regard to the ethnic Germans from Eastern European countries who, although they are of German origin, are not accepted as such by society.

To solve these problems, simply complaining about the lacking willingness or ability to integrate will not be sufficient. For decades, politics and society in Germany have dealt with the problem of integration. The level of ideological energy spent on this issue is in reverse proportion to the practical results of integration policy efforts to date. It was only at the start of the new millennium that – across all parties and political camps – the realization took hold that, not least in view of the decline in population and our ageing society, a successful integration policy is of considerable national interest. We need a modern, multi-dimensional integration concept as today's immigration process do

not happen the way they did in the past; unlike the Polish coal miners who immigrated to the Ruhr area more than 100 years ago and created a successful model of integration there, today's immigrants are no longer cut off from their country of origin; today, communication and transport systems are available to everybody, and at the same time, the roots that the migrants bring with them can be maintained and cherished. On the other hand, it is becoming increasingly obvious that the receiving country can and must expect much greater efforts of adjustment from immigrants than before. Hence, Germany is at the beginning of a new culture of integration where everybody – majority and minorities alike – are expected to undertake much greater efforts than before.

### **Integration – not a one-way street, but our joint responsibility**

To take advantage of the opportunity that immigration has to offer our country, and to minimize the risk of insufficient integration, we need a consistent integration policy. Currently, Germany has no such concept. One promising integration model with the potential to solve these problems is the concept of "republican integration", represented by Prof. Dieter Oberndörfer, the most important feature of which is the division of the integration process into a public and a private sphere. In the public sphere, immigrants will clearly be expected to make an effort to adapt to the essential political and legal standards of the receiving country; first and foremost, this includes respect for basic public order as well as a cultural adjustment to the extent necessary for a coexistence based on equal rights of the local and immigrant population. One major aspect is to master the language of the receiving country since an adequate knowledge of the language will lead to a better and faster integration of migrants who are legally entitled to permanent residence in Germany. Only those who speak good German have a chance in the German labour market and in German society.

On the other hand, this concept of "republican integration" is just as clear-cut when it comes to allowing immigrants to maintain certain ethnic and cultural particularities in their private sphere, as long as there is no conflict with the fundamental principles of the receiving country. According to this concept, the population of the receiving country must show the immigrants tolerance and respect their possibly different customs within their private life.

It is a fact that even without immigration, modern nation states such as the Federal Republic of Germany are not culturally homogeneous structures but are "culturally speaking" heterogeneous as they feature social, religious and regional differences. Cultural uniformity and isolation are the antithesis of the empirical content of modern societies; rather, our modern life is characterized by a diversity of possible identities.

Integration must be planned as a two-sided process. It expects the receiving society to show a readiness and to make active efforts to integrate immigrants while requiring the same from the immigrants themselves. The efforts expected of the migrants to adjust to the social order of the Federal Republic of Germany must be mirrored in the German people's tolerance of other ways of life, cultural traditions, and religious beliefs. Integration is a task for society as a whole. It can only be achieved if parties, associations, clubs, political and social institutions, churches, aid and self-help organisations, but also many individuals work together. In this sense, the integration process is also a challenge for an active society of citizens. Politically, this is not a challenge for social policy alone, but a true cross-sectional task.

Shaping the integration process will necessitate much greater financial resources than before. In the long term, the costs for a successful integration will be lower than the overall economic costs in the case of a failure of integration. The results to date of the integration efforts undertaken in Germany are varying and mostly unsatisfactory. This is not only true of the first generation of immigrants; even in the second and third generation, integration is not a natural and inevitable process. For this reason, the integration process must become altogether more binding in the future and should follow the principle of "support and demand". Integration offers must be geared more strongly towards the needs of individual target groups. A successful process of integration will require much stronger integration efforts – on the part of the receiving country as well as on the part of the immigrants and their organisations.

Successful integration requires a culture of tolerance and co-existence, which must form the basis for Germans and immigrants to approach each other, within the framework of the values of the Constitution. Integration means to become part of the social, economic, and spiritual fabric of the receiving country without having to abandon one's own cultural identity. A successful integration process offers a chance to enrich the receiv-

ing society, to promote cultural diversity and to improve global competitiveness. The target of integration is to enable immigrants to participate in the social, economic, political, and cultural life in Germany on the basis of equal rights. It expects a law-abiding attitude, language competence and respect for the basic principles of coexistence in the receiving society. At the same time, it includes the possibility to maintain one's own cultural and religious background within the framework of the respective legal and constitutional system. Successful integration thus means social coexistence based on cultural tolerance and social peace. Its result is social and economic equality with regard to income, education, legal standing, housing, participation and social security. Integration does not mean assimilation. Its aim is not the complete adjustment of the immigrants to the culture and lifestyles of the receiving country. At the same time, integration is not compatible with the creation of parallel societies. A multicultural society in the sense of a permanently disconnected coexistence of different social or ethnic groups is not acceptable in the long term. Even an open, pluralistic and liberal society such as the Federal Republic of Germany has a core identity that must be maintained and protected against multicultural indifference – independent of our approval of cultural diversity and social heterogeneity.

### **Language as a bridge to understanding**

Many things make up the core identity of Germany's society in the 21st century. There are the values of the Christian culture of the West, moulded by Christianity, Judaism, Classical Philosophy, Humanism, Roman Law and Enlightenment; other components of this core of our political and social constitution include the historical experiences of the 20th century: the collapse of the Weimar Republic, the catastrophe of the criminal rule of the National-Socialists and, most of all, the economic and political integration of the Federal Republic of Germany into the community of Western nations and its values.

Our political and cultural self-image is one of a pluralistic, open and liberal society; this is the connecting and binding foundation for a pluralism of ethnic cultures within our national territory. Germany is an open-minded and hospitable country whose culture has been shaped for centuries by immigration and successful integration processes – from the Huguenots migrating to Brandenburg in the 17th century to the Polish coal miners in the

Ruhr area to the Italian guest workers of the 1960s and 1970s. History shows: Non-binding and indifferent multiculturalism in itself does not have an integrating effect; in addition, an "integration culture" is required which keeps alive at least a small common denominator of national values and traditions. What must not be part of integration are lawless areas in ethnic ghettos, an anti-women stance including forced marriages and female circumcision, or religious fanaticism. What is at stake when talking about an integrative cultural pluralism, then, is not cultural homogeneity, but minimum levels of legal order and of a civil society.

Such a concept of integration is dependent upon the ability to communicate in the language of the receiving country. Understanding and communicating requires the cultural integrative bond of a common language. For centuries, it was a matter of pride for immigrants in the culturally pluralistic United States to speak fluent English in the second generation at the latest. Without this common language, the constant flow of new ethnic groups from all continents could hardly have integrated into a nation state ("melting pot") which, despite all deficits and conflicts, to this day produces examples of impressive unity, again and again. It is a fact that immigrants will be able to take advantage of the opportunities that they expect for their lives and their work from a receiving country like ours only on the basis of sufficient language skills. It is another fact that the immigrants' knowledge of the German language is stagnating and sometimes even declining. About one third of Turkish children know no or little German when they start school; more than half of those questioned in a survey carried out among the Turkish population of North Rhine-Westphalia stated that they have a bad or at best mediocre knowledge of German. Many young Turks speak only broken German because they are satisfied with watching nothing but Turkish satellite TV. Many Turkish mothers, after decades in Germany, speak no word of German since according to Turkish family tradition women are not to play an active social role outside the home.

In spite of its conceptional faults, the Schröder Government's Law on Immigration Control and Limitation, which was declared invalid by the Federal Constitutional Court, at last put an emphasis on language promotion and cultural integration. Foreigners who "cannot hold a simple conversation in German" have to take part in mandatory language and integration courses; these shall

introduce them to the "language, the legal system, culture, and history of Germany". This requires a further need-based allocation of funds in order to ensure that each participant is guaranteed approximately 600 hours of German to acquire such basic knowledge. Of special importance are offers for foreign mothers who must be more actively involved in the integration process than before. This could be achieved by offering mothers of school children "mother classes" in the mornings, at their children's school, for example, or by using integration assistants to support the families.

Adolescents and children have a particularly good chance of successful integration. This seems to contradict the fact that language and integration competence among children of foreign descent has not improved over the last few years. The stagnating number of interethnic friendships is typical of this development: 69 percent of German youths say that they rarely or never have contact with foreign youths. A total of 62 percent of young German people is of the opinion that there are too many foreigners in Germany. As a consequence of this lack of exchange among young people and children, there is a growing trend towards segregation, inner differentiation and polarisation. There is a process of returning to the virtues of the home countries, to one's own culture and religious beliefs. To be able to use the integration chances of young immigrants in the future, children of foreign origin should be acquainted with the German language as early as possible, if possible at pre-school age. The target must be to give them sufficient language knowledge by the time they start school at the latest; it is even conceivable to include the mothers of these children in these measures to convey language competence, with appropriate offers at the pre-school and elementary school sites. Associations and social organisations must also do their part and make a special effort to invite foreign youths and children, and offer contacts and joint activities.

### **Integration as a holistic concept**

The most important aspect for the further progression of the integration process is to open up perspectives for school, education, and work. It is alarming to see that there is a declining trend in the number of foreign students in secondary schools, both female and male. The number of foreign youths without a secondary school leaving certificate is exceedingly high. The proportion

of foreign youths leaving school without any qualifications stands at almost twenty percent; the number for German youths is about eight percent. As more than half of the 18-20 year olds of foreign origin do not have any vocational qualifications, above average unemployment levels of our foreign citizens is but a logical consequence of this qualification deficit.

Whether the existing integration deficits of the resident foreign population in Germany can be corrected, and to what extent, will depend on schools, vocational training and the employment market. It inevitably follows that all integration policy programmes, however well-meaning they may be and whatever their scope and quality, will fizzle out unless they are complemented by appropriate education and employment market programmes. Furthermore, the chances for a successful integration process can be improved if we manage to steer the type of immigration where we are able to impose limits towards integration. For example, when choosing immigrants, prior knowledge of the German language should be taken into account if possible; this is also true of ethnic Germans immigrating from Eastern Europe and their families. We may also need to examine whether it is possible for people to learn German and acquire other skills in their countries of origin prior to arriving in Germany. Another possibility of steering immigration towards integration would be to lower the age at which children who speak no German can follow their families to Germany since the chances for integration are much better with younger than with older children.

Hopefully, the German integration debate will pick up speed, and the time of ideological (pretend) debates and of semantic contortions will end. We need a Law on Immigration Control and Limitation that expects greater adjustment efforts on the part of the immigrants but at the same time will improve their legal status and integration chances. This is particularly true of the participation in integration courses, which should be mandatory in principle and – and this is especially important – should be linked to an incentive system. Those who take part in these courses should be rewarded with an improvement in their status of residence or work situation. They could be granted permanent residence or be given the right to reside at an earlier stage; they could profit from a speedier naturalization process, obtain a work permit more quickly or get permission to participate in vocational training courses. At the same time, any violation of this mandatory participation must be sanctioned with measures such

as a loss of entitlement to social benefits, extending deadlines for an improvement of residence status, denying residence extensions, or putting certain conditions or time limits on the immigrant's residence status. Holding such integration courses for all future immigrants with an unlimited residence status will become the central tool of an improved integration policy and will increase the chances of a successful implementation of integration processes. However, beyond this, the aspect of "making up" for past shortcomings in the integration process must not be neglected. This very point was one of the basic deficits of the Law on Immigration proposed by the governing coalition of the Social Democrats and the Green Party.

### **Identity and identification – two sides of the same coin**

The German debate about immigration policy was dominated far too long by ideological and dogmatic infighting and blocked by the rigid thinking patterns of political correctness. This is neither in the interest of the immigrants nor in that of the receiving society. We must be clear in the future that neither multiculturalism nor cultural homogeneity is a value in itself. Immigration and integration are extremely complex processes, which require a reasonable balance between our obligations to the immigrants, based on humanity and international law, and the legitimate economic, social and cultural interests of the receiving country. The immigration debate in Germany must not be held purely under the aspect of what the receiving society owes the immigrants; it is legitimate and also necessary to define what the receiving society has a right to expect from the immigrants. It is the receiving society that decides freely and based on its sovereignty to what extent it will take in which immigrants from which countries of origin, and under which integration policy conditions immigration to Germany should occur. On the other hand, the immigrants themselves have a right to know what is expected of them in the receiving country and what they, in turn, can expect from the receiving country.

The concept of a multicultural society is dubious, both from a practical and from a theoretical viewpoint. The attempt to make multiculturalism part of a political ideology is doomed to fail. The great weakness of this concept is the creation of artificial barriers between two identification models: the enlightened, republican conception of democracy in the sense of Habermas' constitutional patriotism on one hand, and the grown national and



cultural German identity on the other hand. The example of our neighbour, France, shows that the two cannot be separated, that the republic is no less than a synthesis of a national culture, moulded by history and ethnicity, and a democratic constitution. In other words: The republican idea is – ethnically speaking – relatively open because it is committed to universalistic human and civil rights; yet culturally it is committed to its own national culture which, in the age of Europeanization and globalisation, will never be exclusively homogenous but will always be a culture shaped by multiculturalism as well. Notwithstanding common misconceptions, the democratic-republican model in particular requires of the “immigrants a far-reaching identification with the norms and values of the receiving country as well as (...) giving up great parts of their own cultural origins”, as multicultural proponent Micha Brumlick put it so well in his foreword to the German translation of the book “Multiculturalism and Democracy” written by the Canadian philosopher Will Kymlicka.

For many decades in the past, and for many years to come, our political culture in Germany has been and will be shaped by immigration. It is up to the immigrants and also up to us whether we see migration as a threat or as an enrichment. This much is obvious: The German receiving society has a great stake in a successful integration policy, if only for demographic and economic reasons. A merely formal and institutional integration based on adherence to the law and on the constitution, citizenship, or the right to vote alone will not suffice. What is needed is participation in the economic and social life of our country, which will not be possible without knowledge of the German language. Beyond that, there should be a feeling of belonging to the society and the country that offer a new home. Successful models of immigrant integration have shown that this feeling of belonging can help turn the receiving country into a place where the immigrant truly feels at home. On the other hand, we as the receiving society must approach immigrants with clearly defined expectations as well as offers of integration but, most importantly, we need to approach them with open arms so that they as well can develop a feeling of belonging. To perceive immigration as the responsibility of an active civic society while using the opportunities of an integration policy that is based on support and demand is a great challenge for the political and cultural identity of 21st century Germany.

## Section II.2. International Challenges



# Chapter 10

Douglas Hurd

## The German Unification Process – A Special Episode in Anglo-German Relations

The British attitude towards German unification in 1990 deserves deeper analysis than it is usually given. A comparison might be made between two cars approaching each other at high speed. If each car maintained its course a collision would be inevitable. At the crucial moment the road suddenly becomes wider. The smaller car alters course by a few degrees and, although the two vehicles touch when passing, the resulting scratches are minor and easily repaired.

Of course the United Kingdom, like France and the United States, had long been committed to the principle of German unification. The division of Germany, quite apart from the personal hardship which it caused to millions of Germans, was a destabilising fact in the centre of Europe. One could therefore have expected that the rapid decay of the GDR in the autumn of 1989 might have been welcomed by the British as by other allied governments, not least because it opened at last the door to the unification of Germany. I was however warned when Margaret Thatcher appointed me Foreign Secretary in October 1989 that her mood on the matter was very different, and so indeed it proved.

As her memoirs make clear, Margaret Thatcher had a firm idea of Germany which was not however based on any well founded understanding of the nature of the new German political system. Several factors came together to shape her scepticism, even hostility towards the rapid reunification of Germany.

First she was deeply impressed by the existing economic predominance in Europe of the Federal Republic of Germany. She assumed that this predominance would be greatly increased by unification. The Federal Republic would receive an addition of approximately fifteen million Prussians and Saxons, arguably the most disciplined hardest working and best trained workforce in Europe. Her anxiety on this point was strongly supported by Nicholas Ridley, a minister who was part of her inner circle. They were of course not alone in failing to foresee that in the short and indeed medium term the unification of Germany would cre-

ate not an advantage but a huge burden for the new Germany to bear. Chancellor Kohl himself in conversations with me repeatedly minimised the economic price to be paid for unification.

Second, Margaret Thatcher believed that Germany would certainly exploit this growing economic predominance in Europe for political purposes. The Prime Minister did not push this anxiety to absurd lengths. She did not believe that the ambitions of the Third Reich would be rekindled or that we should hear German marching songs once again along the roads of Europe. But neither did she accept as credible the assurance that the Bonn government wanted a European Germany rather than a German Europe. She supposed that the united Germany would use its economic muscle to achieve outcomes at the conference table which over time would add up to Germany hegemony on the Continent of Europe.

Third, she was worried at the threat to Gorbachev's prospects for achieving lasting reform in the Soviet Union. She maintained a strong and benevolent personal relationship with Gorbachev and believed that his success was crucial to the West. This success would be in doubt if he were pressed too hard to accept unification. She criticised Chancellor Kohl for subordinating the crucial western interest in Gorbachev's success to a narrow German objective.

Fourth, Margaret Thatcher believed that she might secure the help of others in at least delaying Germany unification. She was encouraged in this belief by her private dealings with President Mitterrand. The relationship between Mrs Thatcher and President Mitterrand was a subtle one. They differed greatly in background and belief but he always treated her with great courtesy. More important, he had provided substantial help to her during the Falklands War eight years earlier. While remaining wary of the French President's motives Mrs Thatcher respected his intelligence and sense of history. President Mitterrand enjoyed inventing historical parallels. Several times during the autumn of 1989, and in particular at the Strasbourg conference in December, he drew parallels between the actual situation and the coming together of Britain, France and Russia before 1914 to check the ambitions of the German Kaiser. (Two years later he used the same historical analogy when discussing the former Yugoslavia). President Mitterrand played with these ideas as an intellectual diversion; Mrs Thatcher received them gladly as further statements of

French policy. I knew from my own dealings with the French Foreign Minister Alain Dumas that in practice President Mitterrand was playing quite a different game. Although he had no love for the prospect of German unification he used his acceptance as a bargaining tool to bring the Bonn government closer to his own ideas about the future development of the European Community. Mrs Thatcher knew that there was no hope of persuading the Americans to favour delay in unification; but it took some time to persuade her that the prospects of joint action in this direction with the French were equally vain.

It was not in the character of Mrs Thatcher to conceal misgivings which she genuinely and strongly held. As her doubts became clear her personal relationship with Chancellor Kohl, never strong, weakened to vanishing point. During the critical months I spent much time listening to each of them describing the characteristics of the other. It was not hard to detect a certain reluctant mutual admiration, but this was overlaid by the irritation which each felt with the others tactics, choice of words and method of working. Yet each leader recognised that there had to be close contact at the strategic level between our two countries. Unable to provide this contact themselves they delegated to their Foreign Ministers. As a result both Hans Dietrich Genscher and I had relatively easy access to the Prime Minister and Federal Chancellor respectively, which we used to steer them away from collision.

As for myself I did not share Margaret Thatcher's misgivings. Unlike her I had benefited for many years from the openness and generosity of German democracy, particularly at the Königswinter conferences and at numerous occasions organised by the CDU/CSU. Although I was surprised at the speed with which events moved, I could not bring myself to criticise Chancellor Kohl for seizing an opportunity which might well disappear if not grasped. I accepted as genuine his conviction and that of his colleagues that the gradual integration of a united Germany in a uniting Europe was the best way of banishing the ghosts of the German past.

My frequent discussions with Margaret Thatcher on this subject remained friendly. I had never been one of the Prime Minister's inner circle of intimates. On the other hand I greatly respected her determination and integrity. For her part, having just appointed me to the Foreign Office in a time of political turbulence,

she could hardly bring about my resignation on this issue. I argued that we should with a good grace join the Americans, and indeed the French, in accepting unification. This argument was inevitably in private. Officials from the Foreign Office and our Ambassadors on the Continent were drawing to my attention the damage we were doing to ourselves through a reluctance which was interpreted as hostility. I became somewhat irritated by these reminders of a fact which was certainly true, but was provided by people who did not experience the difficulties of inducing Margaret Thatcher to change her mind.

Towards the beginning of 1990 two developments greatly eased the situation so far as I was concerned. The first was the creation of the 2+4 process at American initiative during the Ottawa conference on open skies in February. Before then we British from time to time had the sensation of operating in the dark. As one of the occupying powers we had a legal status in Germany and we were an important ally of both Germany and the United States. But we were not a prime mover in this question of unification. There was no deliberate attempt at concealment, but in those early months we were never quite sure what was going to happen next. This created an extra uneasiness on our side and greatly increased Margaret Thatcher's fears. The 2 + 4 plan established a procedure of which we were fully part with a series of orderly meetings at the level of Foreign Ministers. Our personal relationships were good and although there was tough negotiation there were no disconcerting surprises. When the Polish question came to the fore it was possible for the French and ourselves to put forward clear views and indeed to arrange for the Poles to take part in our discussions. This would have been much more difficult to handle, not least with Margaret Thatcher, had the 2 + 4 procedure not existed.

Secondly the crucial discussions about the German status in NATO developed in a way which Margaret Thatcher found congenial. She was caught in a dilemma. On the one hand she was anxious not to make life impossible for Gorbachev, which inclined her at one stage to accept that Soviet troops might continue to be stationed in Germany. On the other hand loyalty to NATO was one of her strongest principles. She came to appreciate that the same was true of Chancellor Kohl; indeed she began to focus her anxieties on the attitude of the German Social Democrats. At the same time it became clear that Gorbachev was ready to take substantial risks with his own military, and would

not press beyond a certain point any Soviet proposals which would hinder or dilute full membership of NATO by a united Germany.

Two episodes are worth describing as a footnote to this analysis. When I went to Berlin to join with my former colleagues in commemorating the 10<sup>th</sup> anniversary of unification, I was surprised during a joint television programme to find myself pressed by the interviewer on an incident which occurred during the final 2 + 4 meeting in Moscow in September 1990. 12 September had been fixed as the date for signing the final agreement on unification. During the preceding night a final argument developed concerning the right of non German NATO troops to exercise in the former East Germany after unification. This was a point on which we and the Americans wished to make more progress if possible. It was quite reasonable to press the Soviet side for satisfactory last-minute clarification. It was agreed between British and American officials that the Briton, Sir John Weston, should take the lead. It never occurred to me that we should carry this pressure to the point of preventing the signature of the agreement next day. Misinterpreting the situation German officials became alarmed at the absence of a full agreement on all points. They in turn alarmed Hans Dietrich Genscher who woke up the American Secretary of State Jim Baker. Some of the Germans seemed to believe that Margaret Thatcher had instructed me at the last minute to impose a delay. In fact she knew nothing of the matter and I had no intention of allowing a relatively minor argument to get out of hand. No-one disturbed my sleep. At breakfast at the French Embassy next morning western Foreign Ministers agreed a compromise formula which the Russians accepted with minutes to spare. I forgot the whole incident, which had never seemed to me particularly important, and was therefore nonplussed when it was given such emphasis on television ten years later.

More important for historians is the story of the seminar which Margaret Thatcher summoned at Chequers in March 1990. Characteristically she preferred not to rely on her own instinctive opinions on an important matter, in this case the future of Germany. She liked to buttress her opinions with outside expert support whenever possible. For this reason she invited a group of highly respected academics to the Prime Minister's country home at Chequers. This gathering has passed into popular history for the wrong reasons. The Prime Minister as usual began with a ro-



bust statement of her own anxieties but found little support. I was present and noted the outcome in my diary that night, writing "they [the academics] none of them shared her extravagant suspicions of Germany but this just makes her flail about more. All good humoured, but they are half amused half depressed by her prejudices". A full record of the seminar was kept by her Private Secretary, now Lord Powell. Weeks later this record leaked to the Press. It was Charles Powell's vivid account of the Prime Minister's views which caught the imagination. Less noticed was his final (and correct) conclusion that the weight of the evidence and the argument at the seminar favoured those who were optimistic about life with a united Germany. Margaret Thatcher must have been disappointed with this outcome but it may have contributed to her final acceptance with a reasonably good grace of the process of unification.

# Chapter 11

Wolfgang Schäuble

## The London – Paris – Berlin Axis and the Question of Europe

London-Paris-Berlin – many who view our continent from the outside will spontaneously think of these three capitals when asked what they associate with Europe. They may be thinking of culture and history, but also of the political weight carried today by the United Kingdom, France, and Germany. This weight, in turn, is indicative of the unique potential contained in the close cooperation between these three countries acting in and for Europe. A united Europe could not do without any one of these three countries, and none of the three could manage without the European Union. There is no doubt about this where Berlin and Paris are concerned; but it is just as true of London: "Europe needs the British" read an editorial headline in the *Financial Times Deutschland* (June 23, 2004) which went on to say: "The United Kingdom is the most pugnacious member state of the EU. And that is just as well – after all, someone must ask the awkward questions."

On June 13, 2004, approximately 340 million Europeans were called upon to help shape an enlarged Europe by making their democratic contribution and to make the voice of Europe heard through their vote. Most Europeans want a Europe that speaks with *one* voice. If this is not achieved, misunderstandings, noise and dissonance will follow. There has been no shortage of dissonance within Europe over the last few years about issues such as the Iraq war, the European debate about the Constitution and finances, the discussion of the stability pact, or the shape European defence efforts should take. Even when Europe comprised only 15 member states, it found it impossible to speak with one voice prior to the war in Iraq, let alone consistently pursue the same aims regarding such crucial issues as the future of transatlantic relations or the EU's global responsibility. Great Britain, France and Germany, the three most important and possibly most influential partners, remained notably divided on most of the controversial topics within the EU. This needs to be corrected, and through regaining lost trust, ways must be found for old and new member states to make a reliable joint contribution to a safer and

more stable world – a contribution, which we urgently need, and long for.

What must take precedence over any new ideas about transatlantic relations or about what joint Franco-Anglo-German efforts may achieve as a sort of dynamic core or engine of Europe, is the concern about the threatening alienation of the Union's citizens from Europe. Ultimately, they – and they alone – will be able to create a European identity. Voters' turnout in the European elections in 2004 was once again frighteningly low, which is not exactly a symptom of growing enthusiasm about the European idea. Although, in practice, many competences are combined in Brussels and there is a general public awareness of this, the crucial entity for many citizens of the member states continues to be their own national government. European institutions, on the other hand, are met with scepticism and suspicion; much seems to point to the fact that at present, Brussels is rejected more often on an emotional rather than an intellectual level. Without a certain degree of support and euphoria, however, the feeling of having a common European identity cannot develop, which means that we as Europeans will run the risk of shouting with too many different, disharmonious voices for a while longer.

In one of his publications (*Die Krisen der Demokratie*, The Crises of Democracy, 2002) Lord Ralf Dahrendorf, German, Briton and true European, cites the growing apathy of citizens vis-à-vis politics as one of the major dangers for our democracies and for the European idea. There are two reasons for this apathy: One is the powerlessness felt by the individual; the second is the lack of awareness of issues that seem remote. In a globalised world, politicians find it increasingly difficult to tell their people about the truly important issues and to explain cause and effect between things that appear remote and matters that concern them directly; one reason for this is that the traditional distinction between domestic, foreign, security and development policies is becoming increasingly blurred. Hence, political culture is in the process of redefining itself in a globalised world, and the inevitable trend towards more openness, diversity, and competition is meeting with considerable barriers since today, the lack of transparency, the power of the technocrats and a tendency towards introversion define large parts of political life in Europe. Only an open, target-oriented, and dynamic European policy will be successful in the long run, and only such a policy will convince citizens to truly make Europe their own.

It is an undisputed fact that the world has not become safer since September 11, 2001, and the Madrid attacks were a stark reminder that Europe too is and will remain a target for transnational terrorism. At the same time, the state of the economy in many European countries has been of concern for years, the modernisation of their social systems is not making any headway, and politicians seem to be at their wits' end when it comes to high unemployment. The information policy about the effects of the recent EU expansion in May 2004 has been inadequate and left too many things unexplained, which has led to deep-seated uncertainties among the population. Yet, particularly in a situation such as the present, it is essential for the citizens of Europe that national as well as European policies provide a sufficient level of clarity and are able to communicate continuity, stability and coordinated actions. When people perceive themselves as powerless, their feeling of fear and lethargy often causes them to put themselves at the mercy of those who try to fan the flame of fear. Hence, the primary aim of any European policy must be to give people orientation, especially in difficult times, and create conditions that enable them to rediscover their own dynamics, creativity, and commitment.

A strong, politically united Europe is important not only for the Europeans themselves, but also for our neighbours and for global stability. To be able to communicate such stability in a credible way to others, the unity of Europe must become evident in the willingness of its citizens to be part of this community. Without this identification, the European Union will at best stagnate or even risk moving backwards. At any rate, it would no longer be able to take meaningful steps towards further integration and a true political union.

An actively shared identity will curb national egoisms; but identity does not just arise and continue of its own accord. Therefore, European policy must identify its shared values in much the same way that it must create clarity about Europe's borders. Given the great importance of this subject for the vitality of a future Europe and for the EU itself, Germany, France and Great Britain should adopt it as their own. They should debate this issue with all partners in an appropriate form – and without wanting to dominate the outcome. It is obvious that this key issue simply cannot be resolved without a Franco-Anglo-German consensus. This raises the institutional question of how the interests of the people and each nation state in Europe can be brought to bear

as efficiently as possible. Nobody will deny that Europe is indispensable and without alternative from both a security and an economic perspective. A reversal of the European process of unification would run counter to the interests of all EU members, our neighbours and our American friends. This is why, in view of today's numerous great challenges, even vehement Euro-sceptics shy away from imagining our continent without the structuring force of the EU.

In spite of existing problems, politicians in Europe should also beware of belittling what has been achieved. The bringing together of twenty-five sovereign states – all with their own legitimate interests and many with a proud ego – which has already progressed very far and is unique in the world, is not exactly a bad result for the European unification process to date. Europe has established a common market and, with the Euro, a common currency in most of its countries which, prior to its introduction, was predicted to fail by many, in particular by British critics, and which instead has become one of the greatest European success stories. In addition, "European everyday life" for the most part works smoothly and well, at least as far as economic cooperation is concerned. Failures in important foreign policy questions, such as in the case of Iraq, can be explained not so much by faulty structures but rather by the lacking political will of member states to act together.

On the other hand, we must not allow our achievements to blind us. We are still facing daunting tasks, mainly to make the expansion a success, but we must make an effort to achieve more efficiency, transparency and, most of all, the citizens' acceptance of the unification process. The Constitutional Treaty as adopted by the Intergovernmental Conference is an interim stage in this process. Although it is not, in its current form, the great epoch-making success many were hoping for, it does constitute a certain degree of progress. However, what Europe would have urgently needed was a much more precise definition of responsibilities, among other things to prevent Brussels from drowning in bureaucracy, or an extension of the majority principle, particularly in foreign and security policies. Furthermore, there is no doubt that some things could have been planned in a more transparent and efficient manner. But, when weighing darkness against light, the text still serves well as a starting point for future improvements and developments, which must and will happen once the Europeans re-consolidate after today's troubling

phase, once they regain their strength after the most recent round of enlargement and start realising the need for strengthening common structures. All member states must be fully aware that everyone would be a loser in the event of a final failure of the Constitutional Treaty and that there is no alternative to the further integration of Europe, in carefully weighed steps.

Europe's future will also be determined to a large degree by the way we view Europe's role in the world and especially vis-à-vis the United States. In the United States, Europe is seen as losing future relevance because of its lack of political will, its declining military capacities, and trends of economic stagnation. "Ageing, rich und risk-averse" were the adjectives the *Financial Times* used to describe Europe's condition a year ago.

Tempting as it may seem to design new, completely changed global political constellations for the future, the fact remains that Europe on one hand and the United States on the other will remain dependent on each other. Europe cannot and will not manage to hold its own in a globalised world without stable partnerships. The past years have also shown that it is impossible to unite Europe against the United States. Whoever attempts to do so will cause a permanent rift in Europe since European unity and Atlantic partnership have always been the two inseparable sides of the same coin.

During the years 2003 and 2004 it also became apparent that even the United States cannot get by without stable partnerships and that Great Britain alone cannot fill this role in view of today's multi-faceted challenges. At present, the Americans are going through the bitter experience of realising the limits of unilateral political strategy. They know that they cannot remain the single dominating centre of world politics forever, and in view of the icy isolation which they feel at the moment, they are not or no longer eager to play that role. In the long term, they will not be able to rely solely on military superiority nor on changing and therefore unstable coalitions. Because of the width and depth of the common ground we share, America cannot find a better partner than a strong Europe. After all, the transatlantic partnership builds on much more than the interests of the Cold War: We share a common heritage and common values, a belief in human rights, democracy, tolerance and openness, and an absolute respect for the rule of law. This is why we should be optimistic that, particularly in view of the horrifying crimes of torture in Iraq for which its armed forces have to bear responsibility, Washington will do

its utmost to prove its irrevocable commitment to the principles of the rule of law and human rights. It will do so not only because otherwise it will lose its credibility in the world but also because not doing so would mean that America as a nation relinquishes the essential core of its *raison d'état*.

We will continue to have common interests and responsibilities because we belong to the economically affluent part of the world and because we are successful in the scientific, technical and political arenas. At the same time, we have a major impact on the environment and are using up most of the world's natural resources. In addition, we as Western countries are all exposed to dangers because of the blind hatred that many have for our way of life. For a partnership to work, both partners must be willing on a steady and reliable basis to make joint decisions, take on responsibilities and develop the necessary capabilities. Today, both Americans and Europeans need both hard power and soft power – the ability to act and the ability to persuade. While America must be willing to understand Europe better, Europe must become more politically united and able to act and outgrow its economic stagnation. In all of this, it will be important particularly for Paris but also for Berlin to find ways to rebuild lost trust with Washington and that to this end, both sides refrain from overreacting either in tone or in action if and when incompatible positions emerge. As no other nation, Great Britain is destined to be the mediating and connecting link, both as a European partner and by virtue of its special relationship with Washington.

Together, we Europeans and Americans are facing a multitude of virulent, dangerous crises and conflicts outside our continent that are sufficient to make our heads spin: Iraq, Afghanistan, Israel/Palestine, the Indian peninsula, the Caucasus, Central Africa, East Asia, and the list could go on. What is truly frightening is that in hardly any of them, does a convincing or at least predictable solution appear to be in sight so there is every reason to fear that these conflicts will be with us for many years to come. This situation is made worse by the long list of complex long-term challenges: the inhumane transnational terrorism and its combination of fundamentalism and perfidious use of high-tech, which we find so hard to understand; but also the nuclear programmes of Iran, Libya, and North Korea and possibly others while we are still not paying nearly enough attention to the Director General of the International Atomic Energy Agency (IAEA), El Baradei, who keeps warning us that the use of nuclear weapons

might be dangerously close; the availability of weapons and weapons-grade materials of all types, disintegrating states and asymmetrical warfare, against which our rules of international law are powerless; in addition, there are global environmental problems, hunger, poverty and disease; the cultivation and trading of drugs; the unresolved issue of future energy supplies and fair access for all to dwindling resources; and also the consequences of a demographic development that leads to a dangerous shrinkage of western societies, with drastic effects not only on the social statics we are accustomed to in the West but also on future migration movements.

Hence, more than ever before, our future as Europeans depends on how we shape our relationship with the non-western world: we must do this in partnership with America as it is together that we shape the West, it is together that we are faced with all the challenges outlined above, and it is together that we will be able to deal with them most efficiently in the long term. Once we manage to get a grasp on our problems in Europe, we Europeans should then be able to influence world politics as a reliable part of the West. If Americans or Europeans were to shy away from the present challenges, it would, in the eyes of the world, weaken the credibility of the West as a whole – an overriding danger that we must never lose sight of in spite of the adversities of each single one of these crises. A failure in Iraq, a permanent slide of the country into political chaos, would be a great catastrophe affecting Europe just as much as the United States so that one can only hope that the partners on both sides of the Atlantic will be willing to learn from their mistakes and misjudgements in order, finally, to be able to bring to the country the security and stability that people are yearning for. In view of the many parallels between these explosive crises, anything else would lead to disaster and tragedy far beyond the region itself. The same is true of Afghanistan, which must be considered a country that is still far from stable. Extending the international security forces into the provinces has not been entirely successful and takes a huge effort without any truly sustainable success to show for it. Despite years of at times bitter and hard fighting, neither the Taliban, let alone Al Qaida, seem to have been defeated while, from an economic viewpoint, the only flourishing business is the opium trade. At the same time, the conflict between Israel and the Palestinians is stagnating at a dangerously high level of escalation. The experience of the last decades has shown that positive



perspectives will not be achieved by the unbalanced support of one side or by a position of "wait and see". Europeans and Americans should try their utmost to find the way back to a common and stabilising approach.

Should we fail to calm the conflicts particularly in the Middle East fairly soon, we will run the risk of putting an entire region on the wrong track, thereby permanently endangering ourselves. The solution must be both a political approach that overcomes the differences of opinion in the West and a joint effort that includes others, most notably Russia and the Arab states, and offers a credible perspective to the entire region.

In this context, it is promising that in view of the escalation in Iraq, Washington and London are intensifying their debate about the best possible mix of military feasibility and the political power of persuasion. Berlin and Paris as well are at least trying to take steps in the right direction: Accepting considerable and risky responsibility in Afghanistan and offering to play a part in the rebuilding of Iraq are proof of the realisation that in the end, no country can escape its international responsibility with regard to an explosive issue that concerns us all.

The challenges facing Europe require that Europe be led in the right direction. In this debate, the future of the European Union and its quality as a political union of nation states are issues of importance. Opinions voiced today maintaining that a true political union of twenty-five or more is an illusion must be taken seriously but they do not stand up to deeper analysis. The very definition of the tasks that Europe is facing under the conditions of globalised opportunities and risks implies that only a true political union can be the basis for the common ground needed to enable Europe to take on the role in the world with which it will ultimately be able to shape its own future.

After half a century of integration that has largely been determined by economic cooperation, foreign and defence policies will dominate the dynamics of European integration in the near future and presumably decide whether further integration will be found acceptable. It seems that the people of Europe have taken this far more to heart than their governments, which have always tended to cling to their sovereignty. The Germans for one would probably have no problem with a truly integrated foreign policy, and one can assume that many other countries think along similar lines.

Yet, looking at this debate, one will come across many extremely diverging viewpoints. Some countries are only interested in a large free trade zone; others see true political union as possible only on a smaller scale and are developing ideas of variable geometry or differentiated integration. Ten years ago, when Karl Lamers and I launched a debate about a core Europe, an idea that has various names today, we wanted to describe how, in a substantially enlarged EU, central topics could be advanced, how a mental process could be started and how others could be convinced so that the whole idea would act like a magnet for all. Core Europe as an idea was always intended to be inclusive, never exclusive. Anyone who was able and willing to join was to be welcome and, hopefully, all would be able and willing.

Seen from this perspective, Poland will be as much a part of core Europe after the enlargement as Great Britain, and it can be assumed that Warsaw will soon become one of the more dynamic and innovative European partners. However, if some governments of the "old Europe" feel they may be able to use the idea of a core Europe as a threat against those who want things done differently, they would be doing harm to both the original idea and Europe itself. After all, the first lesson from 50 years of European unification is to respect all other partners, great or small, and make a special effort to include the smaller partners and to avoid at any cost the impression of dominance or reckless assertion of interests through sheer mass. Germany and France have a special responsibility to act with more caution and sensitivity than others precisely because harmonious Franco-German cooperation is and will be so crucial to Europe. This holds even truer for the close coordination of German, French and British positions. Particularly in times of far-reaching turbulence in European and security policy issues, France, the United Kingdom and Germany should be careful not to upset the balance between them but instead to demonstrate by their own actions that rules which were set up together are equally valid for all partners. Much trust can be regained here, not only in the wake of the upheavals associated with the stability pact.

Close cooperation with Poland would introduce the perspective of the new partners into the well-established Franco-Anglo-German dialogue, especially of those who are undergoing a relatively painful process of transformation. At the same time, much could be done within such a framework to build new trust and thereby soothe the relations between Poland and France, which

have been rather strained since the Iraq crisis. At the same time, the presence of Great Britain could serve to remove any semblance of anti-Americanism from the cooperation of the other three – the three of the “Weimar Triangle” established in 1991 – and strengthen London’s European and France’s Atlantic profile.

For such a close coordination of European policy to succeed one of the most important lessons from the conflicts of the last few years must be taken to heart and be made a general principle: Europeans must not demand of each other to choose between their commitment to Europe and their ties to the United States. It must never be considered a drawback for the Germans or the British to have good relations with the United States or for Germany to acknowledge its special closeness to France. More than to London, Paris, or Berlin, this applies to the new EU member states, as these countries’ recent memories of totalitarian foreign domination largely determine their sympathy for Washington whom they see as guarantor of their freedom. At the same time, Great Britain’s traditional friendship with Washington should never be questioned by any European – if merely for selfish reasons since this relationship is the best chance of linking the United States to Europe, in particular as far as politics is concerned. While focussing on the tasks of the future, we must never forget that European unification would not have been possible without many decades of American presence on our continent – something we had to learn the hard way after World War I.

This has also been confirmed by the political discussions conducted in London after the events of the last months because Great Britain, while maintaining its special trust-based relationship with America, may also see its future as more secure if it strengthens its ties with Europe. It seems obvious that, in the case of doubt, London will only be able to maintain its influence in Washington if it presents itself as an important part of Europe. A former British minister once explained the limits of the “special relationship” to me with these words: “It’s ruthlessness what makes a world power, not sentimentality”. The more issues Great Britain, France, Germany, and perhaps Poland tackle together, the stronger Europe will make itself and the less estranged from the Atlantic concept it will appear.

By using the right tone and level of tact, London, Berlin, and Paris can jointly have quite an effect and achieve much in the interest of all Europeans and the Atlantic partnership. The joint trip of the

British, French, and German foreign ministers to Teheran seems, at least short-term, to have moved Teheran in a sensible direction with regard to its nuclear policy – an effort which Washington, in view of its tense relationship with Teheran, could not have undertaken in the same manner and which the American President expressly welcomed. If the symbolism contained in this joint action were to have a positive outcome, one can only hope that the three will find the same strength and political will in other crises and receive appropriate support from Washington.

The European Union will only continue to be successful if it respects the principle of being a community of equals. Even the proposal of the double majority in European Council votes will not change that. On the contrary, this formula complements the deeply democratic requirement that the majorities in a supranational organisation should reflect both the majority of the participating states as well as that of its citizens. Even when the Union consisted of just fifteen members, political will, the readiness for and the actual possibility of implementing initiatives and new approaches were never evenly spread among the partners but sprang from the members' interests and performance levels. This created dynamism in the political discussion, with the permanent and constructive participants taking on a kind of leading role. Successful leadership was possible only as long as it was apparent to all that it would never violate the principle of equality for all. In the same way, in the Europe of twenty-five only those will be able to lead effectively who serve as a model and who succeed in integrating and convincing the others and often creating enthusiasm among them. Those who wish to be a model in this sense need an idea of shared values and a clear vision of where the European journey will lead. What is needed is a functioning political compass and a will to achieve consensus, which in European politics means the opposite of dominance. In Europe, the responsibility to lead can in principle only rest on many shoulders so that any fear of a Franco-Anglo-German Directorate would be unfounded for this reason alone. This does not preclude those who are particularly capable from taking on greater leadership responsibilities. Just as Europe cannot be built by bypassing its citizens, the guiding principle here too must be that the union cannot achieve anything without the willingness of all partners to cooperate and achieve consensus, and that none of the supposedly "larger" countries should attempt to follow such a path.

There is no doubt that it will not be possible for either America or Europe alone to control, let alone settle, the numerous crises and problems in today's world. Herein lies the definition of our common perspective for the future, which is why there should be no doubt that European and Atlantic security will once again develop hand-in-hand and not be pitched against each other. Logically, then, steps to strengthen a European security partnership must never appear as a provocation to NATO. If we proceed wrongly, we Europeans will rob ourselves of our chance to correct Washington's security policy manœuvres in a friendly and efficient way in situations where it is appropriate. One of last year's important lessons has been that the United States urgently and in its own interests needs such a well-meaning partner.

NATO must remain the basic foundation of European security. It is much more than a military alliance and even after the end of the East-West conflict, it has incredible political potential, which should be reinforced and used with the key security policy issues being discussed in this forum. The summit of Istanbul in 2004 was rather disappointing in this respect as well as with respect to the obvious lack of readiness of some allies to make personnel and materials available to the alliance, which will be needed to carry out politically desirable and jointly agreed missions efficiently and successfully while providing optimal care for the soldiers. Those who demand multilateral decisions must be willing to share the burden of responsibility and make adequate resources available to the alliance. This also applies to Iraq, particularly since NATO may at some point be asked to take on more responsibilities there, possibly for many years to come, as has happened in the Balkans and Afghanistan. Since all partners have agreed that the country's stability is of immense importance, this is what they should have in mind when deciding upon their contribution, rather than non-related domestic policy issues. Franco-Anglo-German consultations should focus on making constructive progress in these matters.

As to a European defence identity, the idea of an actual European army, which could be deployed independently, is by no means an illusion if this army were to serve as a European pillar of the Atlantic Alliance without the slightest doubt about a firm commitment to a functioning Atlantic security partnership. The Europeans would be well advised to launch their projects in a less confusing manner. This applies to the years of waiting for the European intervention troops, the establishment of which was de-

cided as early as 1999, to be 'fully' operational, as well as to the issue of separate headquarters and the plans to establish European "battle groups". EU members should send out clear signals, improve their actual capabilities and work hard towards intensifying the division of labour, specialisation and harmonisation within the European association. While we Europeans especially need to keep the European defence industry in mind, we need to be guided by the principle that competition is always more effective than structures built around monopolies. This is especially true of Great Britain, France, and Germany whose defence spending, based on better coordination and a division of labour, could better equip a European defence identity and put it to more efficient use.

If the West perceives itself as a community linked by the same destiny and if it pools its resources it will be able to pursue its own best interests and take on its responsibilities in a globalised world. To this end, a trusting cooperation between the most influential Europeans and the Americans is of special importance. This requires respect for the other person's dignity, for different religious and cultural identities and for varying development stages and speeds as well as an effort to avoid being selective when calling for the observation of human rights. If we are willing to view diversity as an asset and if we take care to listen to others, we will strengthen our Western order, which is also at risk from exaggerations. Our principles of freedom, diversity and tolerance run counter to the idea of one single true order for human coexistence. Great Britain, France and Germany as well as Europe as a whole have much to contribute in this respect. For this reason, we Europeans should be determined to present a united front in order to be able to make the best use of our potential, which is unique in the world: shaped by our own history, with its association of unity and diversity, and based on centuries of experience of associating with foreign countries and cultures, for better or for worse.

After all, Britons, Frenchmen, Germans and all other Europeans are more or less in agreement as far as essential foreign and security policy interests are concerned: European integration and Atlantic partnership. These are what define us as part of the West. If the West perceives itself as a community linked by one destiny, it has a good chance of success in the globalised world. Together, we may be able to combine Washington's unique military strength with our determined support of providing a legal frame-

work for international relations and, together, regain credibility, trust and the power of persuasion.

Europeans and Americans seem to be ready for better mutual understanding. We must accept that after September 11, any US administration will make it its utmost priority to prevent another attack on this scale. The American people, on the other hand, seem to be slightly more willing to accept our multilateral concepts and consider the complexity of Europe and the EU. Together, we have the potential for a stable partnership since we continue to share a common basis of values. Together, we should rally our talents and skills. Europe as part of the West must face this challenge, and all Europeans need to work together in order to formulate policies that mirror our common global responsibility.

In particular, Great Britain, France, and Germany should take this to heart and send out the right signals. Only if our countries are ready for reform can we create a Europe that is able to pull its weight, establish a working Western partnership and maintain a meaningful relationship with the non-western world. It is one of the main duties of policy makers in Europe today to make this clear to the people of Europe, to explain the facts created by globalisation and affecting the individual, and to describe the connection between local and global affairs. If we succeed, it can and will help to overcome the political apathy in our countries and halt the process of alienation of the citizens of Europe.

# Chapter 12

Francis Maude

## German-British Relations as Part of the European Triangle London – Paris – Berlin

The British system of government – ‘the elective dictatorship’ – concentrates much power in the hands of the few. This concentration of power is enhanced by the dominance of a government with a large parliamentary majority. For these reasons the political landscape in Britain has been dominated by the prime minister of the day and the last 20 years are no exception. Any policy analysis is best served by examining the differing attitudes and perspectives of the prime political actor of the day.

**1984–1990:**

### **British-German Relations under Margaret Thatcher**

Margaret Thatcher came to power with deep misgivings about the European Union. She has been described by some as Britain's first true post-war Prime Minister: at school when it began and at Oxford when it ended. Margaret Thatcher's overriding political and economic beliefs were free-market. While she saw the importance of European diplomatic cooperation, she had little admiration for federalist ideas for the United States of Europe. Lord Soames has, succinctly and famously, described her position on European integration, "she is an agnostic who continues to go to church. She won't become an atheist, but on the other hand she certainly won't become a true believer."

In 1984 Britain was still riding high on a wave of victory following the ultimately successful Falklands conflict. The biggest beneficiary of the war was perhaps the Prime Minister herself; no one could seriously claim that success in the south Atlantic had not contributed to the overwhelming re-election victory in June 1983. After the defeat of General Galtieri, Arthur Scargill was being routed. During the first Thatcher administration, the question of Britain's EC budget contribution was a constant annoyance. June 1984 saw Margaret Thatcher personally secure a symbolic 66 per cent rebate. This success allowed critics to portray Britain as a negative element in the community, as some have said an



'awkward partner'<sup>1</sup>, and this was reinforced by Margaret Thatcher's public and somewhat confrontational negotiating style.

After securing a favourable EC budget settlement Margaret Thatcher embarked upon sustained pro-European charm offensive. There were bridges to be built that stretched well beyond Paris and Bonn. Her paper entitled 'Europe – the future' set out her pro-European credentials. The message was clear and emphatic: a single market did not need further governmental integration to work properly. Her paper firmly rejected common monetary policy with the inevitable march to monetary union was. Furthermore, ideas for tax harmonisation and regional social policy were also excluded.

Thatcher's intention was to divert the gaze of Europe away from reform of the bureaucratic institutions that had yielded her budget victory and on to progress towards a single market. Lord Cockfield the British Commissioner in Brussels drew up a timetable for elimination the remaining obstacles to the single market. He compiled a list of 300 items of legislation that would need to be passed by member governments to further the push for a single market. By 1985 agreement was reached on Lord Cockfield's timetable and the single market was to become a reality in 1992. This was a British policy triumph. Yet it was overshadowed by the success of the Franco-German initiative for an intergovernmental conference on institutional reforms of the Treaty of Rome.

These negotiations on institutional reform gave birth to the Single European Act at the Luxembourg European Council in 1985. Margaret Thatcher's attempts at keeping Europe's centripetal forces at bay had merely delayed the inevitable Franco-German magnetism. The Government chose to highlight British success at achieving the 1992 deadline for a single market while the institutional reforms were played down. Yet it could be the final agreement on the majority of issues satisfied the British position more than anyone else. There was a muted response to the Single European Act which was hardly criticised at the time. Passage of the enabling legislation the European Communities (Amendment) Bill was, in retrospect, eerily smooth. It passed all parliamentary stages in just six days and even the arcane guillotine motion used to curtail further debate was passed by 270 votes to 153. It took some time for the implications of the Single European Act to become apparent. Five years after it received Royal

Assent the first parliamentary criticism from the Commons Foreign Affairs Select Committee concluded that 'the SEA has had much greater institutional impact than anyone predicted'. The Conservative Party came to regard the Single European Act as the road upon which the march to ever closer European integration would travel and not as it was first hailed a liberalising force for the single market.

Undoubtedly, the most significant events for British-German relations for almost half a century began to unfold in late 1989. Following the post-war division of Germany into East and West, Britain and the other western allies had an unsatisfactory relationship with East Germany. Indeed, it took until 1973 for the policy of non-recognition to be changed. A succession of British Governments could not accept communist dictatorship as a form of rule and thought it much more economically and politically desirable to keep on good terms with West Germany alone. In early 1989 the remnants of the Cold War were still smouldering. British-German relations were recovering from the tension created by the dispute over modernisation of short-range nuclear missiles. Gorbachev's *perestroika* and *glasnost* were being driven forward. He had let it be known that 1,000 tanks would be removed from East Germany by the following year and in addition there were also to be large reductions in both nuclear and conventional weapons. Ever sceptical of Russian intentions there were those in the Conservative party and its traditional supporting media that thought this as Gorbachev's attempt using a united Germany as a vehicle to destroy NATO.

The first cracks in the Iron Curtain began to show in Hungary with dismantling of its barbed wire border with Austria. Soon a steady trickle of East Germans crossing the border swelled into a heavy flow as floods of the GDR's most talented and able young people became refugees to escape their economically unstable and corrupt regimes. By the end of 1990 the Iron Curtain had been torn from the political map and the question of German unification was on the agenda. There was, however, one publicly dissenting voice, that of Margaret Thatcher. The official British position was once again at odds with the rest of Europe. It saw the real issue as how to liberalise the existing system of government, rather than focusing on how to achieve smooth re-unification.

As the wave of liberalisation swelled over Eastern Europe the British establishment were concerned about the return of fascism from German reunification. The old saying resurfaced: "I like Ger-

many so much I want there to be two of them." Margaret Thatcher strongly believed that it was possible to divide democratic reform in East Germany from the demands for unification. Once again Thatcher was isolated in her public position. President Bush thought German reunification posed no cause for alarm, while President Mitterrand's reservations, just as strong as Thatcher's, were never aired in public. Indeed, there is evidence that Mitterrand skilfully encouraged Thatcher to oppose unification, while assuring Chancellor Kohl that he himself disagreed with her.

This left Margaret Thatcher dangerously isolated, and appearing to be the sole opponent of a development that seemed not only inevitable, but a legitimate and longstanding aspiration of most Germans. Even the traditionally conservative British press were urging the Prime Minister to take a more active role in shaping the future map of Europe suggesting that she not pay credence to old prejudices and out of date assumptions. There is little doubt that Mrs Thatcher's very public concern further damaged her already difficult relationship with Kohl.

Chancellor Kohl took matters into his own hands and put German unification at the top of the international agenda. He announced his Ten Point Plan for unification which soon gained the support of President Bush. The united western position became one of honouring the German people's wishes on re-unification and a commitment to peaceful change in a stable way within the European Union. And furthermore, this would be done under the umbrella of NATO. Margaret Thatcher was deeply troubled by the thought of rapid German unification. She had perhaps infected a nation with her scepticism for the unification with opinion polls in Britain suggesting only 45 per cent of people supported unification and that 53 per cent feared a return of German fascism. Strong majority support in France and America echoed their leaders' public commitment to unification.

Thatcher saw a united Germany as a potentially destabilising force in Europe and used her influence to try to persuade President Mitterrand to halt progress towards unification. Neither party could prevent the inevitable and in retrospect Mrs Thatcher clearly recognised this, saying 'the trouble was that in reality there was no force in Europe which could stop reunification happening.'<sup>2</sup>

Despite strong British scepticism, momentum of unification was too strong to be restrained. The rapid deterioration of political

and economic command in East Germany had to be addressed. The fast-track to reunification with the 'two plus four' mechanism with its ever contracting time-scales proved to be unstoppable. The Christian Democrat victory for the 'Alliance For Germany' in March 1990 showed the way to currency union in July, political union by October and further all-German elections in December. Concerned for the dominating effect a unified Germany would have upon the EU Margaret Thatcher did all she could to stall and prevent the process. A summit was called at Chequers a week after the Christian Democrat victory. It consisted of a group of eminent historians who were assembled to discuss the 'German question'. The very controversial paper prepared for the meeting by her foreign affairs advisor was leaked to the press. In the summer, Nicholas Ridley, a cabinet Minister known to be very close to Thatcher made some unguarded remarks to a journalist which were seen by Germans as thoroughly offensive.

In the end Margaret Thatcher's wishes had been defeated: Germany was united and British-German relations had reached their post-war nadir. Gorbachev, whose reforms had arguably unpicked the seam in the Iron Curtain, gave the all important final concession: a united Germany would remain in NATO and Soviet forces would be withdrawn from the former GDR.

The most significant European policy decision during Mrs Thatcher's watch was her reluctant acquiescence in Britain joining the European Exchange Rate Mechanism (ERM). This decision, supported by most opinion in Britain, was taken for reasons of economic management rather than European integration. The outlook for the domestic economy was not healthy. The late 1980's boom had ignited inflation and set the economy on the road to recession. Base rates at 15 per cent were crippling already wounded British businesses. Sterling was riding so high in the currency markets exports were hopelessly uncompetitive. Britain having failed to defeat inflation through a consistent domestic monetary policy, it was decided that the best weapon available to strengthen the fight against inflation was to link sterling to the other European currencies through the ERM. By this means it was hoped that sterling would import some of the benefits of the rigorous counter-inflationary zeal of the Bundesbank.

Britain joined the ERM on 8 October 1990 and interest rates were cut by 1 per cent prompting a favourable initial response by the public and media. Domestic political pressures had led

Mrs Thatcher to make a policy shift on Europe which would have lasting consequences for Conservative economic credibility.

In retrospect, the timing of entry into the ERM was not optimal. With hindsight John Major, the then Chancellor of the Exchequer, remarked the choice on whether to join the Exchange Rate Mechanism was between 'bad and awful'<sup>3</sup>. The rate of DM 2.95 looked reasonable in the light of the last few years parity, but turned out to be unsustainable. The British economy was heading into deep recession, while the German economy experienced a continued boom with increased demand and spending following unification. In addition, Chancellor Kohl's insistence on exchanging the GDR's Ostmark into Deutschmarks at a one-to-one parity led the Deutschmark to weaken significantly, putting a serious strain on the whole ERM. The two economies were showing their greatest period of divergence in the last 10 years and their currencies were bound to a mechanism with only a 6 per cent band of flexibility either way. The consequences of joining the ERM as Chancellor would soon come to haunt John Major as Prime Minister.

## **1990–1997: British–German Relations under John Major**

With arguments raging and political careers being cut short over Europe John Major was quietly seeing his political fortunes change. From the backbenches and a posting at the Treasury he benefited from the ERM resignations of Sir Geoffrey Howe and Nigel Lawson to become Chancellor of the Exchequer in October 1989. Although very much Margaret Thatcher's protégé he disapproved of the disunity her policy on Europe produced and sought to heal the wounds.

John Major brought none of his predecessor's deep-rooted European prejudices with him to Downing Street. Famously in an address to the Konrad Adenauer Stiftung he proclaimed Britain to be 'at the very heart of Europe' but was sceptical of the single currency and against political union. Nevertheless, John Major recognised the pro-European requirement of a modern British government and tried to lead the phobic and philic sides of his party through a delicate and often destructive European course. As a much younger man and unlike his predecessor, he had no personal hang up about the Germans and saw them as fundamental to a greater British role in shaping the future of Europe. John Major went to far greater lengths than his predecessor to

build and further British-German relations. After the success of unification Chancellor Kohl was clearly the dominant European figure and John Major sought to change the preceding climate of strained relations by making his first foreign speech as Prime Minister in Bonn.

Major's European policy became a two front war in which the domestic engagement with his own party was at least as difficult as interaction with other member states of the EU. While compromise was sometimes the only option left open the adversarial British political system often views compromise alongside defeat. Major was a longstanding sceptic of European Monetary Union. Privately, he believed that such a system would collapse before Britain ever had to make a serious decision on joining. And that was the way he approached negotiations on Maastricht which had loomed over him from the day he became prime minister. Maastricht was viewed by the Major government as very much a French-led initiative to reduce the power of the German Bundesbank, to which the Germans acceded on the condition that steps towards political union would proceed in parallel. In reality, the British never wanted another Treaty at all; but throughout the rest of Europe monetary union was viewed as an increasing necessity to consolidate the single market and maintain European competitiveness in the global economy.

Before Maastricht, British and German policies on European integration were poles apart when the Dutch draft produced their own Treaty for negotiation. It was a far-reaching document which not only further polarised British and German views on closer integration but also strengthened underlying divisions within the Conservative Party. The proposals to cede decision making in both foreign and domestic affairs to the Commission; greater power for the European Court of Justice and European Parliament; and increased majority voting on social affairs, health and education represented a huge leap towards political union and a United States of Europe. This was a step too far and both France and Britain rejected the Dutch draft offering instead their alternative which, in effect, promised no greater integration than was envisaged in the Treaty of Rome. While the rest of Europe came to Maastricht with EMU as their central purpose; securing an opt out was Britain's.

Germany was comfortable with the Dutch proposals and felt able to offer leadership on achieving closer European integration to

those resistant to the idea. However, John Major had party issues to consider and believed that securing an opt-out on EMU would keep Britain involved at the heart of Europe but avoid any definite commitment and thus keep the party united. Nevertheless, the Delors Report made economic and monetary union a virtual certainty and further British procrastination was viewed at home as another Major act of party management and compromise. In the end it was opposition to the Social Chapter that secured the opt-out on EMU. Major believed that these proposals would reverse recent labour market reforms and push up unemployment and he had convinced other EU leaders that this position on the Social Chapter was immovable. Fearing that the whole treaty would fall Britain's opt out on EMU was waved through. And furthermore, the Social Chapter was eliminated from the Treaty.

In retrospect, it is no great surprise that Britain was forced out of the ERM in 1992. The German and British economies were moving in different directions although membership of the ERM had served its primary anti-inflationary purpose. British unemployment was now rising and the economy was once again depressed. The unexpected no vote in the Danish referendum and fears that France may do the same meant sterling was approaching the strict limits required by membership of the ERM and a rise in interest rates was needed. Yet the British domestic economy clearly could not withstand such a rise. Despite there being real alternative choices available, the Major Government chose to defend sterling within the ERM. Norman Lamont's strong statement supporting fixed exchange rates proved to be a red rag to the currency speculators. By September, billions had been squandered by the Bank in sterling's defence and despite the obvious domestic implications interest rate rises remained the last hope. From 10 to 12 per cent in a day, followed by another, unimplemented, rise to 15 per cent. This was all in vain, the Government's economic strategy lay in tatters on the Treasury steps and Lamont conceded defeat. The speculators had badly bruised the Bank and Britain left the ERM. It was more than just a Black Wednesday. Britain's enforced departure from the ERM coloured John Major's tenure from that day on. His credibility had been irreparably damaged and battles in parliament and with the media raged from that day on. Much has been made of the lack of support for Britain during sterling's fall from the ERM by the German authorities. At the September ECOFIN meeting there were strong tensions between Norman Lamont and Helmut Schlesinger, President of the Bun-

desbank. Lamont had argued strongly for German interest rate cuts and openly criticised German domestic policy and he was demanding special treatment for sterling's position within the ERM. It was hardly surprising that German support was not forthcoming; the independent Bundesbank was bound only to consider German interests. However, closer analysis of the fundamentals suggests that Britain's exit from the ERM was determined long before Helmut Schlesinger could offer any help.

### **1997–2004: British–German Relations under Tony Blair**

The election of New Labour marked a turning point in British domestic, and most notably, foreign policy. As has been described, until 1997 Britain had only entered each stage of the European project – excluding Thatcher's Single Market – after it had been established. Blair sought to reverse Britain's sceptical European stance, and to put an end to its persistent unease within Europe. Not only was this a fundamental policy shift for a British Government, but it was a remarkable policy departure for the Labour Party. Labour from Attlee onwards had periodically been fiercely anti-EEC, even to the point of proposing complete withdrawal under Michael Foot. Tony Blair was elected to Parliament in 1983 on a manifesto committing his party to exit the EC completely. Indeed, current UK Independence Party proposals bear a striking resemblance to those in the 1983 Labour General Election manifesto.

The New Labour policy on Europe had been conceived during the late Thatcher years fashioned by her vociferous objections to anything other than a single market. The policy switch gestated through the rise and fall of the SDP; the successive leaderships of Kinnock, Smith and was finally fathered by Blair. By the 1994 European Parliament elections Labour had a new outlook towards Europe and a year later this became firm new policy for New Labour. The Labour Party had undergone a fundamental policy transformation on Europe which now placed its thinking deep in the mainstream of other European social democratic parties. However, this continental mainstream view was in conflict not only with the majority of the British electorate but also a majority of its own support. Despite their strong showing in the opinion polls Labour remembered Kinnock's embarrassment in 1992 and so their new policy on Europe was laced with caveats and reservations. Excluding obvious divergence on the Social Chap-



ter, to an untrained eye there was no real difference on Europe between New Labour and the Conservatives.

And so the crushing Conservative defeat in 1997. The Blair government wasted not a day and immediately introduced a series of policy departures which on the surface heralded a new era for Britain's constitutional order and for its relationship with France and Germany. Within weeks of taking office, the New Labour Government had reversed years of Conservative caution by taking the first steps towards joining EMU and ended Major's hard fought opt out on the Social Chapter.

Within weeks of taking office Tony Blair took his new policy of constructive engagement to Europe. The Amsterdam IGC saw the start of a new era for Britain's relationship with France, Germany and the rest of Europe. Britain agreed to almost all treaty amendments and travelled further into Blair's vision on Europe by reversing many previous British objections. The rapid progress was only halted by Chancellor Kohl's limits on extending qualified majority voting. The new British spirit of cooperation, to the relief of its partners, marked a profound difference to the prevailing atmosphere at Maastricht.

But the legacy of Maastricht had left New Labour with the intractable problem of selling monetary union to a mainly euro-sceptical Britain. Blair's Labour recognised that a decision on the euro would be the defining moment for Britain's future in Europe and now in power it understood its predecessor's skilled evasion of ever giving an answer to the question. Yet dealing with this conflict was an unavoidable problem for a new government that had so swiftly played its pro-European hand. On coming to office Gordon Brown ceded political control of interest rates and handed the task to the Bank of England. This move had the obvious effect of granting Britain's central banker some degree of the independence required by Maastricht for EMU membership. It could not be presented in these terms to either the party or the public. Instead, it was flavoured to suit the British palate and presented as a purely domestic policy.

Blair's New Labour evolved into a political party whose leadership instinctively sees itself as being pro-European. But Tony Blair's desire to see Britain in the Euro and adopting the EU Constitution is likely to be frustrated by the scepticism of the British public. In the meantime opinion within the Labour Party starts to

look as divided as opinion in the Conservative Party used to be seen.

And so today, to Blair's chagrin, Britain once again looks like the reluctant European. The frustration felt by his counterpart in Germany, who as a Social Democrat should be closely in tune with Blair, has been greatly exacerbated by Blair's forthright and unquestioning support for President Bush's Iraq adventure. That unequivocal act of Atlanticism has reinforced the sense, never far away, that Britain is quite simply not committed to Europe in the same way that our partners are.

And in the end that is the case. Britain does have a global outlook. We do not feel the need to be part of an ever closer European union. We want to be collaborating closely with our friends and neighbours, but without what would seem to Britain to be a suffocating political union. The position of France and Germany is for historical reasons quite different. This should not make us anything but friends and close partners with our German neighbours. But it does mean that Britain is unlikely ever to develop a relationship with either that can come even close to rivalling the bonds that draw France and Germany together.

#### Notes:

- 1 Steven George, *An Awkward Partner: Britain and the European Community*. 1998.
- 2 Margaret Thatcher, *The Downing Street Years*, p 797.
- 3 John Major, *The Autobiography*, p 312.

# Chapter 13

Friedbert Pflüger

## German-British Relations and the Transatlantic Alliance: Old Partners, New Challenges

At the turn of the millennium, *The Economist* wrote: "The chief question at the 1990s' end is whether Europe and America will remain a foreign-policy partnership or ignore the 20<sup>th</sup> century's lesson book and go their separate ways". In hindsight, this excellent magazine once again proved its farsightedness since it was barely three years later that the transatlantic partnership lived through its "annus horribilis" about this very issue. The debate about the right way to proceed in Iraq not only caused a split in the Atlantic partnership, but even in Europe itself into "old" and "new".

If there is a lesson that all participants on both sides of the Atlantic ocean should learn from what happened in 2003, it is this: Good and stable transatlantic relations cannot be regarded as a constant value in itself – or simply as a given. As any other, this relationship needs our efforts and involvement. This is not a new insight. It is at the core of the historic mission to which British governments, and German governments from Adenauer to Kohl, have always been committed. Both Great Britain and Germany, with different profiles and in different ways, have strived to keep Europe and the United States within the transatlantic alliance, to prevent continental Europe from drifting off and becoming a counterweight or even an opposite pole to the United States. We are and always have been united by our realization that the most successful alliance in history is not only built on common values, but that the partners on both sides of the Atlantic will be able to deal with and shape global challenges only if they stand united.

However, in 2003 it also became obvious that the time for traditional incantations and rituals is over. The generation of politicians who personally experienced World War II and to whom these incantations were essential is in the process of stepping down. Today's and future generations have yet to find their own language and forms with which they want to uphold the relations.

It is of course true that "the purpose of Europe must be something other than resistance against the United States", as Henry Kissinger reminded us in his speech in Berlin on June 3, 2004; at the same time, Europe did and will not act as a compliant aide-de-camp of the United States either. Rather, the aim of German governments from Adenauer to Brandt and Kohl has been to maintain a balance between a European orientation and the Atlantic connection. Expressed differently, these two elements are like the two traditional legs that the relationship rests on and that Harvard professor Joe Nye had in mind when he said in the FAZ (Frankfurter Allgemeine Zeitung) on April 2003, 2003: "Somewhere along the line, the Schröder government has obviously decided to chop off one leg." The German left of the generation shaped by the protest against the war in Vietnam has intentionally broken with traditional politics. It saw the rhetorically exaggerated and public manner in which the German government rejected the Iraq intervention to implement UN resolutions as a kind of necessary "declaration of independence" from the United States.

In Cadenabbia, the transatlantic relations have been the subject of regular debate. While the British Conservatives and the German Christian Democrats have always agreed on the necessity to have a transatlantic partnership, there were lively and even controversial discussions about how the "the silent alliance" can do justice to this balance. The Cadenabbia forum deserves a heartfelt thank you for offering an opportunity for an exchange of views far from the hustle and bustle of everyday events. There are not enough forum discussions of this kind!

Participants must and cannot proceed as if nothing has happened if they wish to put the relation between Europe and the United States of America back on a strong track after what happened in the last few years. There were reasons for the "annus horribilis". They can be found in the long-term developments that started with the European revolution of 1989/1990, and in the attitudes that are currently shaping politics on either side of the Atlantic. We must deal with both aspects.

At the beginning of the 21st century, there was a wide gap between the way the sensation of threat was perceived in Europe and in the United States. During the Cold War, there was an inevitable and very similar threat analysis on both sides. In the end, what was at stake was Europe itself. With the fall of the Iron Cur-

tain, the coherence of strategic thinking on both sides of the Atlantic disintegrated. At the same time, in the 1990s the world became an ever more complicated and chaotic place. As early as January 1993, Douglas Hurd spoke of "the new disorder". Numerous ethnic, nationalist and religious conflicts, which had been suppressed by the confrontation of the two opposing blocs, now erupted. The wars in the Balkans were symptomatic of this development. The new disorder was an expression of the severe changes in the security environment which became instantly evident in the horrifying attacks of September 11, 2001.

First, globalisation and the break-up of bipolarity have fostered a multiplication of the number of players in international relations. In the 21st century, non-governmental organisations or even individuals are able and willing to pose a serious threat to national and international security. The goal of Al-Qaida, the best example for this new transnational terrorism, is to commit mass murder. Secondly, the actual geographic distance to a crisis has become less relevant. European security is thus no longer defined from within the European security zone but from without. This means that our security can no longer be guaranteed by defending our borders in the classical sense alone. Zones of instability and chaos are a fertile breeding ground for today's threats; the Afghanistan of the Taliban was the best example. Terrorists unscrupulously use these zones as their base of operations, as a recruiting pool and a financial source to pursue their inhumane targets. Thirdly, the attacks of September 11 have highlighted the vulnerability of democratic societies. Today, security policies focus their attention on asymmetrical warfare and its attacks on soft targets such as oil supplies, financial centres, or public utilities.

Much of Europe has not dealt with this development consciously. Rather, after the fall of the Iron Curtain, many Europeans demanded a peace dividend. This went hand in hand with the feeling that the American protective shield was no longer needed. The United States, however, started thinking about adapting American security strategy to the new challenges rather early on, under the first President Bush and President Clinton. This went largely unnoticed in Europe. The American debate focused on pursuing traditional targets while maintaining invulnerability and a hegemonic position, dealing with dangers head-on and not in a reactive manner, and overcoming any status quo deemed unacceptable. In some parts of Europe, on the other

hand, there has been a greater willingness to accept the status quo of power.

September 11 merely helped speed up this basic new orientation. The event had an enormous psychological effect on the United States. Since the Anglo-American War of 1812-1814, there had not been an attack on its own continental territory. Now, its vulnerability was suddenly and drastically brought home to the most powerful nation on earth, and has since been repeated countless times on television. That this new orientation was not a passion of the Republican administration alone became evident in the remark made by one of the leading foreign policy voices of the Democrats in the United States, Richard Holbrooke, who pointed out early on that, in spite of any justified criticism of President Bush, a Democratic administration basically would have pursued the same policy. Even John Kerry, the presidential candidate of the Democrats in 2004, planned to continue the war on terror forcefully. In January 2004, he said in a policy speech that he would "never entrust the country's security to some institution" and not let "those to whom it has become a reflex to object to any American military intervention anywhere in the world determine" national security strategy. In May 2004, he added that if necessary, he would use military force preventatively to protect American interests. He amended this statement in his speech at the Democratic convention in Boston in late July 2004 in which he reserved the right for America to use force unilaterally. It is true that there was growing criticism of President Bush in the United States soon after the Iraq war began, but the basic feeling of being threatened by Islamist terrorists and weapons of mass destructions as well as the resolve to proceed against any threat to the United States are very strong in both main political parties in the United States.

The effects September 11 had in Europe are not comparable. After initial dismay, compassion and the evocation of "unlimited solidarity" (as Chancellor Gerhard Schröder put it), Europe went back to its everyday business as if nothing had happened. In Germany, at least, "9/11" has not left a sustained sense of growing threat in the collective consciousness. Quite the contrary – a widespread evaluation assumed that this was a terrorist attack on America and that Europe would hardly be the target of terrorist attacks – unless there was too much solidarity with Washington. Even the horrifying attacks in Madrid on March 11, 2004 had not shaken Europe awake or led to a rethinking of the situation. Yet

the misjudgement that Europe could withdraw to some sort of "island of the blissful" and buy security by a policy of appeasement and distancing itself from its partners is a terrible illusion. In the course of history, appeasement as a concept has never worked in the face of a totalitarian threat. With the Madrid and now London attacks, Al-Qaida, its offshoots and imitators demonstrated that they plan to play with fears and perceptions. They deliberately want to drive a wedge into the Western alliance.

Since September 2003, German foreign minister Fischer has repeatedly and publicly admitted that it was a decisive error that the United States and Europe did not begin an extensive strategic discussion immediately following September 11. While Europe was busy smooth talking the threat situation, the United States developed a new National Security Strategy (NSS) and published it in September 2002. Had there been an instant and serious debate about this, many misunderstandings and conflicts between the transatlantic partners could have been avoided. Instead of developing its own alternatives to the new issues, Europe was demonising American answers. It was not until December 12/13, 2003 at the European Council in Brussels that the EU adopted a joint security strategy (ESS) which is a workable answer to NSS. After all the rhetorical skirmishes, the many points both approaches have in common are all the more surprising. One example: Even though the wording may be different, the ESS also speaks out in favour of a pre-emptive military strike as a very last resort.

While strategic perceptions were drifting apart, two social phenomena have also contributed to the differences of opinion in the transatlantic relationship.

In spite of the closeness and the many affinities, there is a general lack of in-depth knowledge on both sides of the Atlantic about each other. Malicious remarks about the gaps in the Americans' knowledge of Europe are common. But the prejudices that Europeans harbour about America – land of fast food, unbridled capitalists, no culture and trigger-happy rednecks – ultimately are a show of ignorance as well. At the same time, many are attracted by the American way of life. Europeans like to think of themselves as experts on the United States but primarily choose an image of America that they find acceptable. This is why US author and filmmaker Michael Moore is getting so much attention in Europe, and President Bush is so harshly rejected. Who remem-

bers that former president Clinton, so popular in Europe, ordered missile attacks against Khartoum and Afghanistan in 1998? This discrepancy makes it more difficult for politicians to communicate transatlantic positions, especially when others use these diffuse feelings as a political campaign tool.

America, a nation of unbroken dynamics characterized by a belief in the future, is the world leader, not only politically, militarily and economically, but today also in the cultural sector – and I am not talking about mass culture. Without ignoring the great differences between its different states, the United States are, on average, also more rooted in traditional values than any other Western country with the possible exception of Ireland. As to patriotism and religious fervour, the United States are closer to Turkey than to Germany or even the United Kingdom. The American sense of mission, which is so badly understood in Europe, and the huge importance of the concept of freedom are inseparably linked to the origins of the United States as a nation and the way it sees itself. After all, the first settlers were persecuted in Europe for religious and political reasons and defined America as an antithesis to Europe. It is no coincidence that on September 2, 2004, during the Republican convention, President Bush proclaimed "liberty's century". According to the most recent study carried out by the University of Michigan about values in the world, America turned to tradition even more in the late 20th century. In the United States, political ties depend much less on income than they do on values. There is any number of additional examples, including a different usage of terms such as "war / (German: Krieg)". In the United States, the term is used in an abstract sense meaning any type of fighting. For Europeans, and especially for Germans, the word "war / Krieg" evokes negative collective memories and fears.

A second trend is the vast difference in the development of innovation capabilities and economic power in the United States on one hand and Europe on the other. The EU today has one hundred million more people than the United States. If present trends were to continue, the United States would have more inhabitants than even the enlarged EU within the next four decades. While today, the average age is 36 years in the United States and 38 in Europe, in 2050 the average age would be 36.2 in the United States and 52.7 years in Europe. The process of the steady ageing of society would have permanent effects on the dynamics of the European economies. At the same time, the desire to achieve en-



trepreneurial independence is much stronger in the United States. In Europe, 50 per cent of the people prefer to work as employees rather than act as entrepreneurs. In the United States, only 29 per cent say they prefer this. In the United States, it takes an average of four days to set up a company, in Germany it takes 45 days. The work culture is very different as well. In 1982, Americans and Europeans worked about the same number of hours per year. Today, people in the United States work 300 hours more per person per year. Since progress in productivity is also greater in the United States than in Europe, this figure almost automatically implies that the competitiveness of European companies will decline. Thanks to their enthusiasm about innovation, Americans succeeded much earlier in adapting to the push towards globalisation – with the result that globalisation is – unfairly – perceived as an American phenomenon.

In no way do I wish to speak out in favour of a growing alienation of the transatlantic partners by mentioning these social trends. What has always been true still goes: The transatlantic community is built on a foundation, unique in the world, of common values, comparable civil societies, and a joint striving towards international implementation of democracy, human rights, individual liberties and market economy. No other two regions in the whole world are as closely linked and economically intertwined. Quite the contrary, I am trying to make two insights clear so we can better understand them: One, there have always been differences in the values and methods needed to achieve common targets; two, the transatlantic relationship requires a detailed mutual knowledge about each other.

Today, a multitude of people is thinking about how the transatlantic relations should be saved. Slogans abound. On March 6, 2004, foreign minister Joschka Fischer, in an interview with the FAZ (Frankfurter Allgemeine Zeitung), spoke of the need for a “reconstruction of the West” and a “new transatlanticism”. He did not say what he meant by this. However, politics is a specific business. To me, five aspects are essential.

1. The transatlantic community cannot do justice to its tasks unless it faces up to the changing challenges. In doing so, Europe in particular must face the new realities and accept a bigger share of its responsibility for solving the foreign policy security problems. It is not enough to blow hot air and to accuse the United States of unilateralism, imperialism, breach of in-

ternational law, and war mongering, and then secretly trust that ultimately, the United States will end up taking on the responsibility for settling crises. Also, it is not possible to demand multilateral actions from the United States and at the same time refuse to deliver any contribution of one's own. Europe must be willing to invest more in its own strength so that we are able to work in a partnership based on the weight of our contributions in coping with crises and thus gain a right to share in decisions. Let me reiterate very clearly: From our point of view, European strength should not be used in an attempt to turn Europe into the opposite pole to the United States but, on the contrary, to strengthen the transatlantic alliance.

2. To strengthen transatlantic relations, it is essential to revitalise NATO. NATO must remain the key instrument of our global security policy. It must become a matter of course again for all members to identify their very own future security policy interests with the fate of NATO. We are still a long way from this after the breach of trust in February 2003, when Belgium, France, Luxemburg and the German government delayed the planning required by Turkey to lend support to the country in the case of Iraqi attacks. This became evident once again in the difficult negotiations about the NATO-ISAF deployment in Afghanistan and the NATO training mission in Iraq. Actions directed against the alliance must stop. This is true for both sides. The United States, on the other hand, must also be willing to continue having a transatlantic and multilateral cooperation in the future. Ultimately, the United States have a stake in both a unified Europe and a functioning NATO. The unilateralists in Washington who harbour the illusion that America can enforce its values and interests in the world without lasting alliances overestimate the capabilities of the US, regardless of its military strength. An America acting alone, on occasion aided by a "coalition of the willing" from the NATO tool box, can win wars but cannot create a lasting peace. Unfortunately, the Iraq conflict, where in the post-war phase the US administration for the most part pretended not to hear, has been a case in point. Within NATO, proceeding unilaterally may cause less friction in the short run, but in the long run it undermines transatlantic stability.

There are two aspects to revitalising NATO: Firstly, NATO must once again become the place for a transatlantic security de-

bate. Its European Security Strategy (ESS) has enabled Europe to enter into the dialogue. Now it must engage in this very dialogue with the United States, to find, among other things, a way to agree once again on a joint transatlantic security doctrine. Secondly, Europe must undertake additional efforts to increase its military capabilities significantly. It is true that there have been encouraging signs within the framework of the European security and defence policy, such as the Franco-British proposal to set up "battle groups". Further steps must follow, such as the further coordination of defence efforts, making use of potential synergies, the pooling of military units among member states, and finally, the allocation of additional funds for the armed forces.

3. Both sides of the Atlantic must once again start to formulate joint targets for the most urgent geopolitical tasks and coordinate their steps. Acting together will be decisive in recreating the feeling of a transatlantic "belonging".

Afghanistan and Iraq are almost diametrically opposite examples of this. They show once again that North America and Europe can solve serious problems only – if at all – if they act together. To this end, they must share a sense of purpose. This is possible only if we all see each other as partners and allies and offer fair contributions to a solution; it cannot be achieved if we refuse to contribute to multilateral actions.

Since the spring of 2004, the transatlantic partners gradually seem to find the way back to their will to act together. The visit by President Bush in Europe in early 2005 was also encouraging in this respect. For example, the transatlantic partners' ideas of how to handle the transition process in Iraq seem to be converging at last. Already, the various summits in June 2004, G 8, EU, United States and NATO, had shown that the partners had understood and were willing to accept their common task in shaping the geopolitical greater region of the Middle East and North Africa, though many details are still to be worked out. In May 2004, in order to contribute to the ongoing debate, my parliamentary party put forward a motion in the Bundestag for a partnership for peace and stability in this region. In this motion, we emphasized that such a partnership must be shaped in a way that is just and equal and based on mutual respect and understanding. This also implies that we must regain credibility in the region. This will not be

possible without serious efforts to promote the peace process in the Middle East. However, closer cooperation with the region must not take the place of peace efforts nor must a peace in the Middle East become a prerequisite for the partnership. Whether we will be able to regain credibility will also depend on the future Iraq policy of the West. The incidents in American prison camps in Iraq have not just damaged American credibility in the long term, but that of the entire West. It must be made unmistakably clear that the transatlantic partners condemn any use of torture as a violation of inalienable human rights and that those responsible will be held accountable. In this context, there is no room for European gloating. We all have an inherent stake in making the new Iraq a success. For the sake of our own safety, the Iraq venture must not fail. Last but not least: A friend in need is a friend whom we must help.

Transatlantic divergences and convergences should not let us forget that the partners have worked together quietly and efficiently in many areas and, in some cases, for long periods of time. Afghanistan – despite all the friction – where NATO has been deployed outside Europe for the first time, is one example; another is the fight against transnational terrorism, and homeland security, which resulted in some ideas in such areas as making free travel safer and stopping the proliferation of weapons of mass destruction. The recurring question of the right way to deal with Iran, where until recently the transatlantic partners had more or less the same approach, may remain a serious test case for transatlantic relations.

Among the other topics that still await transatlantic agreement is, for example, the cautious further development of international law. The United States and the Europeans no longer agree on the role of international law, of multilateralism, the importance of international institutions and the proper balance between diplomacy and use of force. Robert Kagan assigns this to differing foreign policy traditions. While Americans should have a better understanding of the chances international agreements and international law offer for a peaceful world, we Europeans must reach a more realistic view of the possibilities and limits of multilateral action. It is no advantage of international law, for example, that it allows states to hide behind their sovereignty, or that states which have committed severe human rights violations are elected to the

UN security council of the UN human rights commission. What is needed is a functioning and effective multilateralism; it is up to us to define it.

4. Like no other area, the transatlantic economic relations can underpin the degree of closeness with figures: For example, in May 2004, the two regions were responsible for one third of all global trade. We should promote the growing linkage and, in the long run, should work towards an integrated transatlantic economic sphere or a single market. As a first step, we must find better ways to settle our disputes. The WTO and its dispute arbitration procedures need to be improved and strengthened. For example, one idea is to better coordinate the various cartel-related lawsuits – Microsoft, Honeywell/GE – which received a great amount of attention in the last few years and led to differences of opinion.
5. Last but not least, any improvement of transatlantic relations calls for the political, business, and cultural sectors in Europe to promote and support these relations. The image that the European public has of America is distorted; anti-American sentiments are growing. Both the American administration and, to a major extent, European politicians have contributed to this. However, the transatlantic partnership is not something that should be permitted to drift along at the low level of any average working relationship. It is our responsibility to see to it that this image and this trend do not take root. We must passionately endeavour to show the young generations a realistic, balanced, and optimistic picture of America. Of course, America's darker sides should also be part of this image, but not exclusively so. This is equally true of the United States. Consider what Willy Brandt said in his speech at Harvard University on June 5, 1972: "You, the younger ones, must not forget that the interdependence that John F. Kennedy proclaimed for the countries on both sides of the Atlantic must remain a moral, a cultural, an economic and political reality." This task has become even more important in the last few years since Americans stationed in Europe – who used to be excellent ambassadors and communicators for both sides – are gradually being withdrawn.

While these five points may sound blatantly obvious they are in no way fully implemented. Partly, they can be found in the EU declaration on transatlantic relations of December 13, 2003 or in

the joint United States and EU declaration on the strengthening of our economic partnership, adopted at the summit of June 26, 2004; but both documents received very little attention. If we were to adhere to the five points, however, we would be able to answer the question which *The Economist* asks at the outset as follows: the transatlantic partnership will be continued.

One final thought: British Conservatives especially are pursuing the mission of keeping the European Union on a transatlantic course and of preventing it from drifting off. We, the German Christian Democrats, share this endeavour and consider it one of the noblest tasks for the "silent alliance". At the same time, this shared belief reinforces our conviction that, because of the very necessity to have good transatlantic relations, we need the United Kingdom in the European Union! Its membership is imperative for the right balance between a European orientation and the Atlantic link.

# Chapter 14

Michael Ancram

## The Axis Berlin – London within the Transatlantic Partnership

Anglo-German relations have always been close. On occasion they have been turbulent but that closeness and the bonds of shared history and often shared interest has remained. In the past half century Germany has also enjoyed a particularly close confluence of interests with the United States, in a relationship born from the shared threats and challenges of the Cold War. The final relationship in the triangle is the special relationship we in the UK enjoy with the USA.

The Cold War and Germany's crucial role in it provides the backdrop to this complex triangular relationship. Germany was the front line in the fight against Communism and the USSR and as such West Germany's relationship with both the UK and USA was at the heart of the strategy to defeat Soviet communism. A further factor in the relationship is the reaction to Germany's past historical development. The foreign relations of a country must always be recognised as conditional upon the domestic policy considerations of that country and by the impact of its past. Germany is no different from either the UK or America in this respect.

With Germany's territory divided in two, its former, and now once again, capital split in two by the Berlin Wall, and its territory the likely battleground in any military confrontation between east and west, this reality dominated geopolitical relationships. The challenges of this era were to rebuild Germany's economy, to face down the Communist threat, and for many Germans at least, eventually to reunify their country. For German governments under Chancellors such as Adenauer, Schmidt and then Kohl the relationship with America, and with the UK and other leading NATO allies, was the cornerstone of Germany's, and indeed Europe's, security and defence policy, while the relationship pursued within the EU served a dual and complimentary purpose.

On one level it served, through the Coal and Steel Community, then through the EEC, EC and then EU, to promote open markets and to help rebuild the shattered German and European economy. The common market served British and German interests well

in that respect. On another level the European relationships of both the UK and Germany were designed, certainly in the first instance, to create an internal European security framework, post-Second World War, in which it would be impossible for any one country to adopt hegemonic aspirations or attempt to dominate her neighbours in the way that had happened before. Perhaps fifty years ago such a mindset was understandable, and indeed western Europe has since experienced over half century of peace, but today individual countries and the entire global geopolitical environment has changed.

Today Germany is one of the leading democracies in the world and it is inconceivable to any of us that it could ever be anything else – it is an example of both post-war economic success and democratisation that many other countries would do well to look to. The politically integrationist ideas of the EU, exemplified by the proposed European Constitution, are no longer the necessities that some may once have perceived them to be. Instead both Germany and we in the UK should be looking to reforming the EU in such a way in which changes are judged against economic criteria balanced with the individualism and needs of nationhood rather than by a grand plan for European security and the creation of a new bloc to compete with America, a geopolitical strategy whose *raison d'être* has since vanished.

It is the new geopolitical environment that characterises the new challenges and new transatlantic relationship. The Cold War pitted two vast 'blocs' of countries backed by either the USSR or America against one another in an uneasy nuclear embrace, balanced by the knowledge that the doctrine of mutually assured destruction made any military conflict disastrous.

The end of the Cold War and the fall of the Berlin Wall represented a fundamentally important turning-point in international affairs. The end of the Cold War launched a process of change in which many cherished old assumptions perished. Fluidity has replaced stability. This time, however, there is the added dimension of the "rogue state" complete with weapons of mass destruction – and unlike the blocs in the Cold War with no compunction about using them. This is a new challenge, common to all of us, as is the economic challenge we all share in the need to liberalise our economies further and to address the demographic time-bomb. While these economic challenges are addressed elsewhere in this publication I turn to the new geopolitical challenges which together we must address.



At the heart of this new geopolitical environment stands America. America is in real terms probably the greatest superpower the world has ever known. It is the predominant force in the world today, and its predominance continues to grow. Her military might is unsurpassed and can project American power to the four corners of the globe.

Nor is America's strength merely military. Its technology leads the world. Its universities are the most advanced, its Nobel laureates the most numerous, its production now back to almost thirty percent of the entire global output. America is in every sense of the word a superpower. It is on its own not a bloc, not a supranational institution but a very big sovereign nation, jealous of its sovereignty and its independent rights of self-determination.

Yet like all great powers throughout history the USA gives rise to strong reactions and mixed feelings.

In 1988 the USA viewed West Germany as an ally of commensurate importance to her alliance with the UK. Germany, once again, post-reunification, is a global power, but events in the run-up to conflict with Iraq have shown fault lines between Germany and France on the one hand, and the other two sides of the triangle, the UK and USA, on the other in how best to respond to these challenges.

The gridlock in the UN preceding the conflict demonstrated that while the US and UK believed that the previous UN Resolutions rendered it incumbent upon those resolutions to be enforced were the UN to retain its authority, France and Germany believed that were the UN meekly to back the US position then it would effectively be rendered impotent. It is a difference of views that is tied to questions of what sort of EU, and what sort of relationship with America we wish to see.

My view of Europe is of a Europe working in partnership with rather than in rivalry to America. What is required is the development of a flexible Europe within which countries such as Germany and the UK are leading players and where it is possible for differences of opinion and position to flourish – never more important than now with an EU of 25 members. Such differences of approach can occur without undermining the whole. It will need to be a relaxed Europe, which is capable of presiding benignly over such groupings. It will need to be a non-centralised, non-conforming, non-coercive Europe.

Too often, however, the EU that many appear to strive for is a centralised EU, searching for ever greater conformity and ever closer political integration. It is an EU viewed as a rival bloc to the USA. Too often many in Europe seek to pose the choice – Europe or America. This infers that there are no realistic options outside this choice; and by inference that the wise will opt for Europe. It is a false choice because there is another. The Nations of Europe and America. Germany with her vast diplomatic experience and contacts, and with a history that causes her to look both east and west, is well placed to advance this latter course if she so chooses.

The Europe or America proposition is a dangerous one, particularly when it is posed with anti-American sentiment. Hostile rhetoric is an easy game for some Europeans to play. But it plays straight into the hands of those in the US who rejoice in what they see as their 'unipolar moment' and believe that they can go it alone. The truth is that Europe needs the US, and that the US needs Europe. The first because Europe is many years away from having the military resources required for its security and needs American intelligence and manpower. The second because September 11 demonstrated to America that it is now vulnerable and that it needs us and our European partners.

Instead the UK, USA and Germany should seek to advance the Nations of Europe and America proposition, a partnership not of superpowers but of shared interests and shared objectives. With our close relationships, and the close links amongst this triangle of nations we are ideally placed to help build and achieve this. It will require a less introverted and bureaucratic Europe and a sense of shared values around which a renewed Atlantic Charter can be formed – a broader Atlantic Charter than that drawn up over half a century ago.

The old tried and tested if unwritten formula of the Atlantic Charter– partnership, not subservience – was right, and it still commands the overwhelming support of informed British opinion, and I believe of German opinion. We are the colleagues and partners who offers advice in the spirit of greatest friendship and well-meaning. This is the basis of our 'special relationship' with America, greatly revived since September 11, which I would like now to see strengthened and entrenched as a durable feature of international relations in this new Century. That means not standing aside from America, but being actively involved with

her; not indulging in the US-bashing so beloved by the Left, but participating in the delivery of a higher moral responsibility which has fallen upon the US precisely as a result of the overwhelming might which she possesses.

But America cannot carry forward these responsibilities on her own. Nor can that spirit of openness and freedom, so crucial to American life, be protected by unilateral action. America knows only too well that terrorism can never be defeated, or even contained, within the US itself; hence the international campaign against the scourge of international terrorism. Nor however can it be finally defeated from the decks of America's gigantic carrier fleet. It can be 'degraded', if not physically destroyed, by military action; but it cannot be eradicated from the hearts and minds of those who are recruited to terrorism by threat or use of the big stick alone.

Germany is perfectly positioned, as a consequence of her Cold War history, to act as a bridge between western Europe, and the USA, and the new members of the EU from eastern Europe. At the same time these countries have strong political connections with, and among their populations a personal affection for, the US, UK and West Germany who are viewed as past allies against the Soviet Union and as their eventual partners in liberation. This represents a powerful natural bond to which can be added the bonds of shared interests in tackling today's challenges.

To bring together Germany, the USA and the UK in the common cause of tackling terrorism, WMD proliferation, and more traditional threats such as poverty and disease is a worthy objective.

The split we witnessed between the US-UK approach to the Iraq conflict and the Franco-German approach is not, in reality, necessarily the huge fault-line that it was perceived to be at the time. The support which we have seen expressed for a European agenda designed to create a *rival* bloc to the USA, rather than an organisation to act in partnership with it, and a certain degree of anti-Americanism, are more a Schroeder-phenomenon than a true reflection of the heartfelt views of the German people.

The discomfort and unease in some quarters with America's policy towards Iraq was real, but the underlying confluence of interests between the sides of our triangular relationship is stronger still. This relationship should be at the heart of the new partnership we seek to forge to address the post-Cold War world.

We all have different perspectives and contributions to make in tackling today's threats: be they diplomatic, economic or military, but those strengths are not to be realised by creating an inward-looking, remote EU that seeks to act as an unconstructive, even obstructive rival with its own foreign policy and an agenda which amounts to a de facto rejection of NATO's continuing role and relevance.

The current common foreign and defence agenda amounts to a distraction and duplication of capabilities within the European theatre. It is a policy whose timescale indicates the reality that it is a cover-up for inadequate European defence budgets and which shirks the real priority – to refocus the NATO agenda to address out of theatre threats and, more importantly, to retain the involvement of the USA, through NATO, in the European defence agenda. That involvement is something rarely recognised or supported by French policy, but the value of US support and collaboration should be very clear both the us in Britain, and to Germany.

These represent some of those areas which taken together amount to a powerful agenda of involvement and partnership that can utilise the triangular alliance of the UK, USA and Germany in a way that will help unite the world rather than divide it. It contrasts starkly with the tone than has emanated from some quarters in recent months and years that seeks to posit the EU and USA as rivals. It is, however, an agenda and partnership which offers us all a way to move forward to meet the new challenges posed by the post-Cold War world.

Each of our countries is multi-cultural and multi-ethnic in its make up, yet what might once have been termed as a natural Anglo-Saxon affinity does still exist. We share an outlook and in many ways an agenda that offers us, and our neighbours, a considerable advantage. It is an agenda of partnership not rivalry; It is an agenda that could be realised by a new Atlantic Charter formed around the partnership of America, Britain and Germany.

I personally believe that with the fall of the EU Constitution in the various referendums we will at last be forced back to the drawing board with a blank sheet of paper upon it.

It will provide for the first time an opportunity to work towards a more relaxed, flexible and varied Europe; A Europe of 'live and

let live'; A Europe more agile and better able to reflect and deal with the multi-faceted challenges of tomorrow's world.

If we are to treat with the growing challenges of Islamic fundamentalism and the omnipresent threat of terrorism which is its shadow, then Europe and America must stand together and act together. Germany and the UK are uniquely placed to lead Europe in doing so while retaining the confidence of America.

A new Atlantic Charter may be a glib phrase, but if Germany and Britain can work together to achieve it, it could well become one of the strongest pillars of global stability in the next century.

# Chapter 15

Friedrich Merz

## Germany in the Age of Globalisation

### The integration of Germany into a closely networked world

We live in a globalised world. Countries and continents are moving closer together at breath-taking speed. The globalisation of markets, the globalisation of knowledge, the globalisation of existential risks are all keywords which characterise the age of globalisation in which borders are no barriers any more. This development is reinforced by decreasing costs of transport and rapid progress in communication and information technology which makes it possible to send information to the most remote corners of the world in a matter of seconds. The Internet is turning the world into a global village for all of us.

Globalisation offers opportunities to export the progress mankind is making to all corners of the earth and to let it work for the good of all people, but at the same time it creates many fears. In the industrialised countries, for many people the term evokes uncertainty, injustice, unemployment, and social security cuts. Yet globalisation is not a new phenomenon. As early as the 5th century AD, markets sprung up along the salt roads. Ever since Marco Polo's travel reports have we been aware of the geographic opportunities offered by large markets. From today's economic perspective, globalisation simply means a growing interconnection of all economies in the world based on an increasing exchange of goods, services and capital across national borders. An initial globalisation boom occurred during the industrial revolution, in the period between the middle of the 19th century and the start of World War I. After World War II, the liberalisation of foreign trade and the creation of a multilateral world trade order (GATT) in 1947 as well as the growing liberalisation of capital markets set the course for a continuous expansion of the international division of labour. Commodity trade, for example, increased in real terms by an average of 6.1 per cent annually between 1948 and 2000, while production only increased an average of 3.9 per cent per year.<sup>1</sup> The globalisation that we are discussing and arguing about today differs from the first stages of trade as it was carried out in pre-Christian times, and partic-

ularly from the trade that occurred in the Middle Ages, purely in terms of quantity. The dimensions have changed. The phenomenon as such, however, has been known throughout history!

The process of globalisation has gained momentum in the last few years. Over the past twenty years, world trade, cross-border capital flows, and direct foreign investments have all grown to an extent unimaginable before. At the same time, former centrally administered economies and many developing countries were turning towards democratic institutions and regulatory systems based on the principles of a market economy; this, more than anything, helped to integrate more and more countries into the international division of labour. A few global figures offer impressive proof of the dynamics of this development: While in 1950, world trade and production developed at an equal pace, world trade in the 1990s increased almost three times as much as real world production<sup>2</sup> and, once the geopolitical uncertainties caused mostly by the military conflict in Iraq are settled, it will presumably continue to develop in this direction. For the year 2004 the OECD expected an increase in foreign trade of 8.6 per cent; this would have meant more than double the increase of the real GDP growth of all OECD countries which was estimated at 3.4 per cent<sup>3</sup> at the time. The expansion of international transactions in the financial markets was even more dynamic. The daily trading volume in the world exchange markets for example increased from US \$ 600 billion in the late 1980s to approximately US \$ 1.2 trillion today.<sup>4</sup> At the same time, the internationalisation of markets accelerated entrepreneurial cross-border activities. Between 1993 and 2001 alone, world-wide direct investments have tripled from US \$ 219 to 760 billion.<sup>5</sup>

Germany is an inextricable part of this international division of labour. Foreign trade is the most important growth factor in the German economy. This becomes evident when you look at the share of exports and imports in the GDP and its development. In 2003, the share of exports in the GDP was 37.3 per cent, the share of imports 31.5 per cent.<sup>6</sup> As late as 1970, these numbers were as low as 21.8 per cent for exports and 19.6 per cent for imports.<sup>7</sup> According to estimates provided by the Federation of German Industries (BDI, Bundesverband der deutschen Industrie), nine million jobs in Germany depend on foreign trade – this is almost one quarter of all jobs and ample proof of how important it is for Germany to be part of an economic system that is based on the division of labour.

## International division of labour promotes prosperity

The international division of labour is not a one-way street which benefits only a few chosen countries. An increase in prosperity based on foreign trade in one country does by no means lead to an automatic loss of prosperity in another. On the contrary, the international division of labour has the potential to increase the prosperity of all countries involved in trade. As early as 1817, David Ricardo offered impressive proof of this in his book "Principles of Political Economy and Taxation". Specialisation in a product that can be produced at lower cost in one country (principle of comparative cost advantage) increases production and consumption options in both countries. In this context, the borders between nation states are reduced to artificial barriers impeding the search for the best trading partner. In this model of a "world" economy, globalisation will ultimately lead to the optimum use of two production factors: capital and labour. Hence, market and competition can develop their power on a quasi worldwide scale. As Otto Schlecht once put it, the international division of labour therefore is a "mutually advantageous two-way-street"<sup>8</sup> which increases the overall economic "pie" to be distributed, i.e. the national product generated.

The realisation that free trade, unfettered by protectionist measures, raises the prosperity of the countries involved is also at the heart of the completion of the European single market. As early as 1988, a study of the EU Commission, the so-called Cecchini report<sup>9</sup>, predicted these positive effects on the economy as a whole resulting from a better distribution of resources and better use of the specialisation advantages in the single market. The 1996 EU Commission report on the impact and effectiveness of the single market confirmed these positive effects. The Commission estimated that the single market program created between 300,000 and 900,000 additional jobs and led to an additional increase in incomes of approximately 1.1 to 1.5 per cent between 1987 and 1993.<sup>10</sup> The European monetary union as well as the EU Eastern enlargement – on May 1, 2004, ten new member states were accepted into the EU – will deepen and accelerate this process.

## Globalisation speeds up structural change

However, globalisation is no automatic guarantee for economic progress, growth, and more prosperity. All it can do is create the



potential for it. It is up to each country to decide if and how much it wants to make use of this potential. Success will be possible only in cases where a country is willing to adapt its national framework conditions permanently to the rules of competition which are now changing at a global level. In this context, globalisation is not a completed but rather a dynamic process in the Schumpeter sense of destruction and renewal, a discovery journey in search of better solutions which will include all countries participating in trade, and, ideally, the whole world.<sup>11</sup>

Increasing a country's prosperity by participating in the globalisation process therefore has its price, resulting from the intensified pressures of competition and the necessity to implement structural adjustments in the national goods and labour markets. In the real world, numerous obstacles stand in the way of such adjustments, causing readjustment costs, which is one explanation for the ubiquitous fears of and reservations about globalisation. People worry that the destruction of existing structures may bring about a loss of vested rights, and they fear to be among the losers of globalisation who will not profit from the creation of new structures.

Yet structural change as such is nothing new. The world continues to evolve; technical progress and innovation have accompanied man from time immemorial, and without them, we would not be where we are today. Without economic and social structural change, we would not have the many technical and medical achievements that make our lives so much easier and are the very essence of our prosperity. The transition from an agrarian to an industrial society and today's transition to a service and a knowledge-based society are instrumental in the emergence of new industries and jobs while others will lose all or some of their importance in this development process. The inevitable consequence of this process is that non-competitive companies will disappear from the market and new ones will be set up; workers will be let go and be re-employed. In some cases, the results developing from the market process and the related adjustments will be painful. This is hard to predict as it is rarely a straightforward process. This is a reflection of the fundamental principle of freedom underlying the market which Friedrich August von Hayek describes as follows: "Freedom that is only granted when we know in advance that its consequences will be to our advantage is not freedom. ... Our trust in freedom is based not on predictable results under certain circumstances but on the belief

that on the whole, it will trigger more forces for the good than the bad."<sup>12</sup>

We have seen in the past that progress and prosperity thrive best in a market economy system based on freedom, competition, and the appropriate general conditions, especially the rule of law and guarantee of property. Every sceptic should have realized after the collapse of centrally administered economies that any state which attempts to work with control measures is doomed to fail, especially because of information deficits. Freedom of the individual and freedom of society are prerequisites for a positive economic development since only they enable us to use the knowledge contained in so many heads successfully, coordinated through the market. In this sense, globalisation is a positive force since it works as the "a catalyst of competition which, inevitably, is a social journey of discovery with an open ending"<sup>13</sup>. Yet many empirical studies show that most countries that face up to international competition generally achieve higher growth and employment rates and higher incomes than countries that isolate themselves and withdraw from competition.<sup>14</sup> This is true not only of the industrialised countries, but also of many developing countries that have used the potential for economic progress and social advancement.

### **Shaping globalisation – shrinking scope for bad politics**

The fact that, in the course of globalisation, national economies worldwide are moving closer together has considerable influence on society and business, but also on politics. The French economist, Alain Minc, summarised the impact of globalisation in a rather defensive manner: "To our economies, globalisation is what gravity is to physics. One cannot be for or against the law of gravity – one must simply live with it." He is right – we do not have to like globalisation, it exists, whether we want it to or not, and we must live with it. It is up to the individual countries, however, whether they profit or suffer from globalisation, whether they are winners or losers. It all depends on how they apply it to themselves. Surely, one thing that matters in this context is the creation of an international framework for cooperation and competition and a worldwide dismantling of trade and tariff barriers. Even more important, however, is the creation of framework conditions for each individual economy so that it will be able to profit from the worldwide division of labour and prosperity can grow.

On principle, any delay in structural changes causes considerable costs stemming from the inefficient use of production factors which slows down economic growth. Gradually, the pressure to adjust will grow since more and more production factors will have to be put to new use. As a result, underemployment will rise at least temporarily until the market once again fulfils its allocation function. The state is therefore in charge of ensuring that the entire economic framework is geared towards performance and growth so that commodity and factor markets remain as flexible and mobile as possible and are able to adjust to structural change.

As Germany learned back in the 1950s and 1960s, structural change and full employment are by no means incompatible. Estimates indicate that "in 1958, about 50 per cent of the jobs that existed at the time of the 1948 economic reform had disappeared"<sup>15</sup>. At that time, Germany succeeded in finding new employment for the workers who were made redundant by structural change, because the commodity and factor markets, supported by continuing economic growth, were flexible enough to deal with the transition successfully.

Since the 1970s, supply conditions in Germany have worsened. This was first triggered by the higher evaluation of the German mark as a result of the transition to flexible exchange rates, and by the first explosion of oil prices in 1973/74, which increased the pressure to adjust, especially in industries producing wage intensive, standardised goods where competitive pricing is a key factor for competitiveness. In the following three decades, excessive wage rises and the gradual extension of social security benefits were partly responsible for slowing down both private investment activities and growth. At the same time, growing rigidities in the labour market increased, and an attitude of entitlement became predominant which, hindering flexibility, stood in the way of good performance. Ever since, structural change inevitably went hand in hand with an increase in unemployment. During each cyclical crisis, the unemployment base in Germany would grow by approximately one million; in times of cyclical upswing, Germany did not manage to reduce unemployment to pre-crisis levels. Because of this, workers displaced by structural change frequently were not able to find new employment in the developing competitive new industries. The share of structural and long-term unemployment went up.

The labour market needs to become much more flexible to avoid a further dramatic increase in unemployment at the time of the

next economic downturn. It is of the utmost importance to act now, since the globalisation process is gaining momentum. Booming developing countries as well as central and eastern European states will put up a strong fight for market shares. Inter-industrial trade will therefore gain in importance. In the industrialised countries, it will be mostly low-skilled jobs that will disappear. Contrary to the intra-industrial trade however there will be no new jobs created in the same industries. To be able to find new jobs in other industries, the displaced workers must undergo re-training, acquire new qualifications, and should display greater geographic mobility.

In today's globalised world, because of the rising pressure of competition, good overall economic conditions – for investments, production, research, and marketing – have become extremely important. A modern transport infrastructure as well as information and communication technologies permit the linkage of production capacities and a worldwide consolidation of capital markets. Knowledge and information are available and accessible all over the world. In such an environment, companies have little room for price increases, and only innovative and flexible companies will survive in the market. In addition, in a globalised world, companies anywhere will be able to pick the best location worldwide for their business. Therefore, globalised competition also entails direct competition between the different production sites for investments and jobs.

Defensive strategies such as protectionist trade policy measures, interventions in international capital movements, or international arrangements to avoid site competition will not prevent production relocations and the migration of skilled workers. They are based on the false premise that vested rights can be protected this way and do not take into account the dynamics of the development process. First of all, a country as firmly embedded in the international division of labour as Germany would no longer be able to make use of possible future specialisation and efficacy advantages needed to enhance its prosperity. Secondly, if Germany were to limit itself to national competition, the ensuing loss of dynamics and efficiency would endanger Germany's present international competitive position. The loss of market shares in the world markets would mean a simultaneous loss in prosperity. The danger of a relocation of production sites from Germany to dynamic growth and future markets would grow and lead to increasing unemployment. Instead of protecting vested rights,

prosperity would decline and endanger the very core of the welfare state. Thirdly, the less developed economies will never accept a levelling and harmonisation of standards at the level of the industrialised nations<sup>16</sup> because for them, such a step would mean giving up the most important site advantage in their process of catching up: low wages. For industrialised countries such as Germany, high labour costs present no competitive drawback as long as they are backed by equally high productivity and strong technological performance. Only if this is no longer the case will international competitiveness and jobs be threatened.

In the age of globalisation, good national policies will be those which continuously strive to modernise the general conditions for companies and workers in a way that helps maintain or improve the attractiveness of a location. Only economies that are able to gear their policies towards a better acceptance by the mobile sections of their population and companies will be able to take full advantage of the opportunities of globalisation; after all, no economy can afford a long-term brain drain of their mobile elites and of companies with strong capital resources. Especially for the more vulnerable people in society, this would mean the loss of their future.

## **Globalisation: destiny and opportunity for Germany**

Germany has no alternative but to accept the international division of labour and the conditions created by globalisation. In this respect, globalisation for Germany is its destiny as much as it is an opportunity. German politics therefore has no choice but to go on the offensive and accept the challenges of globalised competition. The faster business and society get on a new and modern track, the easier it will be to cope with the burden of adjustment and limit the impact caused by a reform overload.

How is the Germany economy prepared for globalised competition at present? Superficially, a prosperity which is high by international standards might indicate that the starting position is quite good for Germany. It is easily overlooked that today's level of prosperity has been achieved over the last forty years – it is based on the competitiveness of the German economy of the past. An in-depth analysis of the present situation shows that the German economy is actually facing huge problems. It is not without good reason that in many places, Germany is spoken of as the sick man of Europe.

Germany is undergoing a deep structural and growth crisis. Our economy's prosperity is declining, unemployment is rising, public debt is growing at the expense of our children, and the social security systems are in danger of collapsing. Germany's competitiveness has been shrinking continuously since 2000. Studies of the Kiel Institute for World Economics (*Institut für Weltwirtschaft*) show that Germany has been losing world market shares since the early 1990s<sup>17</sup> – and all this is happening against the backdrop of a demographic development which, in the next fifteen to twenty years, will put a heavy burden not only on Germany, but on all other European countries as well.

It is not the cyclical slump that is the root cause for the development in Germany. That would be acceptable and solvable if the basis of the German economy were sound. The problem is that at the core of the dilemma are the unsolved structural problems of the German economy and the present Government's refusal to start implementing decisive structural reforms in the labour market, in the social security systems, in the tax system, in Government budgets and, perhaps most urgently, in employment law. Without the structural reforms needed to increase the economic dynamics and economic growth, we will not be able to solve our problems and stop the downward spiral – the EU Commission, the OECD and all economic experts in Germany are in agreement on this.

The following facts show exactly where Germany needs to act in order to be able once again to take better advantage of globalisation:

1. Compared with the rest of Europe, Germany's growth has been far below average for quite some time now. The average real GNP growth rate in the past five years was 1.2 per cent while economic growth in the European Union came to an average of around two per cent. The gap would be even larger if the EU average were adjusted by the bad German growth rates. Even though Germany is no more dependent on the US and the world economy than other European countries, for years the growth slump has been the strongest in Germany. The main reason is the lack of activity in its domestic market.
2. One important reason for the slow economic growth is the state's reluctance to give economic players enough space to develop. This is evident in the public sector share of the GNP. In 2003, it amounted to 49.1 per cent, i.e. almost half the na-

tional product generated flows through the Government budget. This shows how much the Government in Germany interferes with the free market system. In 1989, this rate was 44 per cent. Germany will not manage to return to a more successful path of economic growth unless the market forces are once more given more space. To this end, the state must show restraint and public authorities must consolidate quantitatively and qualitatively. The expenditure patterns of public authorities are proof that greater savings and thereby a reduction of total expenditures alone will not suffice. The example of the federal budget shows that insufficient or delayed structural reforms of the statutory pension and health insurance system as well as the labour market will lead to a steady increase in the share of consumptive expenditure in Government budgets at the expense of investment. In 2003, 115.2 billion euros of the total expenditure of the federal state of 256.7 billion euros was spent on social security, 36.9 billion euros on interest payments and 27.2 euros on personnel. It follows that 179.3 billion euros, or about 70 per cent of the total expenditures of the federal state, were not variable over the short run. Hence, new legal regulations will be needed to lower the demands against the state, particularly the demands for social benefits, which have been a statutory entitlement.

3. As public spending, Germany's tax burden is too high and therefore detrimental to the economy and growth. In 2003, the tax load ratio was  $41\frac{1}{2}$  per cent of the GNP,  $2\frac{1}{2}$  percentage points over the 1990 level. This is due to the development of social insurance contributions. Despite a shift to tax funded pensions since 1998, social insurance contributions kept rising. In 1989, the joint contributions amounted to just under 36 per cent; in 2003, they made up 42 per cent and therefore contributed considerably to the recent increase in labour costs.

Once the new tax reform took effect, the tax load ratio at  $22\frac{1}{2}$  per cent decreased almost to the 1990 level (22.1 per cent); but a declining tax load ratio alone is not a sufficient indicator for a growth-friendly tax system. Although a high tax and duty burden in connection with complex tax laws offering many privileges does lower tax revenues, it may in some cases lead to a heavy burden. In the end, the deciding factor for economic decisions therefore is the marginal tax rate for additional labour or capital investments. Calculations carried

out by the Deutsche Bundesbank showed that, compared with 1990, the marginal tax rate has clearly gone up.<sup>18</sup> A single average wage earner with a gross annual income of 28.500 euros pays almost 64 per cent of each extra euro he earns into the public coffers, which is almost eleven percentage points more than even in 1990. According to the Bundesbank, about 4 1/2 per cent of this is a result of the increase in social security contributions, and around seven percentage points cover higher levels of income tax – in spite of the tax reform, which has now become effective. Under these circumstances, it comes as no surprise that the black market economy has been booming as never before.

We simply need a far-reaching tax reform that lowers tax rates and at the same time broadens the income tax base by reducing tax privileges. Experts agree that a reduction of marginal tax rates and a simplification of the tax system connected with such a reform will create new performance and investment incentives and be a positive influence on economic growth.

4. Another problematic area is public sector borrowing; one reason is that today's debts will be tomorrow's taxes. An increase in public sector borrowing will therefore have negative effects on the expectations of investors and consumers alike and lead to a wait-and-see attitude. Also, excessive levels of public debt jeopardize monetary stability. For this reason, at the time of the introduction of the euro it was agreed in the Maastricht treaty that certain set limits of public sector borrowing must not be exceeded. Germany has already violated this rule in 2002, 2003 and 2004. In 2003, according to the Federal Statistical Office (Statistisches Bundesamt), the public deficit was 82.1 billion euros. With public sector borrowing at 3.9 per cent of GNP, Germany therefore clearly missed the deficit criterion of the Stability and Growth Pact. As Germany's public sector borrowing reached 64.2 per cent of the GNP, it also failed to meet the second criterion, i.e. to keep the rate of borrowing below 60 per cent of GNP.

It is true that the level of Government debt has something to do with German reunification and the resulting cost. It was clear to all that Germany unity would not come free of charge; the differences in prosperity were too pronounced, and the economic substance of the former GDR was too light. When



two such different economies are combined, considerable problems of structural adjustment are bound to follow.

What is really disconcerting, however, is the fact that Germany has not been able to consolidate its Government budgets since. While from 1993 to 1998, Government expenditure decreased on balance by 300 million euros, in spite of the fact that the economic situation was difficult as well, from 1998 to 2003 total Government expenditure increased by 23.1 billion euros. If Germany performed as well as the UK, i.e. if it had debt levels of less than 40 per cent of GNP, we would be happy indeed.

5. The small and medium-sized companies in Germany are not in good shape. Their earnings position is unsatisfactory, and an analysis of their balance sheets shows insufficient equity cover, giving cause for concern. According to the Deutsche Bundesbank, the capital-to-assets ratio of small and medium-sized businesses is clearly below 20 per cent; in one third of the companies it is even below 10 per cent.<sup>19</sup> This low equity position makes companies vulnerable during times of economic downturn when company profits are low. In 2003, the negative development of the overall economy was mirrored in the total number of business insolvencies, which reached an all-time high of about 40,000; this year, the number will not be any lower. At the same time, the number of business start-ups has dropped.

The negative development of the German economy is reflected in the unemployment figures, which remain high – around 5 Million people. Analyses show that in over 80 per cent of cases, unemployment in Germany does not have cyclical, but structural causes. This is why structural reforms are needed, particularly in the labour market, to be able to deal with these causes. By international standards, the percentage of long-term unemployed who are unemployed for at least one year is exceptionally high in Germany. In 2000 – these are numbers from the OECD Employment Outlook –, their share of total unemployment figures was 51.5 per cent, compared to 6.0 per cent in the US, 32.7 per cent in the Netherlands, 28.0 per cent in the United Kingdom, 26.4 per cent in Sweden and 42.5 per cent in France.

The number of employees in Germany paying social security contributions gives even more cause for alarm than unem-

ployment statistics. In February 2001, there were 27.6 million employees contributing; by February 2004, the number had declined by 1.3 million. Between 2002 and 2004, an average of 50,000 jobs was lost every single month. Among other things, this means that the German social insurance systems are carried by increasingly fewer people.

## Germany needs reform

The German physicist and writer, Georg Christoph Lichtenberg, once observed: "It is true that I cannot say whether it will be better once everything changes; but I do know everything needs to change for things to improve."<sup>20</sup> At the moment, things are not improving. The downward spiral of low growth, sinking employment and growing unemployment, increasing social insurance contributions and high public deficits leading to a loss of welfare for present and future generations cannot be stopped without dramatic and basic structural reform in employment, budgetary, financial and social policies. The confidence citizens and companies have in their politicians' ability to reform is badly shaken. This must be the starting point for the definition of new goals and ways to reach them.

The focus of economic and employment policies must continue to be "work for all" and "prosperity for all". To make both a reality will take an enormous effort. In any reform, it is mandatory that the social market economy remains the political model. It is the basic regulatory concept that we choose because it combines economic and social requirements and, as we have seen in the past, is immensely successful whenever the right balance between both aspects is struck, i.e. between market economy and social fairness. Together with the rule of law and a parliamentary democracy, it has been the very basis of prosperity and growth in Germany.

It is obvious enough what the German economy must try to achieve: Germany clearly needs to improve its economic growth rates. We must rate any reforms we will need in the next few years by what and by how much they will contribute to economic growth. For individual political sectors, this means:

1. Obviously, public spending must be cut back. The target should be to lower it to 40 per cent over ten years. This would give citizens and business more breathing space to make economic decisions as they see fit. Nearly every second euro gen-

erated in Germany is flowing through Government budgets – a level which has little or nothing to do with a market economy system. Accordingly, market mechanisms in Germany are no longer able to produce good results. Hence, we need to put more trust in our people again while the state should limit itself to the creation of a favourable framework of conditions. As a rule, people know much better than any state authority what is good for them.

Cutting public spending by 8½ percentage points will be a daunting task, which can only be achieved over time. This means that the growth of Government expenditure needs to be one percentage point below GDP growth for ten years, i.e. at present around 20 billion euros per year. At a growth rate of one per cent or less, as in the last few years, this will inevitably lead to an absolute cut in consumptive Government spending. This shows the dimension of this target, as the state will no longer be able to fund everything that is desirable. There is no alternative to this solution if Germany is to adhere to the criteria of the European Stability and Growth Pact in the future.

There is another reason to turn Germany once more into a centre of stability in Europe: In the long term, we will not be able to maintain the stability of the euro unless all member states' budgets adhere to the stability requirements and the monetary policy of the European Central Bank is not undercut by high budget deficits. There are signs that the lack of consolidation efforts by the German Government is prompting other countries to think out loud about the idea of easing the conditions of the stability pact. The only way Germany can counteract this trend is for the country to set a good example.

2. The reduction of Government involvement and expenditure must be mirrored in a lowering of taxes and fiscal charges for citizens and business. The citizens will not be able to take on additional responsibilities unless they are left with the financial means to do so. The answer is obvious: the tax burden in Germany must be lowered. By international standards, the top tax rates especially are still too high. Our target should be a tax rate of under 40 per cent, and a starting rate of no more than 15 per cent. In today's tight budget situation, this cannot be achieved unless the income tax base is expanded – to

that end, tax loopholes and subsidies will have to be cut back. An additional advantage will be that the tax system will become simpler and more transparent for taxpayers.

3. Any income tax reform must go hand in hand with reforms of the social security systems. Without a structural reform of the social insurance systems, i.e. the statutory pension and health insurance systems as well as unemployment and social benefits, Germany will neither be able to solve the budgetary problems of the Federal Government, the Federal States and the municipal authorities, nor will it be able to achieve lower social security contributions and reduce incidental wage costs. Without the latter, it will not be possible to lower the cost of labour and at the same time increase the demand for labour by companies, thereby contributing to the reduction of unemployment. Furthermore, the demographic development urgently calls for structural reforms of the statutory health insurance and pension systems. These systems must be made "demography-proof". If they are not, the cost that will accumulate in fifteen to twenty years will have to be financed with exceptionally high rates of contributions which will be detrimental to economic growth.

To achieve these targets of increased individual responsibility and private provision for old age, work on such structural reforms must begin instantly since – in order to ensure social acceptability – their implementation needs to be a very gradual process. The use of existing efficiency reserves, for example in health insurance, on its own will not be sufficient.

These targets cannot be the platform for one legislative period. Rather, they are beacons of light to guide the course of Government policy. Even with a high performance Government, it might take eight to ten years to implement them. It will be a tough process for all involved, but if the targets are clearly defined and the way to reach them is properly and reliably set out, people will be ready to follow a difficult path.

These reforms would be much easier to implement if it were possible, on a short-term basis, to stimulate the dynamics of the economic process in Germany. The added economic growth, the resulting increase in tax revenue and simultaneous reduction of expenditure could open the way for budgetary manœuvres so that the consolidation of all Government budgets as well as structural reform of the social insurance systems could be advanced in

accordance with the regulatory concepts and principles of a social market economy, and in a way which is socially acceptable; no one must fall through the mesh of the social net without being caught.

Therefore, legislation must be used as one tool to achieve labour market reform in the short term, for a reform that makes employment laws more flexible, that restructures incentive systems and strengthens the competitive element in the labour market. In past years, the focus of employment law in Germany has largely been to strengthen the employees' protection. However, it is a mistake to focus solely on those who have a job since it cements the status quo, gets in the way of necessary restructuring efforts and raises the threshold for employing people. This actually leads to job losses. What is needed instead is a change in employment legislation to promote employment, a deregulation of the entire German employment legislation starting by relaxing dismissal protection and proceeding to collective bargaining laws and the Industrial Constitution Law of 1972. This will reduce the costs of the labour factor for companies and make it more transparent, and will lead to a valuable surge in growth for the German economy in the very same year, which will help ease the dramatic cash situation of Government budgets at all levels.

## Summary

The German economy must be made fit for globalisation and the transition to an information and science society. We must finally take on the challenges facing us and tackle the needed reforms. There is a saying that "those who stick their head in the sand today will gnash their teeth tomorrow." In view of the downward spiral, Germany can no longer afford to continue to do so. The measures mentioned above will make it possible for the German economy to reach a higher level of growth and create more employment. If this is achieved, people will put up less resistance to the drastic reforms needed. If we manage to set the course once again for growth and employment, in social policies, in the labour market and in budget and fiscal policies, Germany will be able to regain its position as the driving economic force in Europe, win back world market shares and profit from globalisation. The potential is there. What is missing at the moment is the courage at the political decision-making level to implement far-reaching reforms to dismantle existing barriers. The pressure

to reform is growing. The population realises that things cannot continue the way they are. The German population is ready to walk the difficult path of reforms and change. At the same time, it has a right to expect political leadership that has a vision of our country's future and can offer straightforward solutions to realise this vision.

#### Notes:

- 1 See final report of the survey Commission of the Deutsche Bundestag, Globalisierung der Weltwirtschaft – Herausforderungen und Antworten, BT-Drs. 14/9200, p. 119.
- 2 See Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung, Jahresgutachten 2003/2004, p. 48.
- 3 See OECD, Economic Outlook No. 75, Summary of Projections, May 11, 2004.
- 4 See final report of the survey Commission of the Deutsche Bundestag, Globalisierung der Weltwirtschaft – Herausforderungen und Antworten, BT-Drs. 14/9200, p. 63. Until the creation of the Eurozone in 1998, daily foreign exchange trading stood at about 1.5 billion US \$ (ibid.).
- 5 Bundesverband der Deutschen Industrie, Außenwirtschafts-Report of February 15, 2002, p. 1.
- 6 See Frühjahrsgutachten der Wirtschaftswissenschaftlichen Forschungsinstitute of April 23, 2004, p. 98.
- 7 See Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung, Jahresgutachten 2003/2004, graph 29, p. 546 f.
- 8 Schlecht, O., Wohlstand und Arbeit für alle, in: Wirtschaftswoche Nr. 48 of November 20, 1997, p. 36.
- 9 See Cecchini, P., Europa 1992. Der Vorteil des Binnenmarktes, Baden-Baden 1998.
- 10 See communication of the Commission to the European Parliament, The Impact and Effectiveness of the Single Market, Com (96) 520, Luxemburg 1996, p. 9.
- 11 See for example Issing, O., Globalisierung ist nie Gemütlichkeit, in: Frankfurter Allgemeine Zeitung, May 19, 2001, p. 15.
- 12 Friedrich August von Hayek, Verfassung der Freiheit, 3rd edition, Tübingen 1991, p. 40.
- 13 Issing, O., Globalisierung ist nie Gemütlichkeit, in: Frankfurter Allgemeine Zeitung May 19, 2001, p. 15.
- 14 See final report of the survey Commission of the Deutsche Bundestag, Globalisierung der Weltwirtschaft – Herausforderungen und Antworten, BT-Drs. 14/9200, p. 461.
- 15 Willgerodt, H., Keine Angst vor pfiffigen Partnern, in: Frankfurter Allgemeine Zeitung, September 21, 1996.

- 16 Such suggestions are regularly offered by globalisation opponents like former SPD chair and finance minister Oskar Lafontaine. See for example Lafontaine, O., Müller, C., *Keine Angst vor der Globalisierung: Wohlstand für alle*, Bonn 1998, p. 56 ff.
- 17 See Siebert, H., *Verliert die deutsche Wirtschaft Wettbewerbsfähigkeit?*, essay, April 22, 2002, p. 2f.
- 18 See Deutsche Bundesbank, *Öffentliche Finanzen in der Krise – Ursachen und Handlungserfordernisse*, Monatsbericht 3/2004, p. 21 ff.
- 19 See Deutsche Bundesbank, *Zur wirtschaftlichen Situation kleiner und mittlerer Unternehmen in Deutschland*, Monatsbericht 19/2003, p. 42 ff.
- 20 Georg Christoph Lichtenberg, *Sudelbücher*, Sudelbuch K 1793, K 246.3.

## Part III: Experts reflect





# Chapter 16

Frank Bösch

## The CDU – Development of a Successful Model

The CDU is a party with election results that stand up well by international comparison. Given that party systems all across Europe have increasingly been in a state of flux, it has managed to hold its own remarkably well. Land (federal state) elections and recent surveys show that it enjoys a level of support amongst the electorate that, in times of growing party fragmentation, is almost unique in Europe. Compared with the rest of Europe, the Christian Democratic Union is in a relatively comfortable position regarding both the number of its members and its party machine. Still, since the 1980s, the CDU has had to deal with crises that were a greater challenge than any one faced in the first thirty years of its existence. This essay will analyse this development in the period which roughly overlaps with the Cadenabbia anniversary we are celebrating. It covers the years from the beginnings of Helmut Kohl's government in 1982 to the lost elections in 2002. It will look at reasons for its success and analyse its slumps.<sup>1</sup> To this end, we will take a glance at its political practice, its party organisation, and its election results. The development of the British Conservative Party will serve as an explicit and implicit foil to put this process into perspective.

### The government party of the 1980s

It was not just any programme but Helmut Kohl's 1982 government policy statement that set the future long-term course. As an identity-forming leitmotiv, Helmut Kohl demanded to initiate a 'Wende' (turn-about). It has often been stated, however, that the government change in 1982 did neither bring about a "radical market economy" nor a "neo-conservative" change that can be compared with the one in the United States or Great Britain. The Helmut Kohl government was not even characterized by terms such as "Thatcherism" or "Reagonomics". There were several reasons for this. First, the CDU with its Christian and social roots remained a people's party where social security played a much greater role. For this reason, its policies in the 1980s resembled those of other European Christian-democratic parties rather than the one adopted by the Tories'. Furthermore, the CDU formed a coalition with the liberal FDP party which, as the for-

mer junior partner of the SPD government, held some of the same ministerial posts that it had under the previous government. Compared with the situation in England, this provided continuity especially in the areas of foreign policy and civil rights issues. A radical change in direction would have been more difficult for institutional reasons anyway. Ultimately, there are more active players in Germany's political arena who prevent any radical change. Consider, for example, the social partnership between labour and capital, the Federal Constitutional Court, the segmented ministerial bureaucracy, or the federal structure of the Federal Republic.<sup>2</sup> At times, due to the federal organization of the country, the implementation of reforms within a party was much more difficult than in England. On occasion, this was even felt by the CDU government of the 1980s.

Yet, by German standards, the CDU had plenty of room for manoeuvre. The voters' clear mandate of 1983 legitimised change, and the majority in the Bundesrat (Federal Council, second German chamber) facilitated implementation. In addition, the economic legacy left by the former coalition government (SPD/FDP) was so bad that there was greater readiness among the population to accept cost cuts. As early as 1982, the Helmut Kohl government started implementing drastic reforms in economic, fiscal, and social policies. However, rather than reform the structure of the welfare state it simply reduced the level of benefits offered. In spite of certain differences to the Thatcher era, the extent of the cost cutting should not be underestimated. In 1982-83, for example, social as well as unemployment benefits were reduced, any deductibles for hospitalisation and rehabilitative or preventative measures such as visits to spas were doubled, the student grant system 'Bafög' (Federal Law on Education and Training Promotion) was changed to a system where students had to take out loans, and the adjustment of pensions was postponed. At the same time, the government lowered capital and trade taxes and relaxed working hours regulations. However, the cut in the top tax rate in particular did not go nearly as far as it did in Great Britain. Yet, the CDU – like the Tories under Thatcher – was able to achieve almost immediate positive economic results. As early as 1984, economic growth had increased to 3.3 per cent, new net borrowing had gone down, and the inflation rate had dropped from five to two percent. By the late 1980s, the ratio of social security provisions was lowered by four per cent, while social insurance contributions showed only minor increases. While this pos-

itive economic cycle occurred at the time of a world-wide upswing, it still confirmed the cost cutting measures of the CDU. Price stability in particular served to increase the CDU's standing since due to Germany having suffered two inflations, the abstract percentage figures remained an important symbol on the basis of which many German voters used to judge economic policies. In the 1980s, Margaret Thatcher was similarly successful in fighting inflation until, at the end of the decade<sup>3</sup>, it started going up again in the UK.

In foreign and defence policies, the CDU continued to be a faithful ally of the West. In spite of mass demonstrations, it stood by NATO's dual track decision to deploy a new generation of arms. As far as the Ostpolitik was concerned, the Helmut Kohl government continued the tradition of the previous SPD/FDP coalition by being prepared to talk with the GDR but kept more of a distance during negotiations. Helmut Kohl's image was primarily based on his role as the architect of a united Europe. Since Adenauer's days, close cooperation with the French was considered the key to this united Europe. In 1986, Helmut Kohl's regular meetings with President François Mitterrand resulted in the signature of the "Single European Act" which represented a big step towards the creation of a single European market. However, while in the Brandt years, the focus had been on foreign policy, the CDU's defining priority in the 1980s was domestic policy. Three things made focussing on foreign policy difficult. Firstly, as before 1982, the Foreign Ministry was run by the very agile and popular Hans-Dietrich Genscher, member of the junior coalition partner FDP. Secondly, in the 1980's (as was the case later), it was very difficult to turn European policy decisions into an emotionally engaging project. Thirdly, at that time, it was still anti-communism, not some kind of 'rapprochement' with communism, which was the glue that held the CDU together. Helmut Kohl's conciliatory talks with Gorbachev and Honecker were met with a degree of scepticism by many CDU followers.

The greatest problems for the CDU, however, undoubtedly stemmed from the high unemployment rates. To lower these figures, the Kohl government tried, throughout the 1980s, to further deregulate the labour market. The Promotion of Employment Law of 1985, for example, made it easier to conclude employment contracts of limited duration and to take up part-time work and limited the right to strike. The latter in particular led to severe conflicts with the trade unions. These disputes were

not as intense as the labour disputes in England at the time of the 1984 miners' strike, but for Germany, the severity of the conflicts was remarkable. In both countries, these disputes ended with a clear loss of power for the trade unions. Since the supply-oriented policy of the CDU was not able to achieve much in the fight against unemployment, the CDU also tried to restrict the supply of labour. Its 1984 Law on Early Retirement made it possible for people to retire at the age of 58.

As the British Conservative Party, the CDU did not tackle a fundamental reform of the health care system. The CDU did focus on social policy measures for families. After initial cuts, times spent on bringing up children and looking after elderly relatives were included in the calculation of the statutory pension entitlement in the mid-1980s; the tax allowance for dependent children and child benefit was increased, and the government ensured that women taking time to bring up children received financial support and continued to have similar statutory rights as employed persons. As all large political parties, the governing CDU needed to deal with the very difficult task of reconciling its free market economy reforms with social balance. Astonishingly, it managed to do so by permitting the two extremes to coexist. Significantly, the exponents of both wings, minister of social affairs Blüm and finance minister Stoltenberg, counted among the most popular CDU politicians. The cabinet especially helped to integrate the different party segments.

There is no question that since 1982, the Chancellor's Office once again was the power centre of the CDU.<sup>4</sup> Helmut Kohl succeeded, however, to maintain a close and relatively uncomplicated relationship with the CDU parliamentary party. He soon found an excellent adviser in Wolfgang Schäuble, who not only prepared decisions but also presented them on Kohl's behalf to the committees and the parliamentary party. After the election victory of the CDU, numerous ministers came from the top people within the parliamentary party, which strengthened the ties with the parliamentary party while at the same time weakening it. The new leader of the parliamentary party, Alfred Dregger, turned out to be extremely loyal, although he never became part of Kohl's informal inner circle. Kohl in particular benefited from the fact that he himself had been leader of the CDU parliamentary party for six difficult years. Rare tensions occurred whenever the parliamentary party felt it had not been informed in sufficient detail or in time.

Occasional frictions were more likely to occur with the party or with the leadership of the Bundesgeschäftsstelle (Federal Party Office). The situation was very different from the one in the Adenauer era: Unlike then, the Chancellor's Office now had a counterpart in a sophisticated, self-confident, and programme-orientated party machine. Its offensive independence was best embodied by secretary-general Heiner Geißler. Geißler not only distanced himself from the government's course but also from the CSU, which reinforced this profile shaping conflict even more. In 1985, he even resigned as minister in order to be able to dedicate more time to the party. Since 1987 at the latest, Geißler's remarks polarized the party to such an extent that the conservative wing kept demanding Geißler's removal from office. Apart from these content-based issues conveyed through the media, however, the political role of the secretary-general remained limited. For example, Heiner Geißler had very little influence on the regional party associations, which continued to enjoy great autonomy. With the enhanced status of the Chancellor's Office, the Bundesvorstand (Federal Executive Committee) lost some of its importance. Helmut Kohl prepared important decisions primarily in informal talks. The CDU Presidium, on the other hand, still had a certain influence. Since it was at the intersection of the Chancellor's Office, the parliamentary party, the federal states and the party, it continued to serve as an important clearing house for political decisions. Overall, Helmut Kohl's power cannot be compared with that of Margaret Thatcher.<sup>5</sup> The federal states, the parliamentary party and the party were far too independent for that.

The election results represented an acknowledgement of the Christian-democratic course. In spite of countless demonstrations and cost cutting measures, in the federal elections of 1983, the CDU was able to celebrate the second-best result in its history. As in 1976, Kohl won the support of groups who had previously abandoned the party – in particular women, younger voters, and protestant workers. However, his success was predominantly due to the high mobilisation of loyal Catholic voters. According to the polls gathered by the research group 'Wahlen' (Elections), an astonishing 65 per cent of Catholics voted for the CDU. Yet, in the subsequent federal state elections, the CDU took mostly losses, which continued in the federal elections of 1987. In 1987, the CDU lost over four percent of the votes across nearly all federal states and professional groups. The only group whose support for the CDU did not waver were the self-em-

ployed, while the losses among voters under 45 were above average. Also, this confirmation of the government was not a success that could be attributed to the Chancellor's popularity alone. According to surveys, 46 percent of the population would have preferred Helmut Kohl while the candidate of the opposition, Johannes Rau, was preferred by an equal number of people. Rather, the CDU succeeded as the party with superior economic authority.

## The 1989 crisis and regeneration through unification

In the late 1980s, both the Thatcher government and the CDU suffered a number of setbacks at several levels. In elections, the trend that had begun to beleaguer the CDU in 1987 continued. However, in the European and federal state elections of the late 1980s, the losses would become heavier. Losing voters led to another problem for the CDU: For the first time since the 1960s, a party of the extreme right, the Republicans, entered the regional parliaments. At the same time, the level of party membership, which had also reached its peak in 1983, had been sinking continuously since 1984, although not as dramatically as in the British Conservative Party. An internal CDU study found that the problems were the same as in the Social Democratic and traditional parties in other European countries: The members were becoming too old, the share of women was too low, and the lower classes in particular were becoming harder and harder to reach. The proportion of working class members now stood at less than ten per cent while the small group of the self-employed constituted twenty-three per cent.

At the same time, the conflicts within the party leadership became more visible to the outside world. In the federal states, there had been friction and various problems even around 1988. In the modern regional party association of Rhineland-Palatine, Carl-Ludwig Wagner and Hans-Otto Wilhelm fought over Bernhard Vogel's legacy, in Lower Saxony, the formerly successful double act of Albrecht/Hasselmann lost the party leadership and the elections for the regional government; in North Rhine-Westphalia, chairman Biedenkopf resigned after conflicts, and in Schleswig-Holstein, the CDU suffered from the consequences of the Barschel affair.

In 1989, these interior conflicts intensified and developed into the biggest leadership crisis of Kohl's entire chancellorship. There

were five interrelated major reasons for this. Firstly, the losses suffered in the European and regional elections cost Kohl his reputation as the eternal winner. Secondly, according to polls, his policies did not appear to appeal to the majority of voters; only 27 per cent of the population said they "more or less agreed with Helmut Kohl's policies". Thirdly, the party had accumulated huge debts so that dismissals and cost cutting measures became necessary, which further weakened Kohl's support from party officials. In the fourth place, the party organs felt neglected by Kohl. In the fifth place, Kohl allowed the latent power struggle with secretary-general Geißler to get so far that in 1989, without consulting the party leadership, Kohl ended up presenting Volker Rühle as the new candidate for the office.

Hence, in the run-up to the Bremen party conference, Heiner Geißler, Kurt Biedenkopf, and Rita Süßmuth tried to install the premier of Baden-Württemberg, Lothar Späth, as a rival candidate for the party chair. Their plan was to enter the history books as the 'attempted Bremer putsch'. At the party conference, the anger felt by many delegates about Helmut Kohl's leadership style erupted. This turned out to be yet another crisis Kohl survived with cunning and luck. His critics were not determined enough to vote him out of office. Their fear of defeat prevented them from setting up an opposition candidate; instead, they slowly started to back away from Späth and Geißler even before the start of the party conference. Also, Kohl's tactics were superior to those of his critics. In preparing the party conference, the numerous contacts that he had nurtured with the middle and lower party level finally paid off. After the Bremen "revolt", Kohl ensured that the Bundesgeschäftsstelle (Federal Party Office) was restructured in a way that strengthened his position. Helmut Kohl managed to survive the very crisis that was to bring down Margaret Thatcher a little while later, after the diminishing power of the whips to hold her party together had indicated the dissatisfaction with her course of action.

The way out of the crisis was undoubtedly facilitated by the reunification process. Even at the Bremen party conference, Kohl was able to gain the delegates' approval when he told them that GDR citizens were now allowed to leave their country via Hungary. From an analytical perspective, reunification contributed to a regeneration of the party at all levels. The weakened chancellor and chairman was instantly able to regain esteem and reputation when he announced in front of the 'Frauenkirche' in Dres-



den in December 1989 that a "united nation" was his aim and when he sped up the implementation of monetary union and the reunification treaty. The process of reunification also gave the CDU a foreign policy profile which consolidated the party internally. Finally, Helmut Kohl had the opportunity to present himself to the media as a statesman who moved successfully in international circles. Secondly, his commitment to German interests produced a patriotic enthusiasm that his matter-of-fact European policy could never incite. Thirdly, with its reunification policy, the CDU was able to isolate the left, which, in the eyes of the CDU, had betrayed German unity. Kohl's European policy, on the other hand, had always been based on a wide consensus between parties and had therefore not lent itself to this isolation of the left.

In all of this, the policies of the CDU once again displayed the virtues that had been the basis of its success under Adenauer. The self-confident optimism, which did not engage in time-consuming, tormenting discussions, was reminiscent of those days, as were the breath-taking speed of the decision-making progress and the pragmatic concessions. It might have been Helmut Kohl's very own experiences during the rebuilding of the country after the war that gave him the confidence he needed. The landmark decisions in the reunification process were based on the ideological and historical traditions of the Christian Democrats. This is true of their faith in the healing powers of the market, which, at the same time, was provided with safeguards in the form of subsidies. It was also true of the priority that the return of East German property was given over compensation: This reflected the great ethical importance of property. Also, the currency and pension reform compromises that were reached with the electorate in mind had their historical precedents. One surprising aspect was that the CDU, during the process of monetary union, took the risk of higher inflation, which, in spite of many such predictions, did not materialize. With regard to its ties in the West, the party adhered to its traditions. Reunification was not to lead to any changes for the former Federal Republic. As opposed to many Social Democrats, it planned from the outset to integrate the GDR under Article 23 and to keep the Basic Law, as opposed to drawing up a new common constitution under Article 146.

In 1990, the election victories in the new East German Länder in particular strengthened the position of the CDU at the national and regional level. After the less than sparkling election cam-

paigns of the previous years, the CDU now had an opportunity to shine once more. In the East, the masses celebrated Kohl, which in turn had an effect in the West. His successful foreign policy negotiations made Kohl unassailable as a statesman. Unlike the newly founded Social Democratic Party in the former East Germany, the CDU had a broad communication network at its disposal, dating back to the days of the East German CDU.

In the course of joining together the East German and the West German CDU, Kohl was also able to restructure the party organisationally in a way which further strengthened his overall position. In Volker Rühe and his successor Peter Hintze, he had loyal secretary-generals, and at the party conferences, Kohl was welcomed with loud cheers. In 1990, he was re-elected chairman with a record 98 per cent of the votes. Subsequent party conferences as well were characterized by a high degree of party unity. The term "Chancellor's party" – if used in a political science sense – is best suited to the years 1990 to 1994.

At the lower organisational levels, the joining of the West German and the East German CDU helped raise the number of members considerably. After card-index adjustment, the Christian Democrats gained 111,248 new members from the East German CDU and the Bauernpartei (Farmers' Party) and reached its historical peak of over 750,000 members. Moreover, the new Länder associations had a social profile that was clearly different and, to a degree, made up for weak points elsewhere. The share of workers, women, and younger people under 40 was considerably higher. On the other hand, there were fewer self-employed people and civil servants. Even the CDU's finances could be restored to soundness in the course of reunification. The new members, election campaign refunds based on the larger number of voters, and an extraordinary willingness of companies to make donations led to a turn-about in 1990.

## **The government party of the 1990s**

By preparing the party programme adopted in 1994, Helmut Kohl wanted to counter those who said the CDU was neglecting long-term political ideas. It is true though that, when adopting this programme after having been the governing party for so many years, the CDU was hardly in a position to identify basic social deficits in a convincing manner. Its demands for less bureaucracy, reduction of government borrowing, or safeguarding of jobs

therefore lost some of their attraction. Many sections of the programme simply promised to deal "to a greater extent" with the political areas mentioned.

Yet this party programme was very important for the self-image of the CDU. The first striking thing about this programme was that the CDU continued to refer widely to God and Christianity. Although the starting-point remained the "Christian view of mankind", in debates Helmut Kohl in particular was in favour of addressing non-Christians in the programme as well. Accordingly, the following sentence was added: "The CDU is open to anybody who respects the dignity and liberty of human beings and who accepts the fundamental principles of our policies derived from this premise." (Art. 1.2.). This means that the CDU is reacting to social change while keeping its religious roots in its programme. Secondly, the CDU appeared as an environmental party, supporting an "ecological and social market economy". As we know, this term (a rephrasing of Erhard's term of social market economy), which could be explained at the time by the emergence and consolidation of the Green Party, could not establish itself permanently. Thirdly, it becomes apparent that the programme adopts a rather liberal approach when it comes to economic and social policies. The political science analysis of the programme carried out by Irmgard Reichart-Dreyer confirms this and observes a shift from an image of people forming part of a community to an individualized image of man, which puts special emphasis on the "free development on one's personality".<sup>6</sup> Accordingly, the sections on "equal opportunities for all" contained in the earlier programme paper were no longer included; neither was the New Social Question (social concept from the mid-1970s).

Naturally, the decisive factor for the party itself and for its public perception remained the CDU's government policies. In almost all areas, ambivalent positions emerged that foreshadowed the election defeat in 1998. The party's success stories occurred in the foreign policy sector. The CDU was the party that, under Helmut Kohl, was instrumental in preparing a common Europe. There can be no doubt that this was a contribution that shaped the self-image of many party activists, but for the population, this was still not an issue that could stir emotions. On the contrary, CDU supporters as well were now beginning to wonder whether Helmut Kohl's European vision did not go too far and might even be disadvantageous to Germany.

In economic policy, the CDU was still successful at curbing inflation after a short-term price increase. However, the party was no longer able to make the most of this either. On the one hand, the section of the population that had lived through the inflation of both post-war eras was shrinking. On the other hand, price stability no longer was a specifically German achievement. Within the EU, it now increasingly became a European standard. Worse, the CDU now appeared as the party that was about to abolish its trademark, the stable Deutschmark, in favour of the euro. This indirectly took away one of the foundations on which the success story of the CDU was based.

At the end of the CDU's time in government, the economic data were no longer particularly impressive. Public sector borrowing, social insurance contributions and unemployment were all on the rise, and reunification was not the only explanation. The international recession had undoubtedly taken its toll on the German economy as well. However, a statistical comparison between the twenty-three OECD countries showed that by 1998, internationally Germany had fallen behind in many areas to middle and back positions.<sup>7</sup> Yet at the same time, the CDU itself created the impression that Germany was no longer a safe location for business. While so far, its very optimism had been its key, the crisis scenario it was now spreading about the threat of an exodus of German companies reflected badly on the party itself. Its debate on Germany as a location for companies was meant to legitimise the restructuring of the welfare state. There is no doubt that basic reforms were overdue in this area. However, it can be assumed that any cuts would have met with more approval had there been a visible positive impact on the labour market.

The government's performance on the social policy front seemed similarly ambivalent. To stabilise the health care system, the CDU had introduced nursing care insurance in 1994. To free the employers from having to foot their part of this bill, the CDU abolished a religious bank holiday ("day of penance"). In particular for a Christian party, this was a highly ambiguous solution. The relationship with the churches, which had already suffered due to social cuts, deteriorated further. The change of the abortion law (§ 218), which was made in the course of reunification, further cooled the relationship with the most important bastion of the CDU. Another factor responsible for losses among the electorate was its 1996 "health care savings package", although cost cutting measures were undeniably needed, especially in this area. The in-

crease in patient contributions and the health insurance companies' cuts in health care provision meant higher expenses on a regular basis for elderly core voters. Other factors that turned away the voters were reductions in both unemployment benefits and sick pay, and the relaxation of dismissal protection. Families, on the other hand, were still profiting from the CDU's social policies. Even in times of crisis, the CDU remained true to this ideological model. In 1992, the CDU decreed that a higher percentage of the time spent on bringing up children was to be included in the calculation of statutory pensions; four years later it increased the allowance for dependent children. Yet, those individual measures were not enough to underline the social component of its market economy.

Within the party organisation, the problems which had been solved or at least covered up for several years following reunification now re-surfaced. From their weakened position, the regional party associations in the Western part of Germany proposed basic reform ideas and amendments to the statutes. These ideas were directed, first and foremost, against an entrenched and overpowering party leadership. Term of office limitations, a limitation of board memberships to a maximum of three, or the reduction in the number of parliamentary undersecretaries were part of the demand catalogue of almost all associations. Secondly, they wanted to strengthen the power of the basis. The direct election of candidates for office and mandate candidates, member surveys, and plenary meetings at district level were among the demands. Thirdly, the party was to open itself to non-members. As guests, they were to have the right to speak and make proposals for a certain limited time even without joining the party.<sup>8</sup>

Both the diagnosis of the crises and the reform proposals of the politicians from the Länder were – not only, but clearly – directed against the party leadership style of Helmut Kohl. Limits on terms in office and on the number of posts one can hold were meant to prevent a similar accumulation of power in the future. The "young wild ones" who stood out in these efforts emerged as a group in media reports, and the media gave them an audible and united voice. The federal state and parliamentary party chairmen Ole von Beust (Hamburg), Christian Wulff (Lower Saxony), Roland Koch (Hesse), Christoph Böhr (Rhineland-Palatine), Günther Oettinger (Baden-Württemberg) and the Junge Union (CDU youth organisation) chairman Klaus Escher were among

them. However, their ideas for reform greatly varied. Roland Koch, for example, demanded an "evolutionary process" of renewal, while Christian Wulff wanted a "fundamental reform". In 1995, the Deutschlandrat (German Council) of the Junge Union adopted suggestions for reform that were particularly radical. For example, it demanded the direct election of the party chair, the cancellation of "mandatory speeches" at party conferences, the transformation of every second party conference into political fairs (in the style of a Church congress), municipal executive committee meetings which are open to the party, and the abolition of the Presidium which was to be replaced with an executive committee consisting of the federal chair, the deputy chairs and the treasurer.

The "old wild ones" joined the "young ones" in their criticism. Heiner Geißler warned in publications and many media appearances that the CDU might be in danger of becoming a "party with a 'Führer' cult". As he did before, Biedenkopf wrote critical papers warning of boring party conferences devoid of discussion, and of a fixation on the Chancellor.<sup>9</sup> Election results at the party conferences also showed that Kohl's star was clearly sinking. Kohl and his loyal party friends got worse election results at the 1996 party conference than either Geißler or Biedenkopf. Hence, after 1994, the CDU was certainly no longer a closed "Chancellor election club" where the party had no voice at all. Helmut Kohl was now forced to deal with opponents who were slowly building their own power base through the regional party associations.

At the same time, it would be much too easy to assign the blame for the organisational problems to Kohl and his secretary-general Hintze. At the 1994 Hamburg party conference, secretary-general Hintze had announced to begin a "comprehensive party reform". He included many plans from the regional party associations, such as member surveys, guest memberships without fees, and the limitation to three posts. He also included the women's quota, an issue of much debate within the party; Helmut Kohl was to become one of its proponents. When trying to implement these measures, Kohl's and Hintze's experience with the delegates resembled that of many a federal state politician eager to reform: The proposed member survey on topical issues was rejected by 417 over 331 votes at the party conference. The women's quota was rejected based on a very small majority and could be pushed through at the next party conference only with difficulty. The

mid-level party elite thus showed less of a will to reform than the party leadership.

Yet the basic dilemma for the 1998 election remained that, despite an announcement to the contrary, Kohl was not willing to step down. After he had spoken of his last term in office in 1994, his resignation was generally expected. As a popular potential successor, Wolfgang Schäuble, who had unequivocally and publicly declared his intention to stand, was waiting in the wings. Moreover, the CDU with its young federal state politicians had a better starting point for a generational change than the Social Democrats who, in the mid 1990s, had a shortage of people in that age group. Despite all this, Helmut Kohl, without conferring with the party, announced his renewed candidacy on television. The Presidium and the Federal Executive Committee approved this on April 21, 1997, with only Biedenkopf voicing reservations. It was not at the party conference, but on television that Helmut Kohl finally named Wolfgang Schäuble as the person who, in the long-term, would be an ideal successor. This also annoyed many delegates since, while Schäuble was well-liked, it reinforced their feeling that Helmut Kohl regarded his posts as his personal fiefdom where he and he alone determined who steps down and who will be the successor to the throne.

It is moot to wonder what would have been and whether a CDU led by Wolfgang Schäuble could have won the 1998 elections. The main problem for the CDU in this election was the fact that it had lost the trust of the less well-off voters. Only 28 per cent of workers and 30 per cent of salaried employees voted for the CDU, which was a historic low point, comparable only with the 1972 election. This development corresponds to the shrinking importance of the CDA (the party's labour representation) and the confrontational disputes with the trade unions in the run-up to the election. What was equally important was that many East German voters turned away from the CDU; it was to them that the CDU had widely owed its success in 1990 and 1994. Another factor that would matter in the long term: the increasing erosion of the women's vote. Ever since the CDU was established, women voters had been in the majority (except in 1980), and now they were withdrawing from the party despite the quota. The reason must lie in the CDU's image in social and family policy. Of all possible explanations of the 1998 defeat, the most banal one may also be the best one: After sixteen years in office, it was hardly possible for any government to

embody positive new signals and new energy in a time of economic crisis.

## Readjustment in opposition after 1998

Although there was sadness caused by the defeat in the 1998 election, there was also a feeling that the CDU was finally ready for a time of new departures. Many people felt that after the final end of the Kohl era, the party would, after a general overhaul and fundamental reforms, be able to return to power within a short time. This led to a new period of programme discussions. Immediately after the change of government, younger politicians in particular were insistent on strengthening the neglected programme work. The reform-conscious "Erfurt guidelines" of April 1999 underlined how much the CDU, after the end of the Kohl era, wanted to set new directions. However, at the first party conferences that the CDU organised after it had returned to opposition, this debate on fundamental issues somehow never came about. Instead, the CDU decided to delegate these programme discussions to four commissions which were to develop long-term plans. This way, the CDU preserved its unity, which it might have endangered with a fraying party conference debate.

Much was reminiscent of the years after the first loss of power in 1969. As then, the loss of government initially reignited old disputes with the Bavarian sister party, the CSU (Christian Social Union), which was pushing for a more fundamental direction in many issues. It became obvious that the joint cabinet as an early clarification and disciplinary authority was missing. The various party wings of the CDU set new directions through the media. However, there was no apparent strategic guideline at first. In the year after the loss of power, the new reform euphoria subsided as it had before. Due to the victories in the 1999 regional parliament elections and the problems faced by the governing Social Democrat Party, many people developed a false sense of security which made a critical analysis of the party's principles appear unnecessary. Another delaying factor was that both times, with Rainer Barzel 1969 and Wolfgang Schäuble 1998, people shaped by the previous government took over both the chair of the parliamentary party *and* the party. On one hand, this meant that any content-based work had to be carried out by the parliamentarians. On the other hand, this continuity in personnel meant that there was no real break with old government policies. As in the 1970s, the party's independent programme work



only got off the ground when, after a leadership crisis, the position of parliamentary party chairman was once again separated from the position of party chairman. However, the crisis resulting from the 'Spendenaffaire' (party donation affair) paralysed and dominated the programme work that had barely begun – as had the crisis surrounding the treaties with the Eastern bloc and Barzel's failure back in the 1970s. In both cases, further election defeats and another change in leadership were needed to give new impetus to the party.

As in the 1970s, the CDU in 1998 held on to its basic programme while carefully putting a few new accents. First, this is true of its relationship with the "C" (as in Christian). Even after the second loss of power, there was no serious doubt that the Christian values would be maintained. Still, the reference to the Christian aspect has lost a little of its meaning under Angela Merkel – both in programmatic writings as well as in public symbolism. In the sense of its Christian tradition, in its programme and in its election promises of 2002, the CDU strongly advocated financial support for families. However, its programme reflected a new approach to reform in this area as well by redefining its definition of family as a social unit that contains children. This implies that non-married couples with children and single parents are now seen as families, a concept that is not without its opponents within the party. The CDU found it harder still to support full-time day-care, which some federal state politicians were demanding and which seems to lead to higher birth rates in neighbouring countries. The attempts to liberalise family policy approaches in particular showed striking parallels to the programme reform instigated by the British Conservative Party which, at its party conference in Bournemouth in 2002, had also targeted single mothers in an effort to improve its image.

In its economic and social policy, the CDU's credo continues to remain the social market economy, which has formed the basis of all its programmatic statements. As with all parties, the CDU strengthened its liberal economic profile in order to be able to tackle the problems of the welfare state. All new policy programmes adopted by the CDU contained the demand for more responsibility to be placed upon the individual. They also demanded the expansion of a low wage sector intended to urge unskilled unemployed workers and social welfare recipients to take up work that does not require the payment of social insurance contributions but is subsidised by the government. Some of the

new terminology which was coined and tried under Merkel's chair in 2001 has been less successful.

Remarkably, in 1999 the CDU succeeded in slowing down the continuous drop in membership; it actually gained new members for the first time since 1983. During the slush fund and donation affair 1999/2000, however, members were lost once more. A strong membership base may be of great importance for internal party democracy and for the way a party presents itself. However, it is not necessarily needed in order to win elections, as the results of the English Conservative Party under Margaret Thatcher showed – the party had lost a huge amount of its former large membership base before the election.

As far as it's personnel was concerned, the transition from the Kohl to the Merkel era was managed magnificently and much better than by the Tories after Margaret Thatcher's departure. Because of Kohl's quick withdrawal and the flexible leadership transition, the party was well able to consolidate in 1999 and do well in elections. Looking back, the '*Spendenaffäre*' (party slush fund and donations affair) of 2000, which many thought would ensure that the CDU would stay in the doldrums for many years to come, now appears to have been nothing more than an episode. Still, its importance for the party's history can hardly be overestimated. Most importantly, it resulted in changes in the party leadership, which after an initial training phase, is now able again to lead the party into the future. At the same time, it led to cut-backs not only in individual election campaigns, but also in the organisational structure. The *Bundesgeschäftsstelle* (Federal Party Office) in particular suffered from a shortage of funds that was caused by the affair.

It would be much too simple to say that the election result of 2002 was only due to surprising incidents such as the floods in the former East Germany and the Iraq war. On the contrary, surprising events that need to be responded to are the rule in politics, and if the candidate has leadership qualities, he can handle these. In the summer of 2002, the CDU/CSU candidates did not quite manage to step up to the plate. The election result documented that some voter groups were not convinced that Edmund Stoiber was the candidate who would best represent their interests. The CDU seemed to have particular problems with East Germans (who tend to vote for people rather than parties), North Germans, urban voters and (younger) women. In some ways, this

is reminiscent of the weak points of the British Conservative Party, which, since the 1990s, has also been experiencing a regional North-South divide. It remains just as unclear whether a much better overall result would have been possible with Angela Merkel, who could have appealed to these very groups. Presumably, in 2002, she may not have been able to rally the strong support in the core areas of Southern Germany in the same way that Edmund Stoiber did. In the Länder elections that have been held since 2002, one thing above all was noticeable: The CDU was able to garner more votes in all voter groups and make up for the deficits of the previous years. It won more votes in Northern and East Germany as well as a higher percentage of the female vote. However, the party seems to have problems with the 45-59 age group. For its future chances, as the survey of the Shell study points out, what matters is the young generation who, in its value system, tends more towards non-socialist parties.

The CDU has undergone many changes in the years between 1982 and 2002. Its political profile has become more liberal. However, this is a trend that applies to all parties. Therefore, today's positioning of the CDU must not be measured against the status quo of twenty years ago, but rather by comparison with the profile of its current competitors. It is here that German parties, in spite of all complaints about the similarity of their programmes, still widely differ in their political practice. Also, the election losses of 1998/2002 can only be fairly judged when comparing them domestically *and* internationally. This is where Anglo-German comparisons seem to enjoy a certain continuity. It may well be that the relative staying power of the Christian Democrats is due to the fact that, unlike the Tories, they more or less avoided drastic changes of direction.

### Notes:

- 1 For more details and references, see: Frank Bösch, *Macht und Machtverlust. Die Geschichte der CDU*, Stuttgart/München: DVA 2002. This text is based upon this book.
- 2 Werner Zohlnhöfer/Reimut Zohlnhöfer, *Die Wirtschaftspolitik der Ära Helmut Kohl 1982-1989/90. Eine Wende im Zeichen der sozialen Marktwirtschaft?*, in: *Historisch-Politische Mitteilungen* 8 (2001), pp. 153-174.
- 3 For a brief introduction, see: Wolfgang-Ulrich Prigge, *Wirtschaft und Sozialpolitik während der Regierung Thatcher*, in: *APuZ B* 28/1991, pp. 27-36.

- 4 Regarding arrangements and decision structures in the Chancellor's Office: Karl-Rudolf Korte, *Deutschlandpolitik in Helmut Kohls Kanzlerschaft. Regierungsstil und Entscheidungen 1982-1989*, Stuttgart 1998.
- 5 A critical analysis of the thesis of presidentialisation under Thatcher: Herbert Döring: *Präsidentialisierung des parlamentarischen Systems? Westminster und Whitehall in der Ära Thatcher*, in: *APuZ B 28/1991*, p. 3-13.
- 6 Irmgard Reichart-Dreyer, *Macht und Demokratie in der CDU. Dargestellt am Prozess und Ergebnis der Meinungsbildung zum Grundsatzprogramm 1994*, Wiesbaden 2000, p. 210.
- 7 For data, see: Göttrik Wewer, *Vom "Modell Deutschland" zur Standortdebatte. Zeitpunkt und Maßstäbe einer Bilanz der Ära Helmut Kohl*, in: Göttrik Wewer (Hg.): *Bilanz der Ära Helmut Kohl. Christlich-liberale Politik 1982-1998*, Opladen 1998, pp: 7-59, esp. pp. 34-42.
- 8 Regarding the following, see Land party documents in: *ACDP 2/20*, and: Artur Kübler, *Die CDU diskutiert über Parteireform*, in: *Sonde 1/2 (1993)*, pp. 70-77; Thomas Leif, *Hoffnung auf Reformen, Reformstau und Partizipationsblockaden in den Parteien*, in: *APuZ B 43/93*, pp. 24-33.
- 9 See esp.: Heiner Geißler, *Gefährlicher Sieg. Die Bundestagswahl 1994 und ihre Folgen*, Köln 1995; Biedenkopf paper, "Anmerkungen zur politischen Lage" (1997).

# Chapter 17

Tim Gardam

## Media in Britain: The Closed World of Modern Television

One of the major developments affecting politics in both Germany and Britain over the last 20 years has been the dramatic change in the electronic media. My contribution to this volume will analyse the adjustments of British television, an area I know so much better than the German. Trends in British and American TV, however, have always influenced media in Germany and other continental European countries, and I am sure that some of the conclusions I draw from the British case can be easily recognised across the channel.

In 1993, British television effectively still comprised just 4 channels. BBC1, BBC2, ITV and Channel 4 together shared 94 per cent of the audience. The share of just BBC1 and ITV together was 75 per cent. Channel 4 was the "alternative" channel for minorities. Ten years later, this world had been turned upside down. The same four channels took just 75 per cent of the audience with BBC1 and ITV together reduced to under half. 50 per cent of homes had digital televisions offering them between 30 and 300 channels. Television was watched on the internet, traditional television schedules, offering something for everyone, had to compete with a menu of automatically recorded programmes, specially chosen to meet individual tastes, to be watched whenever you wished. The younger you were, the less likely you were to even to turn on any of the four channels that had been the universal diet a decade before. Today, a viewer, watching the programmes of 2005, will see many of the faces and titles of a decade ago, but the nature of television has changed fundamentally.

### Apologia pro vita mea

This chapter will concentrate on what has happened to factual programming during this time. It is not a detached analysis of trends in British television in the past decade. I have been involved in too much of what took place during that time honestly to be able to offer one. Rather it is the perspective of some-

one, now at one remove, who is trying to make sense of the direction that much of television has taken whilst he was responsible for some of the key decisions. During that period, I was, at one time or another, responsible for much of the journalism of the BBC, on radio and television, I was part of the team that launched Britain's last terrestrial television channel, Channel 5. I spent five years responsible for the editorial output of Channel 4. When I stepped away from this world in December 2003, there was little left of the ethos and culture in British television that had led me to choose such a career over 25 years before.

I entered television in the late 1970s not because, as an embryonic journalist, I was particularly interested in television as such, but because of the stories it enabled me to encounter. In the past decade television has not only changed its character, it has changed its purpose. It is no longer a window through which to see the world. It is a world of its own which it invites you to enter.

This does not mean axiomatically that television is worse. The cultural pessimists who wish us to believe that each generation dumbs down the aspirations of the one before need only to look at the schedules of twenty years ago to identify programmes of unparalleled banality. There was also a greater reliance on commodified American product. There are many more British made programmes on television today than there were a generation ago. We have also seen a flowering in factual programmes, particularly history and science that, using digital graphics technology, have imagined their subjects with a detail and scale impossible before.

However, two recent major audience surveys, in the first six months of 2004, both revealed that viewers had perceived that something had changed and that their confidence in television's creative credentials had been dented. Consistently, viewers say they believe that television has become repetitive, plagued by derivative programmes, and underestimates their intelligence.

Some fine programmes continue to stand out in the television landscape, but, in the everyday contours of the schedule, television has become, for the most part, a manicured version of the world. What once was a conscious creative tension between the values of information and entertainment has collapsed into the subordination of information to the end of entertainment.

The modern television producer, striving to break out of an antithesis between the serious/old fashioned versus the modern/

trashy, has put an increasing premium on making the entertaining stimulating and the stimulating entertaining. At its best, this has resulted in some very good programmes. The sophistication of narrative experiment in the formatted documentary should be held in the same regard as that of a film or novel. The directness and candour of reality television can deliver a moral truth about individual behaviour as acutely as a drama. But, invariably, in such programmes, form dictates content. The paradox of modern television is that the ingenuity and intellectual discipline that has transformed the manner in which stories are told has been accompanied by a dramatic narrowing of interest in the range of stories attempted.

The charge against modern television is as follows: As television has exploded into a myriad of channels, so it inexorably has become a narrower experience, verging on a culture of self obsession. Television executives no longer see their role as offering a perspective on the richness and diversity of humanity. Increasingly, they seek to suck out of real life only the things that can be shaped into "formats" a playful confectionery of experience that can be moulded like spun sugar into shapes that appeal to the advertisers' remorseless appetite for young audiences. It follows that the arrangement of programmes in a schedule increasingly takes precedence over the worth of any one programme. Programmes that make demands on the viewer are accordingly relegated to times of the day or night where even greater demands are made of anyone who might want to watch them.

At its most solipsistic, the mind of the television executive reduces what is good on television to what makes good television. Why has this happened? How far is this change in editorial purpose the consequence of the digital revolution? The causes are economic and cultural. But it is, I argue, the economic forces that have underpinned the cultural shift.

## **The changing economics of television**

When I became Director of Programmes at Channel 4 in 1998, one could still see quite clearly the contours of a system a generation old. The economics of British television were effectively controlled at the behest of social policy. For forty years, the government did not seek to regulate a market, but to direct a licensed oligopoly. The BBC was controlled by the most established instrument of legislative power, a Royal Charter. In commercial television, The Independent Television Commission (ITC) repre-

sented the legislative will. It was wrong to call the ITC a regulator – there was a very limited market to regulate – rather it policed programme content with a series of trade offs, awarding licences in return for quotas of programmes stipulated according to genre – news, arts, religion, regional programmes, the clear categorisation of drama and documentary. It was a system of cross subsidy; highly profitable popular programmes made sufficient money both to return dividends to shareholders and to fund programmes that did not cover their costs. Programme quotas underpinned qualitative judgements. Television was a declared instrument of cultural and social purpose.

The economic models were carefully controlled too. BBC1 and BBC2, both funded by the licence fee, were matched by ITV and Channel 4, both funded by advertising; Channel 4 was also state owned and therefore freed from the imperatives of delivering shareholder value. ITV still remained a federation of regionally based companies though amalgamation had reduced the number to four principal players. Channel 5 was a new entrant in 1997. Its original diet of cheap programming and American movies, with a dash of sex, positioned it in a netherworld between the terrestrial public service and cable and satellite agenda, but it still had to fulfil licence obligations. Its news service had been acclaimed for its informality and freshness. The unregulated cable and satellite channels were dominated by Sky's diet of sport, films and American entertainment. But its subscription economic model was not significantly affecting the economy of the free to air terrestrial public service broadcasters.

Public Service broadcasting was therefore not simply a matter of cultural assumptions. It was a system based on a clear economic premise: that different business models would produce different outcomes. The interaction of the not for profit (BBC, Channel 4) and profit based (ITV, Five) broadcasters would incentivise the commercial broadcasters to compete for quality as well as revenue. In return for a licence to broadcast, the commercial broadcasters could both reward their shareholders, and afford a programme mix that, while driven by the profit motive, offered a cross subsidy between programmes which provided widely different commercial returns. At the same time, the BBC, well funded as it was by a universal licence fee, was kept on its toes by commercial service competition.

All this was workable so long as technology limited the numbers of channels available, and government could decide who should



own them. But with the coming of digital television in 2001, all these assumptions changed. A universal switchover to digital television by 2010 had been government policy since the turn of the millennium. Its economic benefits was obvious; the cultural implications of the change unknowable.

## The Digital Year Zero

The government recognised the implications of digital media convergence in the radical change it made to television regulation. In 2004, it established a successor to the ITC, the Office of Communications, Ofcom, an unapologetic economic regulator. The new regulator was given the specific brief to span the divisions between the different communications media. Ofcom has taken on the work of four previous regulators. Its Chief Executive, Stephen Carter has to make judgements about television, radio, telephony and online, as they themselves converge. In his first public pronouncement, he mocked the culture of television executives who believed television was somehow "special"; it might still be so in some senses, he argued, but it was much less "special" than they believed. Television had, he said, always regarded content and cultural issues as paramount, and seen distribution as a grubby engineering issue. Yet the lesson of digital technology was that distribution systems would from now on dictate content decisions and the economic parameters within which those decisions would be taken. His point was a simple one: digital technology at a stroke removed the limits to the creation of new television channels, and so had changed the terms of television forever.

He was right, even though he ducked the implications of his analysis. The characteristics of modern television, which I have outlined above, have not developed because television executives are more cynical human beings than they once were, (though some of them undoubtedly are). The shift of sensibility in television programmes is a rational response to the changing economics of a market itself led by the behaviour of viewers faced with a fundamentally different landscape of choice than existed even five years ago.

Since digital technology removed the scarcity of spectrum, it followed that television competition, once a battle for distribution, a battleground where the government set the editorial rules, was replaced by competition, not for distribution, but for attention.

In a world of hundreds of channels, the advantage of being a terrestrial broadcaster, once everyone had access to a multitude of channels, would inevitably diminish. Consequently, the value of the trade off between obligations to deliver a wide variety of programmes, regardless of their profitability, and shareholder pressure to maximise profit, would change. For commercial broadcasters, ITV, Channel Five and even state owned Channel 4, commitments to public service programming, rather than being a stimulant to competition, became simply a threat to advertising revenue.

The ill judged attempt of ITV to launch its own digital platform, Ondigital which failed at a cost of over £1billion in 2001, accelerated the pressures on commercial public service broadcasting. Ondigital's failure in turn provided the BBC with the opportunity to launch Freeview, a plug-in box which delivered a smaller number of digital channels free to air, for just £100 (later £50). This made the government's ambition for digital switchover for the first time seem achievable

## The Role of the BBC

The most significant player in the market was not commercially affected by any of these changes. The BBC remained publicly funded and in 2000 achieved its most generous ever licence fee settlement from the government, partly to stimulate the take up of digital television. The BBC shaped its digital proposition around seven core channels, adding to BBC1 and 2, and its 24 hour News channel, a further two childrens' channels, along with BBC3, a channel designed to appeal to an under 35 audience, and BBC4 a refuge for the Arts and Culture.

Though the BBC's income was not affected by audience fragmentation in the same way as its commercial public service counterparts, its behaviour was very similar. Funded by a universal tax, the BBC was increasingly worried about continuing public consent if its share of audience fell. How would it convincingly offer "something for everyone" in a world where people's choices were so much wider? Its new portfolio of channels was intended both to reassure as to its range of programming even as it relegated its lower audience and more intellectually demanding programmes from BBC1 and BBC2 to BBC4.

Under a new overtly competitive and commercial Director General, Greg Dyke, the BBC's new strategy took hold; at the same

time the sharpest advertising recession in a decade hit the commercial market place. An ITV, weakened by the failure of Ondigital, saw BBC1 outperform it for two years running, a victory that in itself exposed the BBC to accusations of being driven by competitive instincts no different to those of the commercial competition. Of its new channels, BBC3 was targeted at precisely the audience the commercial channels most valued, young adults, a strange example of public service purpose being conceived of in purely demographic terms, the currency of advertisers. BBC2 took the grammar and idiom of the woman's magazine and used it to paint in pastel colours what had once been an agenda designed to be imaginatively stimulating and intellectually demanding.

The moment of hubris came when BBC1 launched a programme that copied ITV's international brand Pop Idol, by purchasing a talent show format from the makers of Big Brother, "Fame Academy". There were in fact several good public service excuses for Fame Academy. It offered unknown people a chance to display their talents. It championed British music. But its naked disregard for its imitative roots marked a watershed in BBC editorial policy. By 2004, as the BBC prepared to argue for the renewal of its Charter, its greatest weakness was its perceived commercial success. It had outperformed the commercial broadcasters at their own game but in so doing the old equation of competition for quality complementing competition for ratings had been discredited.

## The ratchet of ratings

The behaviour of the BBC and commercial public service channels alike was no more than a rational response to their competitive dilemma. They all faced a television market where the terms of success were impossible to define. The fragmentation of viewing that digital television had introduced meant that no one won. Together, the established channels fought just to retain audience share. The new digital channels, taken as a whole, gained share, but not one of them succeeded at the expense of the others. Indeed, the channel that suffered most in this time was the original, largest satellite channel, Sky One, that in 2003 haemorrhaged audience.

In response, the established public service channels defended their position by building up their most established brands, increasing the number of episodes of the programmes most likely

to secure viewers. On BBC1 and ITV, the number of weekly episodes of the key soaps multiplied. On BBC2 and Channel 4 "lifestyle" programmes that made a gentle fairytale of life – the makeover shows and the home improvement fantasies – increased dramatically. And Channel 5, re-branded Five to distinguish it from Channel 4, shamelessly plagiarised them.

The commercial public service channels, based on advertising, were in a double bind. Subscription channels were taking away their audience, but their own means of revenue, advertising, was based on a different principle. Advertiser funded television works not by selling programmes to viewers, (there is not transactional relationship as between bookshop and reader), but by selling audiences to advertisers. Hence, in a world where viewers slide swiftly between a plethora of channels, the logic is to try to reinvent similar experiences for audiences that will deliver them once again back to the advertiser. It is a system which rewards replication over risk, familiarity over differentiation.

Every television executive would vociferously deny such a charge of deliberate intent. And not necessarily disingenuously. For, in a world of ever increasing competitive pressure, any decision that defies commercial logic looms larger in its significance as an act of cultural and creative daring. Each channel could point to moments of great creative risk and inspired bravery in the face of the daily judgement of overnight audience ratings – (in 1994, these had ceased to be published fortnightly, but became available daily). Yet, that these programmes were mere counter currents against a cultural tidal flow towards conformity was proved in the first considered act of the new regulator Ofcom.

## Quantifying Quality

The publication in March 2004 of Ofcom's first review of public service television for the first time gave a clear evidential basis to the shift in television's economy, and its consequences. Ofcom exhaustively measured, by volume and value, the trends in television programming over the past five years, from 1998 to 2003. Inevitably this massive exercise in quantification was in places reductive, but it pointed to some clear truths.

Ofcom found that, as the public service channels, BBC and commercial alike, had fought to hold onto their share in the face of digital competition, they had spent more money on programming; up 19 per cent in real terms. But such was the inflation in

the purchase of sports and movie rights, expenditure on original programmes had gone up by only 8 per cent. More British programmes were being made, but as the number of new titles launched each year increased, the range of subjects narrowed.

As Arts, Current Affairs and Religion were pushed out of peak time, so expenditure on them fell, as it did for children's programming, a self fulfilling spiral of decline that justified their further marginalisation.

More strikingly, Ofcom noted the diminished popularity of certain programmes once a household moved from terrestrial to multi channel television. Programmes such as the BBC's Science flagship, Horizon, Newsnight, and ITV's only surviving Arts programme, The South Bank Show, all lost over half their audience in multi-channel homes. Some ITV religious programmes, broadcast out of sullen duty, starved of money and creative commitment for years, lost over 90 per cent of their viewers in those homes where digital choice became available.

At the same time, viewers consistently believed that television was increasingly less ambitious and innovative, talked down to its viewers and relied too much on celebrity programming. The very programmes that soaked up the audience were the ones the viewers seemed most to criticise.

Arts programming fell by 50 per cent on Channel 4 and by 22 per cent on BBC2. On Channel 4, Factual Entertainment grew from 1.3 hours a week in 1998 to 4 hours a week in 2002. Ofcom's figures calculated that, across all public service television, the volume of what it termed "serious factual" programming was down 36 per cent in five years, whilst factual entertainment was up 20 per cent. Across all channels, soap operas grew from 10.4 to 15.3 hours a week.

The value of the Ofcom research lies in its clinical, cold eyed view of the real behaviour both of those who make television and those who watch television. An audience that decries the lack of originality in what it sees increasingly chooses the unoriginal and less demanding when offered the choice. The commissioners of television, in a world of continuous distraction, fight to keep their viewers' interest by the promise of more of the same.

It is for this reason that the maker and the viewer of modern television have come to a Faustian pact. The programme maker will offer variations on the same experience; innovation and imagination will be lavished on the manner of story telling, as a proof

of freshness, but the experience and subject on offer will be reassuringly recognisable. This is the deal that characterises modern television: you the viewer will not be asked to waste your time sampling the unknown, instead the programme maker will refresh your appetite for the familiar.

## Case Studies in Public Service Programming

So far, I have argued that the narrowing of television's experience in the past five years is a consequence of a chain reaction by incumbent broadcasters to a shift in broadcasting's economic model. They were responding rationally as the deal on which their previous programming decisions had been based was undermined by the destruction of the environment in which it had been forged. Digital television, in ending technological restrictions on the number of channels, caused such fragmentation in the market that the old balance between commercial incentive and social obligation increasingly began to break down. Innovation and fresh thinking were invested in the refreshing of reliable and established subject matter, and not in risking the unfamiliar and the demanding. Television could be as arresting as ever, but it inevitably was losing any desire to have a purpose beyond being good television. This explains the rise and fall of some of the most notable programmes and programme genres in British television in the past five years

### The News

In all surveys of what the public value on television, News is cited as most important. Yet news audiences have been in decline and the under 35 year olds and ethnic minorities watch markedly less than the average.

News has also been in the forefront of technological change. Sky News was one of the original satellite channels, launched in 1988. It is a clear example of how public service value can come out of an unregulated system. It has only once made a profit, but is recognised as competing for quality with the BBC and ITN and in its 24 hour format was a catalyst for the BBC deciding to do the same. Today in digital households, the viewer has the choice of 5 main news channels, 3 British, 2 American.

However, in digital households, traditional news bulletins are watched by half the number of viewers who watch in terrestrial only households.

Despite the value the public says it places on News, the schedulers on the terrestrial channels have invariably blamed the placing of the News bulletin for their competitive problems. Channel 5 moved its news three times in its first three years, trying to maximise ratings wherever it could. Even the BBC toyed with moving BBC2's Newsnight later to allow for greater audiences at 10.30 p.m. But, in the battle for ratings, the real rivalry was between BBC1 and ITV, and News was the battleground.

In 2000, ITV was determined to move its premier brand, News at Ten, and to eradicate the brand name ITN, as it clashed with its desire for a consistent ITV brand. Until the early 1990s ITN had been indisputably better than the BBC, but, over a decade, ITV progressively cut its News budget by half and deliberately destroyed the programme on which its reputation had been built. Why? It was not because News at Ten was unprofitable. It still was extremely valuable, if not quite as highly profitable as once it was, attracting valuable older upmarket audiences. But, at 10pm, it got in the way of ITV's ability to run films uninterrupted from 9 to 11. When Channel 5 began to do just this, ITV became convinced that a move of the news from 10pm would allow them to increase ratings and revenue. After a long wrangle with the regulator, it did so. The BBC responded by moving its 9 o'clock news to 10, so allowing it to build up its audience in the earlier part of the evening. ITV lost audience, BBC1 overtook ITV for the first time, and News at Ten's brand was destroyed.

The ITV decision came from a desire to maximise profit in each slot in the schedule. Under increased market competition, it was no longer possible easily to accept that some slots made money to subsidise others. This had been the core principle underlying the licence system of programme quotas in the past. However, at Channel 4, the News took a different turn. Channel 4 News has always been regarded as the most intelligent on television, with more international reporting than any other. However, broadcast at 7pm, it interrupted the audience flow out of the teenage soap at 6.30 into the lifestyle programming at 8. It was an irritation to the marketing department, and politely suffered by the schedulers. It interrupted Channel 4's profitable youth demographic, the key to its brand. Marketing lobbied to cut the length of the News by half. However, it was protected by the regulator's licence.

Between, 1998 and 2003, Channel 4 invested and expanded its news as ITV cut its news. (Both programmes were made by ITN.)

Channel 4 News expanded from 5 to 7 days a week. Its investment increased by 20 per cent and its audience grew year on year for four consecutive years. Even so, that audience was far lower in digital homes, less than half that in terrestrial homes, and Channel 4 News lost money. It cost twice as much to make as it returned in advertising revenue, partly because the channel chose to place few commercials in its time slot, directing them to more profitable places in the schedule.

Channel 4 News remains a key to the Channel schedule and reputation as a result of editorial will. However, its economic underpinning points to a wider question for the future of public service broadcasting in a digital age – the future of cross subsidy.

## Friends and Big Brother

Cross subsidy of programming has been the principle behind public service broadcasting. As the digital market removes obstacles to competition, so cross subsidy inevitably comes under pressure. Throughout the 1990s, Channel 4 was both very profitable and critically admired because it could afford to make experimental and ambitious British programmes which lost money. Profits were assured through its soap, *Brookside*, one or two trashy entertainment programmes, but above all through very cheap American dramas and comedies which attracted significant numbers of young viewers.

The US comedy, *Friends*, became one of the iconic brands of modern television. Channel 4 bought it in 1994; it was originally obliged to do so in order to purchase *ER* from Warner Brothers, the hot show of that year. *Friends* came as part of the package. Over the next decade, Channel 4 lucked out. *Friends* became cult viewing for people under 40, and it became the staple diet of the channel. By 2004 episodes of *Friends*, including repeats of past series, were playing 9 times in a week. However, its original price of around \$ 50,000 an episode inflated to \$ 1,000,000 an episode. *Friends* was still profitable but its margins radically diminished. The advent of multi-channel satellite television had split the rights into two markets, pay tv and free to air, so creating a bidding war. Channel 4 had no choice but to pay to hold onto one of the most valuable brands in television which it had nurtured. The inflation in *Friends*' price was being replicated in less dramatic fashion across the market for US acquisitions. The ability to



cross subsidise British programmes with American content was fast diminishing.

Channel 4's British programming had to start to earn its keep. In 2000, Channel 4 launched *Big Brother*. This was the first "reality" programme and was a genuine revolution in the way television could be used by the audience. First conceived as a programme that worked across television and the internet, it became the prototype for streamed content on digital channels. The day's events in the *Big Brother* House summarised on the terrestrial channel, the continuous life of the house recorded on the digital sister channel E4. The audience was directly connected to the action, not simply watching but voting, by phone or online, on decisions that they saw implemented in front of them

The first *Big Brother* was also a genuinely illuminating and exciting experience. The housemates' ignorance of the sympathetic effect they were having on the audience was refreshing in its candour. It began as a programme characterised by exuberance, optimism and a generosity of spirit. However, as each year went by so the self consciousness of the participants increased, and a format that had been characterised by the fact the producer ceded control to the event and allowed spontaneity to take its course, turned around into a programme of increasingly intrusive manipulation. By its fifth year, *Big Brother* was a darker event, populated by exhibitionists, who were as much caricatures as the earlier housemates had been affectionate representative of their generation. In 2004, *Big Brother* remained extremely popular, its participants magnetic subjects of ephemeral gossip. In its own terms it was as powerful as ever. It had also rapidly become Channel 4's most commercially important programme, its profits responsible for 10 per cent of its programme revenue, its success amongst young audiences cross subsidising more than three times over the loss made on Channel 4 News.

## Formatted documentary

No less significant than *Big Brother* has been the evolution of documentary in the face of pressure on ratings.

British documentary has, from its beginning, been imbued with a deliberate sense of moral and social purpose. Documentary narrative has always been highly manipulated, the signature of the director underscored by the careful craftsmanship of the cutting room, the intimacy of the relationship between documentary

maker and subject in the course of the shooting being distanced and objectified in the process of editing. However, the motive for this ambiguous relationship has always been harnessed to a morally charged perspective on the social condition underlying observed individual behaviour. This has led to programmes of intense emotional power, but equally to programmes that are demanding of the viewer's concentration.

The authenticity of such programmes has demanded that the documentary maker records the development of experience over the true passage of time. However condensed in the final cut, the documentary reflects the experience and understanding of engaging with a subject, often over weeks and months. Such an approach involves considerable financial risk; the relationship between subject and film maker may break down so that the film has to be abandoned; the "story" may not happen as one expected. The initially fascinating may turn out dull. The potential for financial write off is greater than in any other television genre. As the television market became more competitive so the economic basis for traditional documentary came under increasing pressure.

Markets however can be the catalyst for a creative response. In 2001 and 2002 a new form of documentary emerged. *Faking It* and *Wife Swap* have been acknowledged as two of the most interesting formats of modern television. Both series were devised essentially as a transformation game; the inspiration for *Faking It* was *Pygmalion*, or *My Fair Lady*. In *Faking It*, someone had four weeks' to master a skill to which they were entirely unsuited. Genuine changes of character took place in the protagonists before the viewers' eyes. *Wife Swap* was straight from the tradition of medieval fairytale or bawdy; two completely unsuited sets of partners swapped places and lived for two weeks' according to each others' rules. Both programmes were enormously successful, and carefully constructed. *Faking It* enshrined a belief in the capacity for growth of character, *Wife Swap*, for moral redemption.

Critically, however, each format was based on principles of narrative control that limited financial risk in the new television market. Each story was deliberately schematic, replicable time and time again, across different markets and cultures. What they lacked was the sense of distanced observation and exploration that epitomised traditional narrative documentary. These were

not programmes where an outcome was uncertain at the beginning.

Such formats were immediately copied by less subtle and intelligent imitations. What was less noticed was the fact the exploratory narrative documentary was ceasing to be commissioned. Channel 4 in 1998 had transmitted *Shanghai Vice*, an account four years in the making, of the urbanisation of China. It had been part funded by the US Discovery Network, who never showed it in the US because its reliance on sub titles was deemed too off putting for audiences. It was cheaper for the American broadcaster to write off an investment of three quarters of a million dollars. Channel Four had shown the six hourly episodes.

In 1999 Channel 4 commissioned *The Last Peasants of Europe*, three hours that chronicled the decaying life of a Romanian village as its youth set off for the West, a parable of modern migration. *Shanghai Vice* and *The Last Peasants* cost respectively 100 per cent and 50 per cent more than *Wife Swap*. *The Last Peasants* also took three years to complete. The number of episodes that the material would justify was uncertain. Equally problematical was the preparedness of the schedulers to tolerate consecutive weeks of low ratings. This limited the appetite for commissioning such long running series in future. *The Last Peasants* was eventually shown in 2003, but it had stayed on the shelf for nearly nine months as the fear of the consequence for ratings delayed its transmission.

With their costs unable to be spread over a number of episodes, the unit price of such documentaries inevitably increased. So, just as *Wife Swap* and *Faking It* were re-commissioned in series of twelve, narrative documentaries exploring the un-travelled edges of the modern world were inexorably diminishing in number and scale.

## The Future

None of the new wave of programmes mentioned in these case studies should be defined as bad, in that they are badly made, boring, or shallow. Light hearted or serious, they were made with an energy and concentration on detail that in turn brought from the audience an intensity of engagement. Yet, they do represent a shift, from the passionate and committed to the disengaged and playful. From programmes where the maker clearly felt the

subject "mattered" in some social or moral sense to those where the aim was detached manipulation and a delight in shock.

It is axiomatic that television must become less "special" as its prevalence increases, and with it consumer choice. But such an economic conclusion excludes any consideration of what happens when the programmes themselves become less "special" too. For all the energy of popular culture that television reflects, its power in the past has come from more than satisfying a lust for entertainment. It has placed the desire to chill out and relax in a context of social engagement. It has assumed that people who enjoy themselves still have room in their lives to care.

In a world where channels were scarce, television made room for programmes that, taken as a whole, encapsulated the full turmoil of human experience. Those values were housed inside public institutions, the public service broadcasters. Those institutions now buckle under the collapse of the economic model that they were meant to sustain. The institutional interests of the public service broadcasters, and their competitive instinct, will increasingly find itself at odds with the creative instinct for diversity and social purpose they were expected to promote.

Those who today criticise modern television for what it shows, invariably miss the point. To my mind, they reveal a dislike for the medium itself, largely paraded by people who never watch. Personally, I find it hard to work up an animus against the foolish, the hedonistic, the enjoyably trashy. My fear for British television lies not in what is shown but what will no longer be shown; the absence, at the key moment, of the interrogative current affairs programme on Iraq, or the fading away of the documentary series, five years in the making, filmed far from the media world. This is where television is becoming increasingly impoverished. If, in the future world of digital convergence, the economics of television will no longer allow it to be special, it follows that, as a catalyst for cultural and social purpose, television will not matter in the same way as once it did.

# Chapter 18

Michael Rutz

## The Power of the Fourth Estate

"Power" writes sociologist Max Weber in his book "Economy and Society", published in 1922, "is every possibility of imposing one's will within a social relationship even in the face of resistance." Even though the rigid authoritarian conditions of the early 20th century have been overcome in democratically organised societies, Weber's classical definition of power is as valid as ever.

Who is in control? The question is as valid in modern media democracies as it ever has been. However power is organised in a society, it will always need channels to communicate itself, and a stage to present itself on. But who, then, in a media society where catching people's attention unfortunately takes precedence over relating actual information, controls access to these channels? What is at the centre of today's media democracy – is it the institutions themselves or is it now the mass media? And what about the role of the media as the fourth estate: Ideally, their job is to control the powers in charge – but who controls the power of the media?

### The press as a monitoring body

The media are known as the "the fourth estate". We all know that term, and we know the claim behind it: The press is supposed to have a monitoring function vis-à-vis the state. Historically, the idea dates from the 18th century, the era of enlightenment: Jean-Jacques Rousseau talked of the press as a "fourth pillar" within the state, a publicative power so-to-speak – alongside the classical state powers of the legislative, the executive and the judiciary.

Starting in the middle of the 19th century, one of the first newspapers to cultivate an image of being a "fourth estate" independent of government influence was the British daily *The Times*. Henry Reeve, leader writer and foreign policy editor of the *Times*, explained this claim by saying that the press was much closer to the people than parliament; it therefore mirrored the people's interests better than parliament and, at the same time, was able to inform the government better about the interests of the people.

What claim, then, is behind this concept of the press as the fourth estate? – It allocates the press a role as an interface between public opinion and government bodies. Even more: The press claims to have a mandate, so-to-speak, to act as an independent social force on behalf of the public and to express the public's opinion.

This describes the ideal of the function of the press. Compared to countries with a government-controlled press, the reality in democratically organised countries such as the Federal Republic of Germany comes very close to that ideal. Article 5, paragraph 1, of Germany's Basic Law states that "there shall be no censorship." There is great diversity in the media, there are (still) several hundred newspapers in Germany, dozens of television channels, and hundreds of radio stations, and magazines are ubiquitous. Anyone who wishes can learn everything they want to know, can educate themselves affirmatively, or concern themselves with opinions of people with different views; free and diverse opinion truly exists in Germany.

However, this very diversity has its drawbacks: The public now is highly fragmented. It is therefore increasingly more difficult to reach a wide audience, and for those with a message it has become an art form to get that message out to the people.

What makes it a little easier, however, is the fact that media consumption has undergone a strong shift towards television. A kind of television monopoly of political reality has developed. Adults in the Federal Republic of Germany watch television for an average of three hours per day. Television has long since become the dominating medium from which the large majority of voters get their information. We have become a media-centred democracy: The media, instead of the institutions themselves, are now at the centre of our democracy. Everything revolves around them, and they do not simply document reality. They shape it.

Rousseau the philosopher, Reeve the leader writer – it was thinkers like these who, in the 18th and 19th centuries, placed the press as the fourth estate squarely within the sphere of the state. They perceived media as institutions which are indispensable for the functioning of society. Today, the media have actually become a legislative power: More than ever before, our democracy depends on the laws governing television. And the key law governing this lead medium is the fact that television is an emotional medium.

The emotion conveyed by an image will stick in the viewers' memory long after they have forgotten the underlying text information. This means that emotion disassociates itself from reasoning, and it is a question of sending the same signals over and over again to the emotional memory to create certain attitudes in the end. There are numerous works confirming this, and the connection is undisputed.

This gives cause for concern: Democracy is based on certain prerequisites – such as the competence of the voter to have knowledge of what an election is about – which are endangered here. If emotions decide an election, politics need to be put on like a play. For quite some time now, the political elite have been arming themselves with communication strategies and have embarked on professional opinion marketing.

## Instruments of the opinion professionals

What are its components? First of all: Issues do not come up any more just because they are on the agenda for their factual necessity. They are staged, they are made, they are marketed, depending on the needs that are the order of the day for politicians, parties and their managers.

Secondly: Every single day, regarding the news situation, the target is to win, that is to remain in control of the news and to be firmly in control of unpleasant surprises. This requires, thirdly, an extremely fast response by the political system to anything that is happening. Someone must be available at all times to give immediate and competent answers, which must of course be brief since it is all about marketing succinct sound bites suitable for broadcasting. Finally, it must be the concern of every political manager to orchestrate all public statements and avoid any possible discord.

The media have more or less come to rely upon this game, even though journalists have long seen through it. After all, they need to fill their programming slots, or their newspaper columns, so they willingly agree to become victims, or accomplices, in this production of politics. Even in Germany's public television, careers depend on ratings, so journalists are under constant pressure to succeed in the battle for "heads", i.e. interview partners, and for news – in other words, what is called a "scoop"; in Berlin, where, among other media, four major newspapers are trying to stand their ground, this competition is particularly tough. All too

often, this leads to a rushed, breathless type of reporting without any real substance, as can be observed in the constant special reports which are no more than repetitions, totally redundant, of newscasts run before. Correspondents step in front of a camera, and the news they announce from foreign countries has been read to them in advance by their home editorial department. A reduction in this type of thing would be helpful; it would increase the credibility of television.

On the other hand, journalists of course are aware of this overproduction of politics and try to put limits on its consequences. These over-staged scenarios create discontentment whenever journalists perceive themselves as nothing more than puppets serving the political system. Criticism arises, especially since these staged productions are obviously devoid of content, i.e. are short on substance.

When this happens, a fight for dominance between the political and the media elite will ensue. Each group tries to keep the other in check. And quite extravagantly so: In the United States, 120,000 journalists face 150,000 public relations people. In Germany, there are an estimated 63,000 journalists. They are canvassed by about 30,000 to 50,000 people active in publicity work or public relations, so the PR specialists have quite a bit of catching up to do. The key issue is to reach the minds of the media makers, and with regard to the competitive conditions explained above, journalists like to view themselves as victims of powerful and illegitimate PR strategies taking on dangerously anti-democratic forms. Political PR strategists, on the other hand, prefer to see threatening developments in the media themselves, based on growing competition, increased aggressiveness, shrinking ethical standards, and an atmosphere where the trust and closeness of background conversations have been lost or even replaced by a threatening sort of physical proximity.

#### **Fourth or second estate?**

However that might be: Those who say that the media have long since become the second power in the state, right behind the legislative, are probably not far off the mark. The professional staging of politics with the purpose of shaping people's opinion in a certain way began in the United States in the early 1980s, when Ronald Reagan was running for president. Ever since, the journalistic system has responded by massively cutting political air



time on television – which is, after all, the stage for these political productions – and also by cutting short the original sound bites from politicians. This fight for dominance can be shown in numbers. In the United States, the average sound bite length of a political statement in 1972 was about 45 seconds. In 1988, it was down to ten seconds, and in the presidential campaign in 2000, American politicians had an average of only 7.8 seconds to convey their political message. In Germany, we are a little bit better off, but not much. In 1998, the average length of a political sound bite was 18.3 seconds, 23 seconds on public television and 14 on private TV channels. The trend is pointing downward.

The consequences are obvious: Political programming has been flooded by a speechlessness which gives an impression of eloquence but which, in the end, will be to the detriment of the entire democratic system. There is a tendency towards pictorial presentation and away from communicating substantial content and from the importance of linguistic content, all this in view of the context described by Erfurt communication research scientist Wolfgang Bergsdorf as follows: "Communication is the key enzyme which creates history, makes society possible and holds it together, and gives us an imaginable future. It is communication which makes possible growth, sustenance, change, and the transmission of culture, and thus guarantees a minimum of political continuity, without which a society lacks structure and has no perspective for the future." One might add a quote by German politician Erhard Eppler who put it this way: "Politics is conducted linguistically. When speech ends, so does politics."

## Consequences of emotionalisation

What are the consequences? The first result has often been bemoaned: The public feels that it is well informed politically, the more TV consumption, the better – in reality, however, the knowledge of actual facts, which should form the basis of election decisions made by educated citizens, is declining. According to the diagnosis of historian Karl Dietrich Bracher, too much TV leads to "a patchy, stereotyped impact on the sketchy and incomplete understanding of history which millions of viewers have".

One might even go so far as to say that, unless the public TV stations buck the trend as is in their "job description", the television system might lead us straight to the repeal of enlightenment. In that case, we would no longer take pride in "people liberating

themselves from the dependence they brought upon themselves" but instead would see people running back into the wide open arms of this "dependence they brought upon themselves" because they have turned themselves unable to use their "intellect without direction by another"; then we would have a public opinion in which, as Hegel feared, "truth directly mixes with endless error" and that therefore "neither one nor the other is truly sincere".

Consequence number two: Whenever politicians find that they cannot find a slot to convey their messages in political TV programmes, they resort to talk shows. First, there are the political talk shows which have long since become more attractive than participation in Bundestag (German parliament) debates. This is an erosion of what constitutes the "representative" in a representative democracy. It is now the political talk shows which spread opinions and messages. This is where you meet and muse upon how to fight terrorism or how to reform the pension system. This is where politics turns into entertainment, in an exchange of verbal blows in TV debates where the winner is the one who knows best how to put himself in the limelight – political achievements or the better argument seem to have lost their importance. At the same time, the established political TV programmes complain that prominent politicians are no longer willing to face tough questions or issues. The trend is away from the essential and towards subjects where anyone can join in the discussion – or think they can. Representatives of the parties and the media simultaneously descend upon a topic like an avalanche and then turn away from it just as quickly – while nothing is resolved at all.

Those who cannot find a place in political talk shows, i.e. politainment, try their luck in lighter entertainment. Entertainment programmes are the most important means of sending out political communication; they represent a politician's most important work-place. People who only get 7.8 seconds of time in regular information programmes to send out their message need escape routes.

The third change concerns the type of politician as such. Getting your political message across in this sort of media environment is not just a matter of the message and its brevity, but also one of the character of the messenger himself. The requirements which the newly media-streamlined political type must meet are roughly as follows:

## Criteria of success for politicians

First of all, there is the saying of an American election researcher: "Candidates have to be light." This means that a type of politician is in demand who knows how to approach things in a playful, optimistic, and straight-to-the-point manner. He must be a convincing master of the simple message, and he must not mind repeating the same brief message over and over again. As we all know: It is true that elections can be won with very simple slogans.

Let us remember just a few of them. "Freedom or socialism", the election slogan of the CDU/CSU in 1976, was such a simple message. People instantaneously grasped what alternative was suggested to them here and were impressed. Or take the slogan used in the GDR People's Chamber (Volkshammer) election in 1990: "We are one people." This slogan too went down very well. In 1994, we had: "It's the chancellor that counts", and the election was won. In 1998, it was: "We don't do everything differently, but we do many things better", also a product concocted by some communication geniuses who knew how to interlace a simple message with the mood for change manifest in the population.

Furthermore, the politicians must be willing to put themselves on public display. The result is that their home stories are carefully worked on, there are special advisers working for the politician's family, the chancellor's wife writes cook books and children's books, she gets involved in social issues, she addresses target groups which may be useful for media appearances or in elections.

Also, more than ever before, politicians must appear trustworthy in their bearing and their gestures. This emotional effect is all that matters, the arguments politicians use are of very little importance. As we know, these will have been forgotten ten minutes after a TV programme is over, while the emotional impact will last.

And finally: We need masters of symbolism. When television grants you so little time, you are forced to check each appearance for its symbolic value. Such symbols can be laden with content, actually they must be if they are to survive the times. The image of Adenauer and de Gaulle in Reims Cathedral, Mitterrand and Kohl at the graves of Verdun, Willy Brandt on his knees in Warsaw – all of these have remained symbols which are still valid today.

What remains is the hope that politicians who are able to fulfil all these criteria are not necessarily unfit for politics. There is no law that says politicians of this type cannot be educated, intelligent, and have personal integrity. The question should perhaps be whether the selection process used by our political parties produces these desired combinations.

## What becomes news?

Those among us who wish to avoid the trend towards emotion and turn to the news instead of the talk shows should not do so without a healthy amount of scepticism either. If you adhere to the criteria formulated by sociologist Niklas Luhmann for the way news comes to you, you cannot help but conclude that it produces a questionable image of reality.

The first criterion Luhmann mentions for what will make the news and what will not is a "marked discontinuity". And is it not true? We do have a desire to know what is changing; the continuity of conditions which we can count on to stay the same seems uninteresting to us. On the daily evening news, we do not wish to hear that the tax rates will remain unchanged, that trains are arriving on time and without accidents, that all planes have landed safely. The opposite, however, is of great interest to us: tax increases, train accidents, flight cancellations, plane crashes. In day-to-day reporting, there usually is no room for the positive, and Kästner's call for good news to be reported goes unanswered.

Luhmann's second criterion is: conflict. More often than not, conflicts are staged in the media for their own sake. Once they become news, conflicts may of course have relevant content, but most of all they contain the promise of providing serial news, they can be stirred up further by the journalists themselves (and among politicians and other protagonists, there are always those eager to participate), and at the end of the conflict, there is frequently a winner or a loser, which again plays to the emotional.

As his third criterion for the origin of news, Niklas Luhmann names "deviations from the norm". Deviations from legal standards, i.e. any violations of the law, are of extremely high news value, which explains the presence of so many journalists in the world of criminal courts and investigation committees. For the yellow press type news industry, there is only one thing more attractive than violations of the law, and that is breaches of moral standards; but in this case, the journalistic fraternity has estab-

lished adequate self-protection. A moral norm in a people is defined by being publicly reported on when it is broken. Once journalists have decided to redefine their moral yardsticks for themselves and their private lives, they will no longer be inclined to sanction breaches of this norm by others by mentioning them in their publications. As a result, public morals will move right along to where journalists arrived a long time ago. However, moral infringements are always wonderful since they, at least in the yellow press, make good serial news productions, and since you can always manage to get the deceiver and the deceived – or the perpetrator and the victim, or the loved or the left one, with or without cheque book journalism – to give ever new insights into parts of society which might not consistently be called honourable.

The people want to be entertained, and the reason as well as the justification for this may well be found in Theodor Adorno's observations of the culture industry and the theory that he developed in his book "Dialectics of Enlightenment". In it, he states: "Amusement under late capitalism is the prolongation of work. It is sought after as an escape from the mechanized work process, and to recruit strength in order to be able to cope with it again." We cannot – yet – completely rule out the possibility that today's hedonistic "fun society" might find a way to turn itself around.

## Conclusion

Any twentieth anniversary or birthday is invariably a decisive turning point. Two decades are enough time to allow a person's or an institution's basic character to mature and to overcome childhood ills and youthful transgressions. The authors writing in this book mark the 20th anniversary of the Cadenabbia meetings, and they share the feelings of someone having the traditional English 21st birthday celebration: Content, pride, gratitude and a certain relief regarding what has been achieved so far are accompanied by the hope, but never certainty, that there will be more and equally good things to come in the future. In two decades, the Cadenabbia meetings have made it possible for German and British parliamentarians, Christian Democrats and Tories, to climb to a new level from which it has been easy to look back and forward. The conclusion of this volume will try to achieve precisely that. It is not intended as a simple or even a ceremonious toast or a comprehensive summary, but rather as a modest attempt to sum up the topics of the individual contributions, put them in the broader context of German-British relations over the past 20 years, and invite the reader to contemplate the problems which will inevitably be the focus of future Cadenabbia meetings.

### **A look back: German-British relations from 1984–2004 in a historical context**

One of the topics which has consistently caught the attention of the parliamentarians in Cadenabbia has been the general climate of German-British relations. It has always been possible to sound an all-clear: while wind gusts and high waves have been frequent occurrences in the last 20 years, there have been neither storm tides nor breaches in dams. Compared to the turbulent decades of the early and mid-20th century, political relations have become normalized to the extent now common among European partners. This very success is the reason that today the concrete bilateral relations between Germany and the United Kingdom receive little public attention outside a small circle of experts. The German-French tandem, the special relationship between the United Kingdom and the United States, relations between Germany and Israel, Germany's role in Central and Eastern Europe,

London's leadership in the Commonwealth, and each country's bilateral relations with Moscow, for example, are all much more at the forefront of people's awareness.

Scientists as well have spent relatively little time analyzing recent German-British relations. There is a much larger volume of literature dealing with the era of the growing enmity before 1914, of World Wars I and II, of German-British relations in the 1920s during the attempt, and eventual failure, to achieve a democratic reconstruction of Europe, of the wretched subject of appeasement, or the years of occupation after World War II, and the first two decades of the Cold War. In all those periods, German-British relations were the fixed point of the foreign policy of both states. However, since the 1960s, the importance of the Bonn-London axis has declined. Britain's shrinking influence in the world and the hesitant British attitude towards the European integration process have played a role in this development, as did the ambivalent British fear that such an economically successful Bonn Republic might dominate Europe. The Bonn Republic's foreign policy has primarily focused on balancing bilateral relations with Washington, Moscow, East Berlin and Paris, and on taking on responsibilities as a partner in NATO and in the European Community. While Britain was a very important partner, both as a victorious ally and a comrade-in-arms in NATO and in the EU, it has no longer been perceived in Bonn as playing a central role. The security of the Federal Republic was primarily guaranteed by the United States, Europe advanced due to close cooperation with France, and the key to the policy of détente was located in Moscow and East Berlin. Within NATO, relations – with the exception of occasional quarrels about "burden sharing" – have basically run smoothly. This was precisely what Karl Kaiser and John Roper described as the "Silent Alliance" in the mid-1980s<sup>1</sup>. A strategic partnership based on joint values and goals was much easier to achieve within the framework of NATO than in the process of European integration.

### Cooperation in security matters

In the years which are at the core of our book, 1984–2004, this basic history of a working silent alliance in matters of security continued unchanged, in spite of the far-reaching and epochal changes which occurred during those two decades. The link which initially connected the Christian Democratic and Conservative parliamentarians in the first years of the Cadenabbia meet-

ings was their joint implementation of the 1979 NATO dual-track decision. Against the determined opposition of the German peace movement and the Campaign for Nuclear Disarmament (CND) in Britain, the Kohl and Thatcher governments stood firm and carried through the stationing of a newer generation of intermediate range nuclear missiles (Pershing II). In contrast to the French, both governments in principle also supported Ronald Reagan's SDI initiative of March, 1983, which, while controversial to this day among scientists and politicians, helped to end the Cold War. In this matter, solidarity with the Americans outweighed any reservations – which existed in both the Thatcher government and the Kohl-Genscher coalition – as to the initiative's content. In the years after the take-over of power by Gorbachev in March 1985, relations between the British Prime Minister and the US President – strengthened by this very solidarity – were to prove a stroke of luck. As early as 1983 and 1984, when he was but an up-and-coming personality in the Soviet Union, Margaret Thatcher had built a trusting relationship with Gorbachev in several face-to-face meetings. Among other things, she discussed the SDI ambitions of the United States with Gorbachev. Especially in the German debate about Margaret Thatcher's role at the end of the Cold War, it should never be forgotten that the Prime Minister saw a partner in Gorbachev long before Chancellor Kohl did, and that it was she who brought him closer to the West. She used her influence in Washington to lead the Americans away from the "evil empire" rhetoric of the first Reagan administration and towards a path of constructive dialogue with the new Soviet leadership.<sup>2</sup>

However, in historical perception, this highly positive role is greatly overshadowed by Margaret Thatcher's stubborn and unrealistic attitude regarding the process of German reunification. In this volume, Douglas Hurd and Francis Maude once again deal with this important episode which considerably dampened the mood for years and marked the lowest point in German-British relations after World War II. But their essays also show that the British position was by no means congruent with Margaret Thatcher's attitude, and that the alliance during this time as well was closer and calmer than the Prime Minister's strident tones. Hurd and Maude base their explanation of this policy on Margaret Thatcher's personality and a historically justified, but outdated fear the Prime Minister harboured of a powerful Germany in Europe. Maude recalls the isolation in which Margaret Thatch-



er found herself even in the United Kingdom because of her public statements. Furthermore, Hurd and Maude try to make us understand the two concerns which Margaret Thatcher shared with many at the time: one, Gorbachev's weakening position at home, and two, the weakening of NATO which might result from an over-hasty reunification of Germany. One concern was eliminated, the other was not. The 2+4 process, which Britain helped create in a most constructive manner, brought about an ideal solution for NATO. Gorbachev, however, was ousted less than a year after German reunification. In the course of German reunification, the presence of the British Rhine Army in Germany was also significantly reduced and put on a new legal basis. Because of Margaret Thatcher's attitude, this was another British-German process that did not always run smoothly. However, a basic solution was found in a constructive manner which satisfied all parties involved.<sup>3</sup> The results in those days were always better than the overtones. And yet one German-British wound was to remain unhealed: The relationship between Helmut Kohl and Margaret Thatcher, not good at the best of times, was beyond repair.

A new beginning in German-British communication became possible only after John Major took office in December 1990. The trust established at the Cadenabbia meetings between many of the people involved helped in this process. The essays written by Nobert Lammert and David Hunt are expressions of the deep friendship between participants which undoubtedly was carried over into their political work. Far be it from us to indulge in self-praise, but the role of the London office of the Adenauer Foundation as a connecting link between the élites of the German Christian Democrats and the British Conservatives and as a catalyst in the rapprochement between Kohl and Major has been appreciated by neutral observers of the times as well. For example, Simon Bulmer, Charlie Jeffrey, and William E. Paterson wrote the following:

*"A key role was also played at that time by Ludger Eling, the representative of the Konrad Adenauer Foundation in London, who acted as the link to the Conservative leadership. Eling was also central to the decision by Chancellor Kohl to go to Edinburgh in May 1991 where he referred to Major as 'eine Glücksache für Europe !', a 'stroke of luck for Europe.'"*<sup>4</sup>

From the German viewpoint, far from all wishes regarding European policy were fulfilled by the "stroke of luck for Europe", but

in general issues of security policy, despite several crises, the British and the Germans basically returned to their well-proven path of cooperation.

And yet the early 1990s presented a special challenge to the international role of the Federal Republic. A German decision in December 1991 actually put a strain on the German-British dialogue for several years: the diplomatic recognition of Slovenia and Croatia. The Kohl-Genscher government asserted itself against the opposition of the United States, the UN, France, and Britain and presented its allies with a *fait accompli*. The British negotiator, Lord Carrington, in particular had warned that recognition would be the fuse which would ignite a war in Bosnia. He was proved right. The criticism of the allies regarding this failure of German diplomacy went on for a long time and made the Germans realize once again that one should always beware of a go-it-alone policy.

At the same time, the reunified Germany had to redefine its role and decide whether the foreign policy culture of restraint, which had been sacrosanct in the Bonn Republic, should or could be maintained. For the British and other partners in the alliance, the first Iraq war, the role of NATO in the crises and wars in the former Yugoslavia, and the changing and increasing humanitarian, peace-keeping and peace-making UN missions in Haiti, Somalia, Rwanda and Bosnia raised the question whether it would not be appropriate for a reunited Germany to make a full military contribution to UN missions and NATO "out of area" operations in the same way as other countries did. The so-called "normalization" of Germany's international role was the subject of many a discussion in Cadenabbia. After the decision of the German Federal Constitutional Court of July 12, 1994, which provided a constitutional law framework for possible out-of-area operations, Germany has, since the mid-1990s, expanded its ability to act in security matters. It has taken on more political responsibility using military means, for example in Bosnia, Kosovo and Afghanistan.

From a British perspective, regarding security policy, Germany at the beginning of the 21st century was precisely in the place that the British would have liked it to be during the 20th century: It was a reliable, normal, and peaceful partner anchored in the community of the West. Despite the crises in the past 20 years mentioned earlier, the participants in the Cadenabbia meetings have always agreed that trusting and close German-British coop-

eration was and will remain an essential cornerstone of the entire western security structure. However, this agreement quickly reached its limits when it came to evaluating European integration.

### Europe – a contentious issue

Looking back at the 20-year dialogue between German Christian Democrats and British Conservatives on European policy is reminiscent of the British New Year's Eve sketch "Dinner for One", ever popular in Germany, but almost forgotten in Great Britain: *Same Procedure As Every Year*. In almost all trailblazing issues of the past 20 years – i. e. the debate about the British rebate in 1984; the revisions of the EC/EU contracts made in the Single European Act in 1986, in Maastricht in 1991, in Amsterdam in 1997 and in Nice in 2001; the recent European Constitutional Convention; and the introduction of a single currency – German and British positions in basic and individual issues were practically incompatible.

In spite of the disputes surrounding all these issues, Cadenabbia participants on both sides understood perfectly well why, since the early years, their respective countries have approached the European project from rather different historical vantage points. After the catastrophe of the Nazi dictatorship, the European integration process was the best way for the Federal Republic to regain its standing and influence, to achieve reconstruction and prosperity, and to become reconciled with its neighbours. Identification with Europe took the place of exaggerated nationalism. Multilateralism became the Federal Republic's new patriotism. An ever closer integration of Europe was the decisive instrument to secure peace in Europe, and not only in the eyes of Helmut Kohl. Last but not least, the unification of Europe was linked to the hope for a reunification of Germany; in Adenauer's words, "European and German unity (are) two sides of the same coin."

On the other hand, the perception which Britain had of what was happening across the Channel had always been more down-to-earth. While for Germany, the integration process inevitably meant a gain in status, for Britain it symbolized, among other things, a loss in its own economic and political status after World War II. There was no comparable emotional bond with the continent. From a British point of view, the answer to the question of war and peace lay in the strengthening of nation state democracies as well as in free trade – but never in an excessive model

supranational structure. A well-functioning single market which would benefit the British economy too was the main attraction of the European integration process for London and the reason why it sought admission in the 1960s and finally joined in 1973, after two failed applications. Even in those early days, Europe had been the cause of several disappointments in German-British relations. While the Federal government under Adenauer had originally supported the first British application in 1963, it then proceeded, to London's dismay, to give priority to General de Gaulle and German-French reconciliation. During the second application process in 1966/67, Great Britain tried to influence the German position by exerting pressure within NATO and instrumentalizing the British Rhine Army, which led to irritations and disappointment on the German side. When Great Britain finally did join in 1973, however, it caused no problems in German-British relations. From a specific German viewpoint, any political and economic strengthening of Western integration was welcome at the time to safeguard Germany's policy of detente with Moscow and East Berlin in the West and to stifle effectively any growing doubts about loyalty to the Western alliance. In UK in particular, the economic crises of the 1970s and the decreasing international competitiveness of the entire European economy led to criticism of the existing European economic and social system and to a call to find new dynamics by liberalising the member states' economies and establishing a truly free single European market.

Thus, Germany and Britain approached the years 1984–2004, which were so crucial for European integration and which are the focus of this book, from totally different historical backgrounds and after a history of problems in German-British cooperation. In the early 1980s, however, both countries shared the hope that a consistent implementation of the European Single Market would bring about an economic upturn.

In his contribution, Francis Maude paints a picture of the development in these twenty years. First, he tells how Margaret Thatcher – swimming on the wave of self-confidence after her Falklands victory – started an "extensive pro-European charm offensive" in the mid-1980s, characterized by considerable reservations regarding political integration, but at the same time by a firm belief in a liberating Single Market. Her paper "Europe – the future" pointedly emphasizes the fundamental British attitude: A functioning Single Market does not need political integration,

nor does it need a single currency, tax harmonisation, or a European social policy. To this day, many British Conservatives are able to subscribe to such "essentials". The French and the Germans, on the other hand, rarely took to this "pro-European charm" of Margaret Thatcher's – and Helmut Kohl never did. The continental Europeans had learned to fear Margaret Thatcher's confrontational style, at the latest at the legendary 36-hour negotiating marathon in Fontainebleau in May, 1984. After years of discussions about the British contribution to the EC budget, the Prime Minister managed to secure the "British rebate", which guaranteed Britain a regular refund of 66 per cent of its annual net contribution the following year. While Margaret Thatcher was claiming victory for her side, the already existing distrust in Germany in the motives and goals of British European policy intensified. It was in this context that the Adenauer Foundation in London decided to create a forum to improve communication between the governing parties in Great Britain and Germany: the Cadenabbia meetings. The need for such a forum was more obvious than ever.

In contrast to Fontainebleau, both the British and the Germans notched up the negotiations and the adoption of the Single European Act in 1985/86 as a success. As Francis Maude reminds us in his essay, London saw the implementation of the Single Market programme as a British triumph; yet, it was overshadowed by the success of the German-French initiative regarding the institutional reform of the Treaties of Rome. The consequences of this reform, in particular the expansion of decisions reached by qualified majority voting (QMV), were obviously underestimated in London. A parliamentary committee determined that their effect surpassed all predictions. For the British Conservatives, Maude says, "the Single European Act was regarded as the road upon which the march to ever closer European integration would travel." The pronounced scepticism vis-à-vis more expansive supranational steps of integration which characterized the British position in the 1990s in all governmental conferences about treaty revisions, whether at Maastricht, Amsterdam, or Nice, and about the European Constitutional Treaty, can partly be explained by this experience of the late 1980s.

An event which influenced Britain even more was the entry (1990) into and, shortly thereafter, the forced exit (1992) from the Exchange Rate Mechanism, which is viewed as a disaster in the United Kingdom to this day. Maude captures this development in detail as well. The divergence and differing cycles be-

tween the British and the German economies in the early 1990s were the major reasons for a constellation which, as John Major put it, only left a choice between "bad and awful". In the early 1990s, voices could be heard in many parts of Europe claiming that the rigorous anti-inflationary measures which the German Bundesbank imposed as a consequence of German reunification were to blame for weak economic growth and monetary turbulence in Europe. These arguments also put a strain on the German-British dialogue about the creation and introduction of a single currency by the end of the decade, an idea launched in Maastricht. The pro and cons of the EURO and the dispute about the details of a sensible European stability and growth pact were the topics of some of the most heated Cadenabbia debates about the European question in the 1990s. It is true that the dangers as well as the usefulness of the EURO were probably exaggerated back at that time. Looking back, if it is possible to do so after the very short life span of the EURO so far, it seems that both countries, Germany as well as Great Britain, have made the right decision for their own purposes. All in all, the EURO has become a stable and important international currency which has brought the continent closer together politically, has greatly facilitated trade within the Single Market, and is widely accepted by the citizens. At the same time, it is undoubtedly true that Britain, outside the EURO zone, has fared very well economically, at least in the last few years.

### Close economic ties

Even though European and economic policies were closely related, actual economic relations between Germany and Britain were politically much less problematic. They had always been close. With the onset of the post-war era, Britain and the Federal Republic very quickly evolved into important markets for each other. Bilateral trade grew faster than the general export growth of both countries; mutual direct investments increased rapidly as well. What was typical was not just the continuous increase in the interconnection of the two economies, but also the relative ups and downs of both countries. Their economies usually developed in different cycles, a fact which has carried more weight in England than in Germany; it has always determined the British EURO debate.

In the post-war years, Germany caught up quickly at first. In 1950, the overall economic performance of the Federal Republic

was 60 per cent that of Great Britain; in 1997, Great Britain's performance was 60 per cent that of the Federal Republic.<sup>5</sup> The Germans' per-capita income was clearly lower in 1950, somewhat higher in 1985, clearly higher in 1995, and, in 2005, a little lower again than that of the British. Growth rates too differed in almost every post-war decade or at least diverged so much that Germany cannot help but sympathize with the British desire to leave the fiscal policy mix in national hands as much as possible. The economic developments in the past five years in particular have shown that at present, the economies in Germany and Britain are developing in opposite directions. Over the last twenty years, both states have played the role of the "sick man of Europe" at different times. The Cadenabbia meetings have always been helpful in explaining the economic development of both countries and in the joint search for instruments to increase economic growth. Participants have always been willing to learn from each other, while never abandoning the traditions of their own economic model.

This brief review shows that in spite of a very harmonious basic tune, over the last twenty years there has always been considerable dissonance in issues of security, European and economic policy. This could always be felt at Cadenabbia. And yet it is fair to say that these differences have but rarely led to a truly serious crisis in German-British relations. The atmosphere in the Villa Collina has always been conducive to fanning the heat up these particular differences.

## **Prospects: Challenges for the German-British dialogue in the coming years**

This retrospective does not give the slightest cause for concern regarding the future and the attractiveness of the Cadenabbia meetings in the years to come. The next 20 years will probably be just as eventful and – taking special events such as German reunification aside – will bring equally important political and social changes. German-British cooperation, and this is the basic thesis of this conclusion, will gain in importance and, at the same time, become much more difficult than before. The challenges in domestic and foreign policy which both countries will have to overcome have at least an inherent potential for Berlin and London to drift apart.

## Domestic tasks

The German-British dialogues between Christian Democrats and Conservatives about necessary domestic reforms will remain exciting and rewarding. The problems have similar headings – economic growth, reform of the political system, reform of the social welfare state – but the starting-point in each of the countries is a very different one. Hence it will as always be possible to compare, explain, and learn a lot from each other in Cadenabbia. Yet it will hardly be possible to transfer approaches to solving problems one-to-one.

Between 1984 and 2004, German Christian Democrats and British Conservatives held the roles of government and opposition in their respective countries almost simultaneously; this will change, at least in the next five years. After their third severe election loss on May 5, 2005, the British Conservatives are facing a process of inner renewal. Even with a drastically reduced Labour majority, there is no denying that the Conservative Party continues to find itself in an unprecedented historical crisis. In the next few years, the Conservative Party will have a debate about personnel issues, but more importantly, about its future orientation, in short, about a new "Tory Agenda". Neither a narrow orientation as the party of neo-liberalism and individual freedom nor a return to traditional cultural values will per se provide the Tories the election victories it had got used to in its long history. The party will have to open itself to new ideas regarding both its content and its social concept. The generation change imminent in the Conservative Party is also going to change the Cadenabbia talks. A new generation of British decision-makers, who will generally look less frequently to Germany than the post-war generation of politicians did, will have to develop its own image of Germany. In the same way, the younger parliamentarians of the Christian Democratic Union are generally less in tune with Britain than any other democratic generation before them in Germany. The new definition of the Conservatives' and the Christian Democrats' programme contents in a world where, by now, almost all parties offer the combination of solid economic policy and social justice, will be one of the most fascinating topics at the Cadenabbia conferences. And perhaps another group will grow together and become close friends, the way it happened before in Cadenabbia in the early days in the 1980s, as David Hunt describes.



The German delegations will start out by sparkling with optimism. The prospect of a change in leadership in Berlin seems promising. In this context, the excellent historical contribution by Frank Bösch in this book can be read in a new light. Much of what determined the debate in 1982 sounds very familiar today. Bösch explains, for example, that the change in government in 1982 was not geared to engineer a "market radical" or "neo-conservative" orientation and was by no means an attempt to imitate "Thatcherism" or "Reagonomics", but that the Kohl government nevertheless implemented "drastic reforms in economic, fiscal, and social policies", made cuts in social assistance and in the benefits paid out by the Federal Employment Office, delayed the adjustments for pensions, increased deductibles for hospital stays, relaxed working hours regulations and lowered capital and trade taxes. All these instruments sound topical today, as does the idea of "English conditions", which to this day scares many Germans.

A CDU in government will have to tackle major reforms quickly. There will be a limited time window. The expectations of the electorate are so high that success must occur within two to three years. Christian Wulff, Friedrich Merz and Matthias Wissmann in their essays describe the necessary steps in detail. Taxes, pensions, health, the labour market, and the reorganisation of nursing care insurance are among the most urgent tasks. Frank Bösch reminds us that the measures taken by the Kohl government over 20 years ago did not change "the structure of the welfare state so much as the extent of its benefits". This is precisely where the basic reform debate of the year 2005 comes in. As Friedrich Merz points out, Germany is in the middle of a deep structural and growth crisis and will be able to take advantage of the opportunities inherent in globalisation only if it implements more radical reforms. And indeed, the picture he paints of the international economy no longer has anything to do with the comparatively tranquil circumstances of the year 1982. For Merz, there is no question but that in Germany, business and society must get on a "modern track". Merz maintains that in the next 15 to 20 years, the new circumstances will put a heavy burden on Germany and on all other European countries as well. Christian Wulff, on the other hand, stresses that in spite of all reforms, people should not be made to feel uneasy, and horror scenarios should not be conjured up. At the same time, the pressure on politicians is rising. Frightened citizens are confronted by more rigorously organised inter-

est groups which advocate a basic renovation of the social welfare state and a "New Social Market Economy"<sup>6</sup>. Among both the Germans and the British, it will remain an open question as to how one should proceed: Will it be enough to adjust a few screws, or should one risk a radical new beginning? The question will remain controversial, yet it will determine the crucial and fascinating domestic policy debates in the next few years.

In Cadenabbia the question is, and has always been, how much you can learn from the other country. The tradition of the British social welfare state has always differed from the German tradition. In his contribution, Tim Yeo describes the historical development of the post-war years. Experts agree that there are three different basic models for the social welfare state: firstly, the Anglo-Saxon model, which reduces social security to a protection system against extreme poverty. Important areas such as health and education are privatised and operate parallel to and in competition with state institutions. Secondly, the continental European model, which is not only much more generous, but whose financing is largely based on social insurance contributions which are paid by employers and permanently employed salaried personnel. Thirdly, the Scandinavian model, which is also generous, but financed primarily by taxes. In principle, all three models have reached their limit in the last decade. Where Germany has financial gaps, Britain faces quality problems. In his contribution, David Willetts concedes without envy that public services work better in continental Europe, that German trains run on time, hospitals are cleaner and state schools more rigorous. He sees the strength of the Christian Democratic system as one of the reasons for this since, despite all economic reform, it always – unlike the Conservative Party in Great Britain – keeps an eye on its social element. Willetts continues to ask what the British can learn from the Germans, while in the on-going debate, many Germans tend to look to London for advice.

Matthias Wissmann's examination in this book of the British model of "public private partnerships" and its applicability to Germany is a good example. Such mutual exchanges are not just the stuff of Cadenabbia fireside talks, but point to an undeniable fact: British citizens would never accept the high insurance contributions of the German social welfare state, while Germans would never accept the often alarming standards of Britain's public services. The health system offers the best comparison. The two countries approach the modernisation of their systems from

different directions. While Germany wants to maintain its standards and will have to bring down costs, Britain will undoubtedly be forced to invest more to be able to reach halfway normal standards in its National Health Service compared to other wealthy OECD states.

A German-British comparison of quite a different kind will also move to the forefront of the Cadenabbia dialogues: The experience with immigration and integration models for immigrants. Compared to Britain and France, and even to Italy and Spain, Germany appears to be lagging behind in the migration debate. Peter Müller rightly points out that the immigration debate in Germany seems to oscillate between irrational exaggeration and illusionary trivialization; the reason is that Germany seems to have an identity problem and a lack of national sovereignty and calmness. Müller quotes Wolf Biermann and agrees with him that Germans "are not at ease with themselves." In Germany, Müller writes, immigration problems become a test for the country's political culture. It is tempting to add that it is with some envy that Berlin looks at the relaxed, but sincere national pride of the British. Despite all the difficulties of integration, which do exist in Britain as well, the country is simply more advanced in its acceptance and development of a multid denominational and multi-ethnic society. The societal change in Europe and the often misguided international discourse about Islam present a challenge for the members and voters of all parties whose identity goes back to the roots of Christianity. The CDU, but also parts of the Conservative Party, still have an important debate ahead of them in the coming years and decades which will lead to slow and cautious change.

From the German perspective, the focus will be on very concrete reform projects which the CDU will face once it is in government. Unlike Kohl and Schröder, a future CDU-led government will be able to rely on the support of a majority in the Bundesrat for years to come. Ever since reunification in 1990, the conflicting relative strengths in the Bundesrat and Bundestag have been one reason for the much-lamented reform backlog in Germany. The need for a renewal of German federalism, which Roland Koch analyses in this volume, will presumably become somewhat less pressing. Yet the basic problems of federalism should continue to be taken seriously and be eliminated. In Britain, the reform pressure regarding devolution, which David Curry describes in detail in his contribution, has decreased somewhat. At the same time,

another reform of the political system may be on the agenda: that of the voting system. The election in May 2005 once again showed clearly that Conservatives as well as Liberals are at a strong disadvantage in the current system. Labour has a structural advantage resulting from the cut and composition of the constituencies. In theory, with a different voting system and identical numbers of votes, there might have been a stalemate in parliament instead of a solid Labour majority (67 seats). Hence, some voices can now be heard that demand elements of proportional representation for the United Kingdom as well. It is too early to speculate what such a reform might look like, but it is possible to imagine that there might be room to think along those lines, especially in a framework like Cadenabbia. However, the experience in the debates on the regional parliaments in England has shown that in general, British voters approve of the present political system.

The cultural relations between the two countries are another field for an exchange of ideas, and possibly even new initiatives. Unfortunately, many observers note a decrease in interest in the other country – at least in public perception. On the occasions of the 60th anniversary of the end of World War II and the appointment of a German pope, for example, old clichés were raked up once again in the press. The Nazi obsessions of the British press, and not only the popular press, are a constant nuisance from a German point of view. However, the dramatically falling standards in the press are a reason for concern in both countries. Michael Rutz's thoughtful essay should be recommended reading. One might add that many journalists today have gathered little life experience outside the media and that even their university courses of study are focused on the media. This is not a good development. It seems many journalists live in a world which could hardly be more narcissistic. The consequences for the political system and democracy in both countries are considerable, as Rutz justly points out. In his very personal contribution about the British TV scene, Tim Gardam paints another somewhat depressing picture and explains how the quantification of quality and economic pressure have affected reporting. One might be reluctant to remember, but when the Cadenabbia meetings began 20 years ago, citizens and politicians lived in a media world which was rather different. It was more official in tone and dull, but regarding substance, both electronic and classical print mass media were probably one step ahead of today's media.

In the education sector as well, both countries have taken steps ahead and steps back in the past 20 years. The rather deplorable condition of the German mass universities can no longer be tolerated. The same is true of the underfinancing of British universities. Both countries will have to find solutions which make it possible for all levels of society to have access to the universities while at the same time improving the quality of education and research. Like everything else, today's universities operate in global competition with the United States and Asia. Traditions and resting on old laurels count for little under those circumstances. Germany and Britain will therefore have to continue to differentiate their university systems and offer broad-based education as well as top research. The subject of education as a focus for the future might well gain in importance in the Cadenabbia meetings. What is particularly sad from a British-German perspective is the rapid decline in the number of British students taking foreign languages, especially in the optional subject German. The declining interest in Germany, the German language and culture in the younger generation will certainly change bilateral relations.

This will make it even more important to strengthen the dialogue between the élite of both countries and to expand fora like the Cadenabbia meetings. Apart from the above-mentioned domestic policy and cultural necessities, today's global political situation and shared international challenges make an even closer German-British cooperation absolutely indispensable.

## Foreign policy challenges

Formally, future Cadenabbia meetings will differ little from those of the past 20 years where the most important foreign policy challenges are concerned: Transatlantic relations, the future of Europe, worldwide security threats, and the issue of how economic globalisation can be dealt with and steered politically and in the institutions, will dominate the debates of the future as they have in the past. However, in many areas, what sounds similar in form will undergo a new orientation in substance.

### Transatlantic relations

A strong link between German Christian Democrats and British Conservatives, which has not once been questioned in Cadenabbia, is the shared conviction that the new global challenges can

be met and shaped only in a strong transatlantic alliance. It hardly comes as a surprise that both Friedbert Pflüger and Michael Ancram demand in their essays that Britain and Germany jointly strive to avoid a further drifting apart of Europe and the United States. Pflüger maintains that the tensions between Europe and the United States, which became most obvious in the Iraq crisis in 2003, have shown that the time for traditional incantations and rituals in transatlantic relations has passed and that both the Germans and the British must launch a new effort to keep Europe and the United States in the well-proven alliance. It is true that the worst excesses of the "annus horribilis" 2003 are over, and both Europeans and Americans are reaching out a hand hoping to overcome transatlantic discord, but despite all reconciliation, the tectonic shifts in transatlantic relations cannot be ignored. The looming questions of the world order following the end of the Cold War in 1989/90 are far from having been answered. Both sides, Europeans and Americans alike, must learn to see our times as a transition phase in which the balance of power of the 21st century will evolve anew. And they must decide which role they want and will be able to play in the new world order.

The basic questions resemble those of the year 1990: Will the old bipolar order be replaced by a unilateral or a multilateral order? Will new powers such as China, India or Brazil fully exhaust their economic and power potential, thereby challenging the West's claim to leadership? In the future, will the new world order rely on regional and integrated economic blocks, and will competition between these regions be of a cooperative or an antagonistic nature? In a global and integrated economic order, will the process of governing beyond the nation state be achieved within the framework of more supranational institutions or will strong nation states continue to dominate the course of world events? Will multilateral organisations like the United Nations and the World Trade Organisation be strengthened so that they will be able to maintain world order or will they become the playthings of the strongest nation states?

In a new world order, will Europe and the United States become rivals or will they continue to exist as a united West? Will the West remain the fixed point of the world order?

In all these questions, the future of the transatlantic alliance plays a decisive role, and politicians worldwide are called upon to

set necessary courses at the beginning of the 21st century. In his essay, Michael Ancram provides a guideline which almost all German Christian Democrats and British Conservatives can subscribe to. He says that a point of view which positions Europe against the United States and propagates the idea of an "either Europe or the United States" is very dangerous. Instead, we should hold on to the idea of unity between Europe and the United States and strengthen the proven formula of the Atlantic Charta – partnership instead of subordination. Even while agreeing with this, we may still join Wolfgang Schäuble when he asks the legitimate question of how integrated, ready to act and strong Europe will have to be in the future to pull its natural weight in this very partnership.

In retrospect, the crisis in transatlantic relations over the last few years may even turn out to be an opportunity. Both sides have made mistakes and, in 2005, are willing to admit to them in public. The United States had become a little too captivated by its own idea of hegemony, while many Europeans had succumbed to moral self-righteousness. Both sides showed considerable communication deficits and underestimated how much they actually need each other. During the Cold War, both Germany and Britain invariably played the role of mediator whenever tensions arose, usually in friction between France and the United States. In the last few years, both countries – and certainly neither the German Christian Democrats nor the British Conservatives are to blame for this in any way – have left their classical position of mediator: Britain meets with little response in Europe these days because, in the eyes of many continental Europeans, it has grown too close to, and is too uncritical of, the United States, and does not sufficiently support the European unification process; Germany has lost influence and credibility on both sides of the Atlantic because it gave up any long-term foreign policy strategy by following a zigzag course primarily motivated by domestic politics. It is one of the most urgent foreign policy tasks of the two countries to reclaim their traditional mediating role and develop it reliably. Germany needs a new appreciation of transatlantic, Britain of European, unity and friendship. And, as Friedbert Pflüger so correctly points out, the transatlantic community as a whole needs the United Kingdom in the European Union.

What will be at stake in Cadenabbia in the future will be to defend this mission and this basic conviction, especially at a time

when the European crisis after the French and Dutch "no" in the referendum on the Constitutional Treaty calls for a rearrangement of the German and British efforts.

## Europe

As it was twenty years ago, the European question will once again become the focus of the Cadenabbia meetings. In their essays, Angela Merkel, Wolfgang Schäuble, Michael Howard and Francis Maude rightly point out that the debate about the future of Europe will continue to be the most important foreign policy issue between Christian Democrats and British Conservatives. In the last 20 years, the conflicts and differences in mentality on the European question have always been a bone of contention in the foreign policy debate in Cadenabbia. In both camps, there has often been a lot of head shaking on the quiet: The British were puzzled by what they perceived as the presumably naive German misconception that greater integration was the only way to greater peace and prosperity in Europe; the Germans, by the insular vision and stubbornness of the British who seemed to them to lack a feeling of responsibility for the continent as a whole. The essays in this volume are careful not to exaggerate, but even so they are proof once again that in spite of a strong will to agree, some basic convictions remain hard to reconcile. Now that the French and the Dutch have turned down the Constitutional Treaty with, respectively, about 55 per cent and over 60 per cent of the vote, the Germans as well as the British will have to find new ways of thinking about the future of Europe. However, times of crisis are not good times for advice on political decisions; hence a phase of reflection in the European question will be needed. The shock of the French and Dutch referenda should not let us forget the basic positions which led to the draft of the Constitutional Treaty. The contributions in this book mirror the differing German and British positions.

Michael Howard counters Angela Merkel's argument for a basic ratification of the Treaty for a European Constitution with his vision of a flexible Europe whose very agility will make it easier to treat each individual member state more fairly. While Merkel believes that the potential of the expanded EU in economic and security policy can only be realised in an appropriate structure safeguarded by European agreements, Howard argues that different states are pursuing very different goals and that the EU, through a more open structure, must acknowledge this diversity.



Both share the desire to avoid the creation of a "superstate" with a centralist bureaucracy and to preserve the identity, democratic legitimacy and cultural tradition of the nation states in Europe. The old issue of how much of a firm structure and how much flexibility the European house needs will determine future debates in Cadenabbia. In this context, joint responsibility of Britain and Germany for the European Union will continue to grow, especially in a time of crisis. In his contribution, Wolfgang Schäuble rightly points to the fact that in any German-British consultations, it is always of the essence to integrate Paris as well, since the special potential for Europe depends exclusively on the close cooperation of the three big countries, France, Germany and Great Britain. Schäuble regrets that the three most important and presumably also most influential partners have not been able to agree on most of the issues which have remained controversial in the EU. He maintains that this should be changed, since without a German-British-French understanding, the core problems of Europe cannot be solved. In the summer of 2005, the situation again seems to be that London, Paris and Berlin have very different ideas of the future order in Europe and will have to deal with very different domestic policy challenges, so Schäuble's argument is more valid than ever.

A complete failure of the existing Treaty for a European Constitution, for whatever reason, would make it necessary in any case to completely realign the diverging German and British forces. In his contribution, Michael Ancram assumes total failure and believes that it will force Europe's politicians "to start all over again." He sees a positive opportunity for a much more flexible Europe, a model shared by few German politicians concerned with foreign policy. Here, German and British, Christian Democratic and Conservative, positions continue to be almost diametrically opposed. Politicians of both countries must be aware, though, that the alternatives to the present Treaty for a Constitution might not exactly be an improvement. The next three to five years will be of great importance for the development of our continent. Last year's enlargement by 10 states has not nearly been digested yet, Bulgaria and Rumania will, in all likelihood, join in 2007 or 2008, and other states are pushing for membership. International expectations for the EU to play a much stronger role globally will continue to grow.

If the treaty were to fail altogether, the alternatives would mean a time of even greater tension in German-British relations. The

Treaty of Nice will be the basis for cooperation, a treaty which even today is no longer a useful and practical basis for an efficient European Union. A long process of haggling between the Commission, the Council, and the nation states over the implementation of certain elements of the treaty will be inevitable, even without ratification. The German viewpoint is that this will presumably not entail a true advantage compared to the Treaty option. However, many British Conservatives have a different view. They believe that the ratification shock might trigger a new and productive debate about the finality of the European project. Some are actually calling for a roll-back, that is a scaling down of integration ambitions and a return to a looser association of nation states in a common internal market.

There is no doubt that the issue of Europe will remain the top issue at the Cadenabbia discussions and be a particular attraction of the meetings. However, this must never turn into some sort of European ego contemplation; instead, we must put greater emphasis on the global political order.

### Global Governance

A topic which has not played a major role in Cadenabbia in the past, but was touched upon in several of the essays, is the search for new worldwide government structures that are appropriate for today's global economic challenges. Among the authors of this book, Friedrich Merz is the one who focuses most clearly on globalisation. As often happens, globalisation is primarily seen as the globalisation of markets, finances, knowledge, existential risks, transport, and communication and information technology. And national politicians are justified in searching for national answers to these problems. They wonder how their country can be brought up to par to compete for production locations, investments and jobs, and which specialisation and effectiveness advantages the old European industrial states should look for and make use of. This is perfectly legitimate and convincing, but the debate on the subject of globalisation should be put on a broader base.

In the last ten years, the epidemic of the word "globalisation" in scientific literature spread from American business schools, first to the faculties of economics, and only then to the humanities and social sciences. Apart from its economic aspects, which are certainly dominant, globalisation has important social, cultural, legal, and political dimensions which get less than their fair share

of political debates. In international political science, the concept of "Global Governance" has firmly taken root. The question is how, beyond the nation states and the existing international organisations, structures of government can be created which can work efficiently in policy areas such as poverty, war, migration, health, epidemics, shortages in raw materials, and environmental destruction, all of which have also become global. Politicians should not limit themselves to the question of how to make countries and economies fit for global competition, but should also ask how the worldwide social question will be dealt with and what political structures will be needed to sustain and strengthen the global public goods and distribute them more fairly. In this respect, it is not a presumption to assume that the European experience can serve as a global model in every respect. Europe has created clear supranational decision structures, has shown in the 1989 revolution how to overcome authoritarian regimes peacefully, and has devoted itself more than any other region to the sustainability of its economic development. These important issues should therefore receive a prominent position on the agenda of future Cadenabbia meetings.

British and German, Conservative and Christian Democratic answers will differ in this area too; but that has always been the very attraction of the meetings. The future of Cadenabbia will be at least as exciting as the past has been.

## The future of the Cadenabbia meetings

"In the beginning", writes Norbert Lammert in his essay, "there was Helmut Kohl. Or Ludger Eling. Upon close inspection, both." Acting for many others, he thanks the original initiators and all participants from the "Christian Democratic Königswinter". This volume is dedicated to all those who, with the help of a good idea, a historical location and an incomparably beautiful villa, have created a political institution which Lammert and many of his comrades-in-arms cannot value highly enough. Just one example: Without the personal connections established in Cadenabbia, asks Lammert, would the Conservatives ever have become members of the EPP Group in the European Parliament? Lammert himself considers it unlikely. Many other silent success stories could be mentioned. Our retrospective and our look ahead definitely prove that a forum for dialogue such as the meetings of parliamentarians in Cadenabbia is, without a doubt, more need-

ed than ever before. All authors in this book emphasize this in no uncertain terms. In view of what has been achieved, former and future participants can view the next two decades with optimism, even though challenges and demands will undoubtedly grow. This volume mirrors the success of the meetings, takes up the major domestic and foreign policy topics discussed over the past 20 years, while making it clear that communication between CDU and British Conservatives remains an on-going task. The will to agree is as evident in all contributions as are the differences, which are very openly addressed. Many problems in domestic policy are similar, even though the respective solutions will vary, given the differing political cultures and traditions. The common values which connect us do not necessarily result in comparable political approaches. In many cases, particularly concerning the future of Europe, the ideas of German Christian Democrats and British Conservatives seem to diverge, as seemed to be the case 20 years ago when the London branch office of the Konrad Adenauer Foundation started the meetings of German and British parliamentarians. Hence, in spite of all the success we celebrate in this volume, Cadenabbia will remain in the future what Germans like to call "*Eine ständige Herausforderung*", and the British "work in progress".

The challenge remains; the myth is alive.

#### Notes:

- 1 Karl Kaiser/John Roper (eds.), *Die Stille Allianz: Deutsch-Britische Sicherheitskooperation*, Bonn: Europa Union Verlag 1987.
- 2 See Sean Greenwood, "Helping to Open the Door? Britain in the Last Decade of the Cold War", in: Olav Njolstad (ed.), *The Last Decade of the Cold War. From Conflict Escalation to Conflict Transformation*, London: Frank Cass 2004, pp. 317-331.
- 3 See contributions in Gunther Hellmann (ed.), *Alliierte Präsenz und deutsche Einheit. Die politischen Folgen militärischer Macht*, Baden-Baden: Nomos 1994.
- 4 Simon Bulmer/Charlie Jeffrey/William E Paterson, *Germany's European diplomacy. Shaping the regional milieu*, Manchester: MUP 2000, p. 66.
- 5 Regarding the economic development in German-British relations, see, for example, Jens Hölscher/Henry Lowendahl, "Anglo-German Post-War Economic Relations and Comparative Performance" in: Jeremy Noakes, Peter Wende and Jonathan Wright (eds.), *Britain and Germany in Europe 1949-1990*, Oxford: OUP 2002.
- 6 See, for example, Götz Hamann, "Lautsprecher des Kapitals", in: DIE ZEIT, May 4, 2005.

