# A Note on the Anglo-Saxon and Continental Approaches to Europe: Identical in Spirit, not in Practice

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Thierry Warin

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# A Note on the Anglo-Saxon and Continental Approaches to Europe: Identical in Spirit, not in Practice

*Thierry Warin* *
Department of Economics, Middlebury College
Minda de Gunzburg CES, Harvard University

*Abstract. The purpose of this note is to propose a breakdown of the European concept into different sub-categories, based upon the different stages of the European integration process. In doing so, it is easier to understand the political differences and debate between an allegedly Anglo-Saxon approach and a Continental one. This note challenges the usual definition of the Anglo-Saxon and Continental approaches, and highlights the usual misconceptions and misunderstandings of the European economic goal.*

Keywords: Europe, EMU, EU, Schengen Convention, Anglo-Saxon approach, Continental approach

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* Thierry Warin, visiting scholar, Minda de Gunzburg Center for European Studies, Harvard University. Assistant Professor, Department of Economics, Middlebury College, Vermont (USA). The author would like to thank Kenneth Donahue. The usual caveats apply. Email: twarin@middlebury.edu

## The Economic Corner Stone of Europe

In his speech at the European Parliament on June 23, 2005, Prime Minister Tony Blair explained that his position at the European Summit on June 16-17, 2005 was a way to give a new impulse to Europe. He opposes the so-called "continental model," and favors the Anglo-Saxon one— the one he proposes Europe adopt.

In economic crisis in the 1970s, having a national income 9% lower than the European Union (EU) average, and ranking among the poor countries in the EU, Great Britain received financial aid and economic guidance from the International Monetary Fund (IMF). Nowadays, it has joined the club of wealthy countries, with a national income 11% higher than the EU average. The recipe: the espousal of Margaret Thatcher's liberal policies, and the socially liberal policies of Tony Blair. With such success in mind, Tony Blair wants Europe – or maybe more precisely European countries – to benefit from the same effects. His axiom is simple: *what's good for Great Britain is good for every other European country*. In his mind, at least on the European scale, the Anglo-Saxon model is universal.

In this respect, there is an Anglo-Saxon model that can be contrasted with a continental model, or, perhaps, many continental models. Let us look into this issue while remaining anchored in pragmatism.

Europe was initially built on economic bases: primarily it was about trade with the opening of borders for energy, raw materials, agriculture, and every commodity in the 1980s; and secondarily it was about currency—the euro was adopted to prevent the competitive devaluations that impede fair trade. For the sake of this note, we will not look retrospectively at the necessary economic conditions for implementation of trade and currency reforms, but instead, will stay at the level of the spirit of Europe as founding Fathers envisioned.

The first steps of Europe were oriented towards removing the economic protections of countries, (this policy is defined as "liberal reforms" in current nomenclature.) The key point is that the conditions before the creation of Europe were protectionist, with countries using national economic policies as a way to rebuild in the aftermath of the Second World War.

With the opening of borders and signing of bilateral agreements dealing with the pace of trade barrier removal, the question of "fair" free trade appeared. Basically, free trade means the non-existence of tariffs and non-tariffs barriers. More explicitly, it means no comparative advantages created by hidden national regulations, or any other such non-tariff impediment to trade in a broad sense. In this respect, it is almost synonymous with fair trade in the classical economic sense, but not (always) in the ethical sense.

To be truly "fair" according to the European political definition, free trade must be associated with at least three other notions: free movement of persons, free services, and free movement of capital.

## Economic and Political Freedoms Intertwined

Let us breakdown the different notions of free movement of persons, and free services.

First, free trade does not automatically imply free movement of persons. When fifteen countries (Germany, France, the Netherlands, Belgium, Luxembourg, Italy, Portugal, Spain, Greece, Austria, Finland, Sweden, Denmark, Norway, and Iceland) decided to commit to legalizing the free movement of persons at the EU level under the Schengen Convention in 1985,[1] it was done for the sake of political fairness and consistency primarily, and perhaps secondarily for economic reasons.[2]

Second, free services are almost automatically associated with the free movement of persons; a service is, by definition, given by a person. To use the unfortunate anecdote of the Polish plumber initially invented by Mr. Bolkenstein, European Commissioner: if Poland signs the Schengen agreement, then the free

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[1] The Schengen Convention concerns fifteen countries so far and sixteen in 2007 or 2008 with the entry of Switzerland, among them two are neither EMU nor EU members (Norway and Iceland, and soon Switzerland), and two of them are not EMU members, but are EU members (Ireland, and the UK). The Dublin Convention signed by eleven countries out of the twelve EU members on June 15, 1990 (the UK signed in July 1992) replaced the asylum chapter of the Schengen Convention. Two countries signed the Dublin Convention on asylum but not the Schengen Convention on free movement of persons (Ireland, and the UK). The Dublin Convention came into force on September 1, 1997, and September 1, 2003 for the so-called Dublin II. See Marinho and Heinonen (1998).

[2] See Koslowski (2000) for further demographic implications.

movement of a Polish plumber to France would allow him/her to offer the service, unless French regulation requires some qualifications to be a plumber. Hence, within Schengen area, the principle is the following: when there are no requirements, free movement of persons means free-services. In other words, a Schengen country is more liberal than a non-Schengen country, but is not liberal vis-à-vis an ideal model. This is where economics and politics merge into political economy.

Since it seems reasonable to most people to have some standard requirements to be a physician, for example, one way to play a fair game is to have requirements universally recognized at the Schengen level. But when these requirements are there to give an unfair comparative advantage to a country, they should be removed.[3] The motto is “transparency for everybody,” and this is exactly what the European countries intends to do by creating automatic recognition for a European standard diploma. The difference is that only Schengen countries would need this, as opposed to the twenty-five EU members.

Now a retrospective analysis: when a country enters into the EU, a free-trade area and customs union, it makes a tremendous move towards liberalism, although some rigid economic policies may remain at the national level. This explains the differences in the economic performance of countries. But what matters for the union is the rule of the international game, not the cost due to the short-term ill- adaptation of a specific national economy. Thus, a country should not criticize the rule of the game because of a poor economic performance. Indeed, if the country was doing better in the past, it was because it was not playing a fair game.

When an already-EU member signs Schengen, it makes another tremendous move towards not only the free movement of persons, but also, implicitly, towards free services without the need for further European regulation.[4] The need for a directive coming from the European Commission could be justified, however, when the Schengen countries want the other EU members to abide by the same rule of the game—to prepare an eventual integration for instance.

Eventually, when an already-EU Schengen member substitutes the euro for its national currency, it commits to not using competitive devaluations, playing a very fair game, and targeting the European ideal of fair free trade.

[3] A lack of requirements can also give an unfair comparative advantage to a country.
[4] See Thym (2002) for legal and regulation impacts.

## Anglo-Saxon and Continental approaches to Europe

Let us concentrate now on the conflict between the Anglo-Saxon and continental approaches, an opposition used overwhelmingly by the media and politicians. Firstly, we must note that if there is one Anglo-Saxon model, there are several continental models (from Austria to Sweden).

Secondly, in short, if one looks at social expenses as a percentage of GDP as well as the tax structure using implicit tax rates (as in Mendoza 2001), the UK, Germany and France are not all that dissimilar. The biggest difference between these three countries is labor regulations, and the impact of some such regulations on the cost of labor for people with low human capital. To summarize, the essence of the Anglo-Saxon model would be to allow people with low human capital to become employed.

In the media and political arena, the notions of free trade, free movement of capital, and free services, (before free movement of persons, although we have seen that there is often an implicit congruence between the two), are often associated with the Anglo-Saxon model. Hence, it was no surprise to see Premier Tony Blair defend these economic notions and push for Europe to evolve in this direction. So why do the other leaders, let's say continental leaders, seem to oppose this model? After all, it matches well with articles 3c and 14 of the Treaty establishing the European Community (later consolidated by the EU members (European Commission 2002).

## The Roots of Misunderstandings, and Political Blockages

The previous breakdown of the fair free trade notion is useful in highlighting the initial conditions of each political player at the EU level.

It is true that every country wants to have very little to do to be in compliance with European regulations. This is where the political variable enters, with all associated rhetoric and the possibility of ending up with a European rule that runs counter to the spirit of the fair free trade ideal.

Furthermore, when a country is already a Euro zone member, a Schengen country (only Ireland is a Euro zone member and not a Schengen country), and thus an EU member, it must abide by the whole set of EU's rule of the game: free trade, customs union, free movement of capital, free movement of persons, services, and the euro. For this country to be treated as an opponent of free trade, free services, and free movement of persons is rather awkward; these rules were adopted when the country entered the EU, the EMU, and the Schengen agreement. This does not mean, however, that an Euro zone member as a national entity is more liberal than an Anglo-Saxon-style country. Rather, the European country has to adjust, in a liberal way, to Europe's requirements. Europe is not the concept to oppose when a liberal country wants its partners to become liberal. *National regulations are.* The European level aims to doing this in a fair way.

For illustrative purposes, let us consider the debate on free services. When an Anglo-Saxon-style country, and moreover, a big European political player such as the UK,[5] is promoting free services, every country including the Schengen countries agree. Free trade in services is explicitly stated in the Treaty establishing the European Community. However, the Schengen countries want either to keep their national requirements, or at least, find a European requirement. In other words, a compromise could be found if all the players agree on some kind of harmonization, or the implementation of a coordination mechanism that would prevent uncontrollable effects. Otherwise, the fear – although very virtual – is that Polish plumbers (implicitly understood as poorly qualified) will flow into Western Europe as soon as Poland signs the Schengen agreement.

The misunderstanding is that to find a compromise on "free services," the Schengen countries want EU-wide transparency in terms of qualifications to prevent unfair legal competition, which according to an Anglo-Saxon country would hamper the benefits of free services. The Schengen countries would, in fact, only need a Schengen-wide regulation, but since the political decision is made at the EU level, it implies the involvement all twenty five countries. This dichotomy explains the difficulty in finding a compromise.

Conversely, if the Schengen countries accept a system of free services with no transnational recognition of qualifications—a sort of European diploma for instance—they would be the only ones playing the real game. In case of economic trouble, they would have very few economic policies at their disposal

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[5] See Wiener (1999), and Wiessala (2000).

to make adjustments, whereas any other non-Schengen country, by definition not in the Euro zone, could still use a cocktail of national policies.

The first adjustment mechanism utilized by non-Schengen members would be immigration regulations. Indeed, such a country would not impede a Portuguese physician from settling within its borders because he/she is physician, but because he/she is Portuguese.

The second adjustment used would be in the area of monetary, exchange rate, or fiscal policy, and would allow the country to take an unfair slice of the gain. But, such adjustment policies would drastically change the game: the international game would be less fair, and would open the door to opportunistic policies. The result would not be more tariff barriers since it is explicitly forbidden by the EU, but the re-creation of non-tariff barriers to free services.

Consequentially, in other words, a non euro-Schengen country has very few incentives to accept any EU regulation that aims at removing a non-tariff barrier by coordinating or harmonizing – even minimally – some national regulations. The non euro-Schengen country will only accept this coordination or harmonization if it bears no costs to its economy.

This may be why, in the British case, being pro-Europe Premier Tony Blair is willing to push the other countries to adopt the British model; the coordination of EU members is likely to comply with the British system, and push the UK towards deeper European integration. But the paradox is that the euro-Schengen countries are already too involved in European rules based on fair free trade to go back to "free services" as defined by the Anglo-Saxon model. Such a move would mean renouncing Schengen and the free movement of persons. In a more extreme and rather unrealistic perspective, the euro-Schengen countries would have to abandon the Euro to regain some autonomy in exchange rate policy, and in order to play the free trade game defined by a reduction in tariff barriers (but not non-tariff barriers,). This would open up a Pandora's box of competitive devaluations, higher risk premia, higher inflation, and higher costs for investment.

What is true for the free services example is true for many other situations. This fact often pushes the Anglo-Saxon model directly opposite the continental one—the enlargement is a prime example. Indeed, there is no issue with Turkey entering the EU, or even the EMU without further requirements, as long as each country has total control over its immigration policy (the case is slightly different for the Schengen countries).

In order to be more precise, a euro-Schengen country is, by belonging to this specific community, already committed to liberal transnational rules of the game. Because it has exposed itself to the other players through abandoning many political levers, it is deeply in favor of a fair free trade game, and does not want other countries to create unfair comparative advantages by implementing nationally advantageous policies (e.g. national subsidies) or regulations.

## Europe or Europes?

Intrinsically, the goal of all European countries is the same. The main difference, and also the main issue, is that countries are at different stages in the European construction.

The perceived incongruence between the Anglo-Saxon approach to Europe and the continental one(s) based on their respective degrees of liberalism is untrue. The goals reiterated every time a Treaty is proposed are the same. The misunderstanding comes from the different constraints created by the various layers of Europe. There is one vision for Europe that every country shares, but there are many definitions of Europe.

In many regards, a euro-Schengen country has to abide by more liberal rules than an Anglo-Saxon-style country: no political manipulation of the value of its currency, no tariff barriers, fewer non-tariff barriers due to the convergence of regulations among members (automatic recognition of a diploma, etc.), free movement of capital, persons, and implicitly, services. Indeed, the role of the State has been reduced since the creation of the European Community in 1957. Therefore, when Tony Blair pushes to anchor Europe in modern times, this may be misunderstood by some countries. Those outside of the euro zone and outside of the Schengen agreement may be very sympathetic to this vision since it seems to foster economic progress; yet, those euro-Schengen countries may see Blair's plan as a way to recreate some non-tariff barriers, and to institute unfair practices through a reintroduction of national regulations.

An actual opposition between the Anglo-Saxon and continental model would be the creation of rules of the game at the EU level that also have a "social" goal – the creation of rules of the game that only target the reduction of non-tariff barriers.[6] Again, in this case, the national layer would be to blame not the European layer since its goals are relatively clear, and reaffirmed in every treaty.

## Conclusion

As a matter of fact, as long as some players remain outside the euro zone and opt-out of the Schengen Convention, their short-term goals will be different than euro-Schengen players. The issue is that the political decision is made at the EU level with three basic groups of countries: the euro-Schengen countries, the continental non euro-Schengen countries that are politically close to the euro-Schengen countries, and the continental non euro-Schengen countries politically close to the UK. In this situation, it seems that two stable equilibria are possible: first, there is a coincidence between the political decision and the goals, in other words, the non euro-Schengen countries soon become euro-Schengen countries; or second, the euro-Schengen countries create their own political body, which would look like the existing Eurogroup (hoping that Ireland would opt-in the Schengen Convention). The benefit would be immense for the euro countries, but two costs would occur for a broader definition of Europe: first, the euro countries would have fewer incentives to try to compromise with the other countries; and second, because the speed of integration in the euro zone would increase, the gap would broaden between euro and non euro members, those who will have more difficulty in benefiting from the positive sides of the initial spirit of the European creation—fair free trade.

[6] See Christiansen, *et al*. (1999).

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