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The **UK** in a
Changing Europe

Britain and Europe: the Political and Economic Repercussions of the Crisis

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Report written by Luisa Porritt

Britain and Europe: Political and Economic Repercussions of the Crisis

On 23rd June 2015, experts from across Europe assembled at the British Academy in London for a conference organised by the Cambridge Network on Britain in Europe on the UK's changing relationship with the EU. Participants heard from three panels and a keynote speaker on issues shaping this debate - and their views on what renegotiated UK-EU membership might look like.

Panel 1: Economic implications

Does the Eurozone crisis matter for Britain? Dr Dermot Hodson, senior lecturer at Birkbeck, warned British banks remain exposed to Grexit and peripheral European debt, although this has reduced since 2010. David Cameron's attempt to link 'Brexit' to Grexit via a 'grand bargain' to deal with the EU's shortcomings and euro area concerns is deeply dangerous, he claimed.

Treaty change would be difficult to ratify, though the recently published 'five presidents' report' had hinted at it in earlier drafts. Hodson said the European Council is effective at consensus compared with other international organisations, despite it being slow, inefficient and frustrating. He said European leaders are "deeply committed to a deal on Grexit and Brexit". But he noted 'deep levels of distrust' across the EU, linking euroscepticism with anti-politics.

Dr Monique Ebell, National Institute of Social and Economic Research research fellow, focused on the Eurozone's 'trilemma', whereby free movement of capital and fixed exchange rates become incompatible with financial stability. If Greece had a floating exchange rate, it would have encouraged investment and the drachma would have appreciated, but within the Eurozone there are no automatic stabilisers to act as a break on capital flows. Ebell argued these can be positive when met with strong public and private institutions, such as well-functioning capital markets and political institutions. More than half the UK's trade with the EU is in financial services. This affects Britain, as however the Eurozone crisis plays out it will be altered and the UK needs to decide its level of engagement.

Professor Nicolas Crafts from Warwick University discussed how the EU and Eurozone's design and performance have shaped the debate. The Eurozone aimed to improve trade and growth. Initially, the EU promoted trade, raising income levels, living standards, and growth, but the Eurozone is not equipped to handle a depressed economy, he said. Policy is needed to escape a liquidity trap, either by unconventional monetary policy or strong fiscal stimulus. The Eurozone cannot deliver either, and the ECB is the wrong central bank for a depression, evidenced by its slow move to quantitative easing.

"Survival entails serious reform: a fully federal solution and deep economic integration, this is hard to achieve," Crafts said.

Dr. Henning Meyer, Editor-in-Chief of *Social Europe Journal*, said the UK leaving Europe would be a complex disentanglement. He cited UK-European trade. But he noted the democratic deficit that emerged in response to the Eurozone crisis, and loss

of trust in European politics. “Certainties were destroyed in the course of the crisis,” such as equal membership, whereby small countries have a voice, undermining democracy.

On Greece, finding a solution for the country’s debt problem had become harder with resurfacing of national stereotypes and erosion of trust. The UK seeking to extract concessions out of other member states plays into that lack of trust. A wider reform pitch by Cameron would make it easier to win support.

Panel chair Ferdinando Giugliano, economics leader writer for the *Financial Times*, asked whether the euro was a scapegoat and if national currencies would have enabled a better response to the crisis. Ebell said Ireland showed crisis could be handled well within the euro, helped by strong institutions and a competitive labour market, even though it was argued the country would have benefited from currency depreciation.

Meyer said German surpluses are part of the Eurozone’s problem, highlighting how the ‘excessive imbalance procedure’ targets deficits, not surpluses. He challenged the idea of making the Eurozone ‘a larger Germany’, asking whether the US should run deficits to counter this. Ebell argued reforms are needed across the Eurozone, as are capital and labour mobility improvements, not just fiscal consolidation.

Following the session, Dr Christopher Bickerton, lecturer in politics and official fellow at Queens’ College, Cambridge, said the Eurozone’s changing dynamics make it hard to frame debate over Britain’s EU membership in economic terms as this cannot be modelled, arguing a political case should instead be made either way.

Panel 2: Impact of changing institutional politics

David Cameron is operating in a less consensual environment “while being reliant on cooperation of consensus groups across institutions,” said Dr Christine Reh from University College, London. He has two options: legislation via the European Parliament or treaty change. Reh argued legislation could be quicker and easier, as 85% of legislation (415 out of 488 files) was passed using the Ordinary Legislative Procedure (OLP) in the last Parliament and did not require unanimous agreement in the European Council or the Parliament. Taking into account sensitive areas likely to be tabled for renegotiation by the British, however, agreement is unlikely in the required timeframe. Tighter majorities in the Parliament would make welfare changes difficult. The EPP, of which the UK Conservative Party is a member, is less influential in cross-institutional politics and less able to forge cross-political alliances, while voting against decisions has also become more common.

Professor Hussein Kassim from East Anglia University, and Economic and Social Research Council senior fellow, focused on the UK’s turbulent relationship with the EU. This included efforts to veto Juncker’s appointment and calling social and environmental policy ‘intrusive’. Yet despite weak British representation across European institutions, the UK has been influential, bringing British civil service culture to Brussels, cuts to salaries and pensions and changes to competition policy. Kassim described Britain’s relationship with the EU as “ambivalent, rather than negative”.

Nick Witney, senior policy fellow at the European Council on Foreign Relations, examined the EU’s effectiveness in security and foreign policy. The EU framework should lead to better diplomatic organisation and communication, and thereby

improved decision-making. But poor implementation meant the EU is yet to deliver on its potential. He called the European Defence Agency ‘ancillary’, while power and money remain in national capitals, accounting for Europe’s ‘dismal performance’.

He was more hopeful new appointments and institutions would bed down and become more effective under Federica Mogherini, EU High Representative for Foreign Affairs and Security Policy, who has been conducting a review. He would like to see a network of overseas missions move increasingly into security and foreign policy issues.

Witney said if the UK chooses to stay in the EU, that should be followed by a ‘committed Britain’. “Britain has been a deconstructive dead weight in Brussels,” he said, adding EU security and foreign policy coordination could increase Britain’s influence in the world.

Charles Grant, director of the Centre for European Reform, highlighted different ambitions of key member states. He said although eurosceptics and federalists agree the Eurozone cannot survive without debt mutualisation, tight fiscal policies, and economic policy coordination, they are both wrong, as no political will exists to establish those.

Grant said Cameron’s success would depend on his readiness to split the Tories and make friends in Brussels. “He’s a transactional politician, who is good at negotiating deals but doesn’t forge relationships. He has few close friends in the European Council. To make more, he will need to split [his] party. I am not sure he’s prepared to do that.”

John Peet, *The Economist*’s Europe editor, took on a eurosceptic’s view, arguing it would be damaging for the EU to lose one of its biggest members, therefore the bloc has a greater interest in keeping Britain in than Britain has in staying. Mr Grant said EU partners may not help, as Cameron has little to offer other than a promise to keep Britain in. Another other pledge is the fiscal compact, a ‘small tidying up exercise.’ Only Germany ‘on a good day’, Italy, Ireland and the Netherlands are likely to want to keep Britain in, while France will be unhelpful and Spain difficult, he suggested.

Asked by Baroness Smith of Newnham, Cambridge, what Cameron should do instead, Reh said he ought to construct a case for EU reform, including streamlining welfare legislation. She added he must avoid it seeming as if Britain wants to keep others out.

Panel 3: Implications for other European countries

Ireland

Ireland will stay in the EU even if the UK leaves, but Brexit would have serious effects, said Professor Brigid Laffan from the European University Institute, Florence. A shared labour market, security, trade, energy supply to Ireland and FDI flows would be affected by British exit. The UK’s make up may change, raising the issue of Irish unification, as Northern Ireland would feel threatened without Scotland. Ireland would grow uncomfortable within the EU, as British exit would affect internal power balances.

France

Brexit is not deemed important in French political debate. Polls suggest those 50 and over are more in favour of Britain leaving, while 15- to 29-year-olds are 68% against,

as young people see Britain as a decent jobs market.

But Cameron could raise issues that would alarm Hollande due to the threat of Front National leader Marine Le Pen, said Professor Christian Lequesne from Sciences Po, Paris. Le Pen's earlier agenda was leaving the euro, but has since shifted to EU exit.

France's red line is no major treaty changes, including freedom of movement. A compromise could be a political declaration on subsidiarity, or on 'ever closer union'.

Paris would like the UK to stay for defence, as its only partner with resources. Though not stated openly, the French consider Britain's presence a means to balance Germany.

Greece

"Celebrity-game-theorist-cum-minister-of-finance Yannis Varoufakis is comfortable with eurosceptics," having argued Greece should not have entered the euro, said Professor Kevin Featherstone from the London School of Economics. Greece is an extreme case giving ammunition for British eurosceptics to claim, "we told you so". Greece's situation has raised questions about European democracy and accountability, and highlighted domestic institutional weaknesses, which exist across nine Eurozone governments.

The Greek government's negotiation style may offer Cameron lessons, he said. "Athens has avoided a situation where people could guess which way the elected government could jump." But establishing red lines too soon may destroy the Greek government. Not only does Cameron need to be clearer on his mandate; he must also build coalitions, Featherstone said. The Greek government's failure to win influence meant its political allies shifted towards Germany's position, resulting in a Eurozone united against Greece.

Scotland

"Would the Scottish vote outright for independence [if the UK left the EU]?" Quentin Peel, *Financial Times* columnist and Mercator senior fellow at Chatham House, asked Professor Drew Scott from Edinburgh University. "There are clear divisions between the Scottish and UK government approaches to the European question," said Scott, while Scotland's relationship with the UK will be 'transactional' and seek to maximise benefits. As a pro-EU social democratic country, Scottish public and political content with the bloc will work against the eurosceptic position elsewhere in the UK.

The Scottish and UK governments hold distinctly different views on migrant labour and the referendum. While the UK government recognises benefits of membership, the Scottish Government expects a looming migration crisis: without migrant labour, Scotland would face fiscal difficulties. The Scottish Government opposes an EU referendum, but perceives flaws in Europe's architecture. It would like better regulation and is similar to the Dutch in wanting greater repatriation of powers.

First Minister Nicola Sturgeon has suggested Scotland and other parts of the UK should have a veto over EU exit. If the UK votes to leave, this has been cited by Sturgeon as 'such a moment' to warrant a second Scottish referendum.

This prompted debate on the complexity of referendums. Comparisons were drawn with Britain's 1975 decision on whether to stay in the European Economic Community, which the then Labour government campaigned for, and 67% of the

British public voted in favour of. Professor Anne Deighton from Oxford University highlighted the damaging effect that had on UK politics: “to think 1975 was simple and this is complex is forgetting the impact on internal party politics.” Most commentators thought the next referendum would be a harder sell. Three said the ‘yes’ campaign must have an emotional element.

Keynote speech: Lord Wallace of Saltaire

As a former member of the Select Committee on the European Communities, Chair of the Sub-Committee on Justice and Home Affairs, Liberal Democrat spokesperson on foreign affairs in the House of Lords, joint deputy leader of the Lib Dems in the Lords, and Government Whip spokesperson in the Lords on the Foreign and Commonwealth Office, Lord Wallace has long observed and participated in Britain’s evolving EU relationship.

He emphasised non-rational factors shaping British attitudes. “The problem is what a rational policymaker may see as in the country’s interest, is not necessarily what the voting public sees as the way we want to be.” A Conservative MP once told him: “down the line, we don’t know who we are or where we went to be in the world.”

A potential issue will be capturing voters’ attention on the referendum. Rational calculation of costs and benefits might get on BBC ‘Newsnight’ but not in the *Daily Mail*. Renegotiation could be framed around shared values, history and sense of community.

He thinks Cameron will negotiate on the basis of ‘necessary adjustments’, partly for the EU and partly for the UK. But what is achievable? Stronger national parliaments could be tricky. The digital single market cannot be done in a year. Conservatives feel strongly about a Working Time Directive opt-out, but so do trade unions the other way. The Transatlantic Trade and Investment Partnership cannot be a reason, since it will not be agreed within a year. Eurosceptics will meanwhile ‘keep upping the ante’ to demand undeliverable concessions, ultimately causing a split within the Conservative Party.

Opposition to EU membership is an expression of discontent with globalisation, Lord Wallace said. In France, this is thought of as ‘Americanisation’ and undermining of French culture. In Britain, debate centres on belief Brussels imposes regulations, and that if Britain left such regulations would not exist.

Britain’s view of sovereignty differs from that of France and Germany, he said. Sovereignty is regarded as important enough that the UK could withdraw from the European Court of Human Rights and the European Court of Justice as they impose foreign laws. Yet foreign takeovers and money in London are not regarded as intrusions.

“The national narrative is one which looks back to the Anglo Saxons as the freest,” he said, adding English exceptionalism is the driving force behind euroscepticism.

In 1975, the weakness and incoherence of the anti case meant Britain stayed in, said Lord Wallace. This time, much will depend on the Eurozone—avoiding Grexit and improving the economy—as well as how migration is seen. “Rational calculation of advantage and disadvantage will play a small role when it comes to voting.”