

Tony Lane's Thoughts – before the 2016 Referendum

I'm reflecting again on the many good things that have happened in Europe in the second half of the C20. It's better than the 1930s! Nothing will ever stop me thinking what a wonderful thing it is that young British and French people attend one another's Universities, and live and work in one another's countries. Our generation has seen barriers coming down; barriers to trade, travel, transport, barriers educational, residential, culinary, barriers of every sort. And as these barriers come down, perhaps it's not too much to hope that barriers to mutual understanding will also gradually dissolve.

I used to think that was what the EU was for. And even now, it's not free movement of people that is my problem.

... Most of the lowering of [trade] barriers has occurred at global level under the GATT/WTO, and most of it would have occurred even if the EU had not existed. Other sorts of economic barrier have been lowered under the auspices of other global bodies such as the IMF, the BIS and the ISO. Even so, some additional dismantling is no doubt attributable to the EU/EEC. That was how the original 1957 Treaty of Rome stated its mission: to promote "an ever closer union of the peoples of Europe," and to seek "closer relations between the states of Europe", by creating a Common Market. I always thought it noteworthy that the closer union was to be between the peoples: the closer relations were to be between the states.

Since then however the phrase about closer relations between the states has been forgotten; in place of which the concept ever closer union has been stretched ever more widely. Originally it referred to the sort of union that is formed by establishing a Common Market. In other words a union of falling barriers. For years I thought that really was the aim, and I supported it with enthusiasm.

But that vision of a Europe of falling barriers didn't last. A wholly different Napoleonic vision took over, seeking not "an ever-closer union of the peoples" but a progressive coalescence of states. According to some this was always intended, but no such intention was ever stated in the Treaty of Rome. In retrospect, the decisive break seems to have come in 1986 with the Single European Act. The SEA was sold at the time as a merely incremental measure to facilitate the Single Market, and the Single Market was itself sold as simply a more thoroughgoing version of the Common Market. Later that was admitted to have been a hoax: the Single Market was a mere decoy: by 1993 Delors was saying openly that he was never interested in it, save as a means towards political union. And it was after the SEA that the Commission began to act as, and to appear as, and indeed to be treated and courted as, the executive branch of an incipient state.

What was the disguise that made it possible for such a revolution to be achieved by stealth?

Someone ought to write a "secret history" of the EU'S transformation, as it morphed from a framework of co-operation between the nations of Europe, into a process of coalescing them. For my own part it ceased, at some ill-defined point along that road, to be a project I felt I could support. But when, and how? There was never a moment when this vast transformation was expressly debated and decided. Many people now see it as an unanticipated consequence of the Single European Act. Indeed of a recondite yet powerful technicality within that Act.

Up till the SEA, the Commission's legislative remit had been defined and limited by the Treaty's individual articles, which broadly speaking were sectoral in scope: transport, agriculture, trade &c. Its job was to propose implementing directives and its legislative proposals were valid that extent only. That had been largely a technical role, that of a secretariat implementing policy decisions already taken by the inclusion of individual sectors in the Treaty: and because it was a technical body, its lack of democratic legitimacy could be accepted.

The exception was Article 100, under which any national laws which "directly affected the Common Market", could be "approximated" (ie brought closer, though not necessarily made identical). This uncircumscribed power was limited only by the requirement for unanimity in the Council. Unanimity was rarely forthcoming, and Article 100 Directives were rare. Commissioner Gundelach, the Danish Commissioner for the Internal Market in the 1970s, had a solution: for Article 100 to establish non-mandatory standards whose use would guarantee free circulation: but Gundelach moved on, and was forgotten. Similarly, in the 1980s Commissioner Cockfield proposed what were called "New Approach" Single Market directives, which were to confine themselves to setting "essential requirements," to be implemented through detailed non-mandatory standards agreed at industry level. Cockfield's "New Approach" smoothed the way for the Single European Act to make Article 100 subject to qualified majority voting. But when Cockfield moved on, he and his "New Approach" were also forgotten, while QM remained. (No-one had thought of making QM apply only to "New Approach" Directives!)

The effect was that the Commission's power to propose legislation became open-ended. No longer were they confined by the terms of individual Treaty Articles. Their legislative ambit now extended to any provisions in national law that "directly affect the establishment or functioning of the internal market"; and that soon came to mean any provisions whatever. Single Market directives could now reflect this unlimited power. The Commission was thus enabled to move from exercising the functions of a secretariat to exercising the powers of a state.

Why were the Gundelach and Cockfield proposals shelved, when they were so inventive, pragmatic and intelligently limited in the power they conferred? Surely it was precisely because they were so ingeniously aimed at avoiding granting the Commission the unlimited legislative power it wanted. What those Commissioners tactfully sought to avoid seizing, their successors (and their officials!) actively coveted. This surely explains the flood of regulation that has followed, now apparently extending to more than 120,000 pages. The doctrine of "exclusive competence" means that as soon as the Union has adopted any measure in any given area, all power ("competence") to legislate in that area passes from the Member States to the Union. The competence gained by the Commission is lost by the Member States. Each Directive plants a flag in a process of legislative colonisation.

But what about enlargement, was that not supposed to restrain this process? It was long hoped that a wider union would have to be a looser union. It doesn't seem to have worked like that, perhaps for two reasons. First, enlargement tilts the balance between the Commission and the Member States; the greater the number of Member States, the easier for the Commission to divide and rule them. Second, new members will always be claimants on EU funds, which enables the Commission to herd them as a compliant "payroll vote".

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The most conclusive argument for leaving the EU is surely the moral scandal that body has now become. A scandal well illustrated by the story of the Lisbon Treaty of 2009. Its very genesis makes it morally indefensible: -

The Lisbon Treaty grew out of the defunct European Constitution, which had died at the hands of the French and Dutch peoples in referendums held in 2005. In the UK too, a referendum had been promised before the Constitution could be agreed; and this was widely expected to go the same way.

The Brussels bureaucracy did not consider it right to accommodate these multiplying evidences of public opinion; merely to outflank them. So the Constitution was dropped and an amended Treaty took its place. This was eventually adopted in 2009 as the Treaty of Lisbon. As the most recent in a succession of extensions of the original Treaty of Rome, it now stands as the EU's legal foundation. It is reported to be substantially identical to the rejected Constitution: subject to the following important differences.

The first difference between the Constitution and the Treaty is linguistic. The Treaty is in different language, consisting it seems of an almost impenetrable maze of cross-references to other documents. The result, we are told, is unintelligible to any ordinary reader, and has certainly been found unintelligible by MPs, to say nothing of their constituents. Incredibly, that seems to have been the intention. Because the Constitution

met popular opposition, the European authorities seem to have concluded that its meaning was too clear. So the solution was a version that no one understood! That, we need to recognise, is the way Brussels thinks.

(It may of course be asked, if the Treaty is unintelligible, how we know it means the same as the rejected Constitution. But we were assured of this by a Parliamentary Committee which, almost alone in the world, it seems, threaded the entire maze of cross-references!)

In Britain (as in France and the Netherlands) the Treaty was adopted without a referendum. A referendum campaign would have ventilated its obscurities. But being unintelligible, it aroused no demand for one, and Parliamentary scrutiny was well contained for the same reason. No one has ever explained how the British (or indeed any) Government could consider a referendum requisite for the Constitution, yet not for a Treaty identical in its effect.

The position now is that no one knows where power lies. The Lisbon Treaty is widely believed to have vastly extended the area of competence transferred away from the Member States, but no one knows how much. Electors therefore have no way of knowing which level of government is to be held to democratic account. This situation has come about through the deliberate actions of the Brussels authorities, and is evidently regarded by them as a satisfactory response to an unanticipated eruption of public opinion. In Britain, however, public opinion now has a chance to give its own view on the acceptability of the procedure. Who could vote to stay in such a body, and to live under the laws it decrees?

Still, morals aren't everything, and these events are in the past now. Perhaps we should be pragmatic: holding our noses and concentrating on the practical consequences?

Well, one of the practical consequences was the Juncker affair. Rightly or wrongly, our Prime Minister (Cameron) opposed his nomination as President of the European Commission, in effect Europe's chief executive. Previous Presidents had been appointed by consensus. But it then emerged that this had been changed by one of the unintelligible provisions of the Lisbon Treaty. The British people, while they slept, had become liable to be made the subjects of a chief executive appointed against the resistance of their own elected representatives. No one told them this was happening.

Other nasty surprises presumably lie ahead, through which we will learn the practical consequences of not knowing what we gave away in the Lisbon Treaty. But we can avoid these surprises ...

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Psychology plays a major part in attitudes to Europe. Frank Field, a Labour MP of agreeably independent outlook, observed on return from a visit to New Zealand, not long ago: "Down there, a country of 4 million people has by its own efforts re-shaped its entire social and economic system. How strange that we, in our country many times that size, should so constantly complain that we are too small to shape our destiny". Surely this referendum is about whether we can break that psychology of helplessness?

That psychology was strong in the early 1960s. The humiliation of Suez had a lot to do with it. But so did the idea, not exactly absurd at that time, that European firms, like American ones, needed a "large home market" in order to exploit economies of scale. In those days most industrial exports faced tariffs from the high teens upwards (ie 15%+). That was why our then government thought we had no option but to join the Common Market, snapping no matter how many traditional links, and overturning no matter how many traditional British policies. But today the global picture has changed. European trade liberalisation was intended to create a European home market as a liberal oasis in a protectionist world: today global trade liberalisation has created a global home market, of which Europe is merely a part.

Today, unlike the 1950s, many countries, large and small, have discovered the truth of that. Today's world contains many prosperous and independent democracies, needing neither the crutch of the EU, nor its multiplying burdens. Some of these are large (China) some are small (Singapore) but neither the large nor the small have relied on a "large home market" to achieve economic growth. They have prospered by exporting to the world. It is preposterous to suggest that Britain is uniquely unqualified to join them. The case for Britain to leave the EU now, is that the benefits of membership have shrunk to vanishing point, while the threats endemic in membership have multiplied dangerously.

Under the World Trade Organisation (formerly the GATT) global trade liberalisation has now advanced so far as to bring global free trade very close, especially so in industrial products traded between industrial countries, where most of our trade is. Britain's exports to such countries now face tariffs averaging around 2-4%. If Britain were an independent country outside the EU, that would be the sort of tariff barrier faced by its exports to Europe. One calculation is that British exports to the EU27 would face an average tariff of 2.4%. (And failing agreement to the contrary, it would also of course be the tariff barrier imposed on European exporters selling to an independent Britain.)

Yes, but: -

Might the EU raise its tariffs? Not while they are still covered by GATT bindings. Not without leaving the WTO.

Might the EU adopt special punitive tariffs for the UK only? Not without violating the mfn obligation that all WTO members have towards all others.

So in today's world, the "large home market" argument no longer applies as it did in the 1950s. It was a reasonable doctrine in its time, but it depended on a world of high tariffs which has now departed. Yet while the facts have changed, that lazy psychology of helplessness still lingers on, as Frank Field remarked.

What does this mean for : -

Trade "deals" which we keep being told may or may not be forthcoming? In a word, we won't necessarily need them, because leaving the EU will be beneficial even without them. If they are forthcoming nevertheless, they will be modestly useful, but not essential.

The non-tariff barriers that all those Single Market directives were meant to remove? The problem is that, as we have seen in previous thoughts from abroad, removing barriers is no longer what the Single Market is really about. It does more to create barriers than remove them.

Foreign firms that invest in Britain, we keep being told, as their gateway into the EU? In a word, they come to Britain for better and wider reasons than the avoidance of a negligible 2.4% tariff. Those reasons will remain even if that trivial tariff is re-applied.

Financial Services

Today comes news that Ian Botham, no less, wants my money for the Vote Leave campaign. It seems that some list of donors has been published, and Botham protests that the coffers of the Remain campaign are being swollen by American investment banks such as Goldman Sachs, J P Morgan, Morgan Stanley.

Surely he has a point? Wasn't there something about banning political donations from abroad? And while the usual British policy is to treat foreign firms here as equal corporate citizens, that doesn't mean that their political interests are always identical with Britain's.

As long as Britain remains in the EU, American and British banks based in the City of London face the same avalanche of hostile regulation from Brussels. But they face it on different terms. It applies, it seems, only to the American banks' European operations, while British banks must apply it globally. If so, this gives them a competitive advantage over their British counterparts, which they would lose if Britain left the EU. So in lobbying for Britain to stay, they are lobbying for their British competitors to remain under that disadvantage.

American and other foreign banks operating in London thus seem to have interests distinct from those of British-based banks. Should the laws on political contributions permit them to fund those distinctive interests, perhaps outspending and drowning more purely domestic points of view?

And indeed, those foreign points of view may also carry weight in the City's representative organisations. If so, this might explain a paradox. The Eurozone and its leaders have made clear that they are not prepared to tolerate London's remaining its financial centre. No one seems to deny that the programme of financial regulation pushed through under Commissioner Barnier is discriminatory. When President Sarkozy appointed Barnier, he openly boasted that it would be. This continues, and under the Lisbon Treaty the UK Government is powerless to stop it. The Eurozone controls any QM vote in the EU, and in this way the Eurozone makes laws which are binding on the British banks they are seeking to exclude.

There is one recourse: to remove London from the danger. Yet London's spokesmen sometimes seem unwilling for the danger to be removed. Do they really prefer the making of laws that govern them to remain in the hands of their sworn enemies? Are they suffering the paralysis of rabbits caught in headlight beams? Are they turkeys, not just voting for Christmas, but crowding into the slaughterhouse? Or are their views unduly influenced by American banks in London?

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For some years Professor Tim Congdon, formerly of the Bank of England's Monetary Policy Committee, has published annual estimates of the rising cost of the EU to Britain. His estimates have risen over the years, and now add up to 11% of GDP, rising at 0.5% per annum.

Of this, the budgetary cost is really quite small. After the rebate, it amounts to about 0.7% of GDP.

Also quite small will be the impact of any tariffs, in the event that Britain and the EU end up levying them on one another's exports. British exports to the EU amount to about 13% of British GDP. The tariff levels involved on most industrial goods (ie the EU's current Common External Tariff) are on average about 3%, so their total cost to the UK would be around 0.4% of UK GDP. It would certainly be a pity to see any intra-European tariffs at all, but if they cannot be avoided, the amounts involved in each direction are not large.

UK imports from the EU are much greater, and in the event of tariffs being re-applied to this trade, Britain will gain on the exchange. It is not a gain we should seek, but if it is forced upon us, no one could call it a cost.

More significant, it seems, will be the benefit of releasing ourselves from the obligation to apply the EU's protectionism to our some of our imports from third countries. Congdon estimates this gain at potentially over 3% of GDP. We will for example no longer be obliged to levy tariffs on: -

Imports of foodstuffs from affordable suppliers. It is strange to hear so little about the benefits of escaping the CAP. On foodstuffs, in contrast to industrial products, EU tariffs are apparently in the 18-28% range. Because Britain is one of world's largest importers of food, this a great burden on living costs, especially on low income groups. Escaping agricultural tariffs would be a useful benefit to the supplier nations too, and would thus be an important bargaining card for the UK when negotiating free trade agreements (see below).

Key industrial inputs, such as semiconductors, and automotive components, where the EU tariff is a burden on British manufacturers. (Note that semiconductors are traded tariff-free between the US and Japan, to the benefit of their IT industries).

Congdon argues however that the greatest benefit of all would be that of relief from the avalanche of EU regulation, unleashed since 1992. How can this benefit be measured? Calculating the ramifying cost of even a single regulation is hard enough: measuring the consequences of several regulations is harder because their effects interact: so how to cost an accumulation of 120,000 pages? Congdon emphasises this difficulty. Yet it seems to be widely accepted that regulation is costing the EU as a whole several percentage points of GDP, and this concern not confined to the leaving side of the debate. The one thing certain is that, whatever the degree of approximation, no serious assessment of the cost of membership can ignore the biggest cost of all.

Congdon argues that the regulatory burden of the EU, when taken as a whole, is costing the UK somewhere in the vicinity of 5-6% of GDP, growing by about 0.5% a year. He grants that this burden could not be shed all at once, but he suggests it could be progressively replaced, over a 10-year period after leaving the EU, with a purpose-built regulatory framework designed for the UK's own domestic and commercial needs.

Who will benefit? Regulation is usually spoken of as a burden on business, which superficially it is. But when all competitors face the same burdens, nothing prevents them passing the cost on to consumers.¹ (An apparent exception is the regulatory burden on export costs: but even this is likely to end up with domestic consumers in the end, through its effect on the exchange rate.) In the long run however, the main cost of extravagant regulation is its paralysing effect on growth (seen at European level in the

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phenomenon of "euro-sclerosis"). A business that has had to come to terms with a complex cat's cradle of interacting regulations will become conservative in outlook: technical advance will be embraced less readily because of the difficulty of accommodating it to the regulatory regime, and so on.

To repeat, Congdon concludes that the benefits of leaving the EU amount to well over 10% of GDP, plus a continuing drag on economic growth in the vicinity of 0.5% a year. But these arguments turn above all else on the cost of 120,000 pages of regulation, something supremely difficult to quantify. So I must try to assess the EU's regulatory avalanche from different angles: -

EU Regulation What is its professed motive? How does it appear to have affected the EU's economic growth?

Does Single Market regulation, remove burdens or add them? ... I previously raised the question how you measure the cost of the 120,000 pages of regulation imposed by the EU since 1992? And then, given that in some cases regulation will be necessary and justified, how do you separate the cost of the necessary regulation from that of the superfluous regulation? Congdon's calculation, taking account of businesses closed and jobs lost, suggests a cost of 5.5% of GDP.

But no figure will be without controversy, and in addition to measuring the costs of individual regulations from the bottom up, it may help to take cross-bearings from the top down. In particular, some light may be thrown by examining the Brussels bureaucracy's motives, and considering whether the motive is likely to lead to a method that unnecessarily inflates complexity and cost.

The harmonising provisions of the Treaty of Rome (Article 100) were not inserted to increase regulation. The aim was to prevent differences in regulation from impeding trade between Member States. We saw how two Internal Market Commissioners tried and failed to get this Treaty distinction taken seriously. Both put forward unobjectionable methods of implementing Article 100: methods that would have minimised the burden of compliance. Both are forgotten.

Why were the Gundelach and Cockfield proposals shelved? Surely because the Brussels bureaucracy outlives any Commissioner, and has an agenda of its own. In addition to, and increasingly instead of, removing trade barriers, the underlying aim of regulation was always neo-colonial: a turf war to maximise the EU's exclusive competence and to prise functions away from the Member States. In this turf war, the Brussels bureaucracy saw no need at all to minimise compliance cost. For them, the more sweeping the regulation, the wider the transfer of competence, and the more turf it will capture. Viewed in this light, the Gundelach and Cockfield proposals had the same fatal flaw: they relied in part

on non-mandatory provisions, and for that reason they did not transfer exclusive competence to Brussels and away from the Member States.

On any given subject, the original regulation in some Member States will be heavier than in others. In any such case, a turf-centred decision-making process will ensure that the heaviest regulation prevails, because that transfers more competence. In other words the method has an inherent bias in favour of superfluity. This alone seems enough to suggest that the 120,000 pages of Single Market regulation are likely to be inherently more burdensome than they need be.

So much for the motives of the Commission. What of the motives of other players?

The European Parliament does not, like an accountable Parliament, have any responsibility for the cost of its enactments. It does not have to raise and defend the taxes to fund them, or answer for their consequences once implemented. These responsibilities fall to national governments. In other words it is a body unconcerned with outcomes; and as one would expect of such a body, its decisions are politically correct, wayward and grandstanding, often on a "Micky Mouse" scale (eg its bonus cap for bank workers, which actually increases prudential risk).

Why do other Member States vote through such measures? Usually, it seems, because of features of their national regulatory regimes which drag down their growth, but which, for political reasons, they cannot deregulate. One of their Prime Ministers has famously said of de-regulatory reform, "We know what we need to do, but we don't know how to get re-elected afterwards". Faced with this dilemma, the one thing they can do is to Europeanise their self-imposed regulatory burdens, so as to impose them on their European competitors. In this way, bad regulation drives out good.

Single Market regulation can also be discriminatory; and not always unwittingly. In some cases the Single Market process becomes a form of warfare by other means. And although the intention is usually concealed, from time to time it is dramatically exposed (as when Sarkozy, for example, openly hailed the 2010 appointment of a French Commissioner for the Internal Market, as an opportunity to transfer the EU's financial centre from London to Paris). Where EU regulation is discriminatory, it is not just the total cost that matters, but the additional cost to the loser. It is strange to reflect that all this began as a quest for a level playing field!

When regulation is imposed for these motives, and when after 25 years it eventually accumulates for 120,000 pages, no one need be surprised to find it in the event complex, costly, discriminatory and full of unintended consequences and unknown interactions. And no one need be surprised at Congdon's estimate of its cost, at 5.5% of GDP or at other estimates in the same order of magnitude.

... I previously reviewed the political economy of the Brussels system, and the combination of motives that saddle the EU with a dysfunctional burden of regulation. I move on to ask:-

Can we see this reflected in the EU's economic growth-rate?

And if Britain remains compelled to share the EU's laws, will it come to share the EU's growth-rate?

For a whole generation after the war, Europe enjoyed vivid economic growth. The French were justified in calling those 30 years "les trente glorieuses": -

Those years began early, with the boost given by Marshall Aid in the 1940s and 1950s;

They continued through the 1960s after the EEC was formed, and extended also to European countries not then in the EU, such as Switzerland, Austria and the Scandinavians. During this phase, the ideology of European unification was a liberalising force: trade barriers were brought down, internally by the Treaty of Rome, and externally by the EU's participation in GATT negotiations (always excepting agriculture). Internal measures such as the Treaty's competition and state aid rules contributed to the liberalising thrust.

However, growth ceased abruptly in 1973, and has never since regained its vigour. The two oil shocks of the 1970s led on to enduring stagnation, to which European leaders responded by intensifying social and economic dirigisme at national level. In the 1980s, as "Euro-sclerosis" became an increasing concern, these rigidities were found politically impossible to reverse.

A collective response came in the European Single Act, and the ensuing Single Market campaign. It was presented at the time as a revival of liberalisation; the Single Market was the Common Market writ large. More barriers would be removed to the free circulation of goods, services, capital and people. Regulation would be harmonised for this purpose. But the regulatory torrent soon revealed a different logic. Instead of dissolving rigidities by opening them up to competition, regulation made the rigidities mandatory and spread them across the continent. To many European leaders, it no doubt brought some comfort to Europeanise the regulatory sclerosis they could not escape at home. But it meant that by this time, the ideology of European unification had become a negative force.

This process continued through the 1990s with the long-drawn-out introduction of a common currency, the greatest rigidity of all, whose economic consequences need no underlining here. However it is an error to suppose that today's economic stagnation in the Eurozone is the result merely of the Euro and its crisis. It goes back much further.

Even the German economy has seen 30 years of low growth, punctuated briefly by the unification boom.

In sum, the EEC's liberalising phase ended with the "trente glorieuses", and since then Europe has gone from the fastest-growing region in the industrialised world to the slowest. Since 1992 the Eurozone's growth-rate has consistently been below that of other advanced economies: on some estimates the shortfall has been more than 2% a year, and is still widening. Indeed in the original EEC Six, the trend rate of growth has fallen close to zero.

After 30 years, it is clear that the Single Market has failed. It has become the problem, not the solution. It has transformed an EEC of opening markets, into an EU of strangling regulation. It has not revived the growth of trade between the Member States. Growth of the EU economy has continued to fall.

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We've examined Europe's post-war growth boom, undone by the European bureaucracy's dysfunctional avalanche of regulation. We've examined the European bureaucracy's motives for this.

Has British growth flagged for the same reason, and if not, why not?

In fact, Britain's post-war economic performance has been the mirror image of Europe's. During "les trente glorieuses", while the EC Six were enjoying the fastest growth in the industrialised world, Britain had much the slowest. From 1980 onwards the tables were turned. Taking this 35-year period as a whole, the Six have seen growth flag, while Britain has undergone a policy-reorientation, and has become the fastest growing of the G7 major industrial countries.

Was this a result of our policy-reorientation, or was it a result of our joining the EU? The Governor of the Bank of England seems to have suggested the latter, but his loyalist interpretation has convinced few. In the 1960s, British accession was indeed hoped to have a "locomotive effect": tariff-free access to a fast-growing EEC market was meant to spur British exports and growth. But the outcome during our 40 years of membership has been different: -

British exports to the Six rose fastest before we joined. That was when their market was itself growing fastest. After we joined, their growth flagged. For Britain, the locomotive ran out of steam the moment the journey began.

Euro-sclerosis was followed by the regulatory onslaught, and then by the euro crisis. One self-inflicted blow after another kept the Eurozone (or the countries later to become the Eurozone) in the slow lane.

Fortunately not all British exports depend upon European growth. For some years now, British exports to the rest of the world have grown faster than to the EU. In consequence the rest of the world has taken an increasing share of the whole - 57% at the last count.

Yet Europe presents British exporters with two problems, not one. Not only has the European locomotive failed to pull the British train forward as hoped: but also the European regulatory system applies as an ever-tightening brake. Unfortunately (and this may be the greatest misfortune of all) that regulatory brake applies even to our exports to the rest of the world. The locomotive failure began almost as soon as we joined the EEC. The regulatory brake began after the Single European Act, and is still tightening.

More recently, British exports to the EU have actually fallen, apparently reflecting both the non-performance of the EU locomotive and the tightening of the regulatory brake, as EU regulation tightens its grip on British exporters.

Such benefit as the British economy has derived from EU membership has come through the elimination of tariff barriers. But it is unclear how far the elimination of tariff barriers should be attributed to the EU, and how much to the GATT/WTO.

But whatever the answer to that historical question, it is clear today that almost all of that tariff liberalisation is now available to all WTO members, and would remain a benefit to Britain whether or not it was in the EU.

In the result, British economic growth has for some 30+ years remained substantially greater than that of the countries that now make up the Eurozone. In this, it seems reasonable to infer that the UK's own policy of economic liberalisation has been a positive factor, while a negative factor has been the tightening EU regulatory noose. Those two factors have been pulling against each other, and so far the positive factor has prevailed. In the Eurozone, the positive factor has been absent since "les trente glorieuses," and the prevalent effect of the regulatory noose is plain to see. With us, the noose is still tightening. So in due course can we expect our growth to be choked as completely as the Eurozone's has been?

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If and when the UK resumes its active place in the World Trading Organisation it will be contributing once again to two processes: the general development of the open international trading system, and negotiation for specific British interests. I speak from experience when I say I know we have been missed in both.

Yet we hear that we are better off having our interests defended by a European voice speaking for 500 million. This a slogan, repeated as if it proved itself. The thesis is never argued through. There are obviously swings and roundabouts involved. Member States may not enter the negotiations directly, but the EU negotiates as one, with a market of

500 million behind it. For this, a common position has to be reached in a process of internal negotiation, for the sake of which every Member State must be prepared to compromise.

Is the benefit achieved by that solidarity worth the sacrifice needed to achieve it? That is a question for factual investigation, not slogans, and the answer may differ from one Member State to another. There is no general answer. For Britain, the question is how much it gives up for the purpose of agreeing the common position, compared with what it gains if and when that common position prevails at the WTO.

Put it like that, and the answer is painfully obvious. Britain's trade interest is surely to gain access to sell high-value goods and services, while obtaining access to buy food and industrial inputs at the best obtainable value? The EU, defending its CAP, has always had the conflicting interest of cutting Member States off from third country food supplies, and forcing them to buy food dearly within the EU, where prices are kept artificially high. The countries with whom Britain can most gainfully negotiate on trade are countries like Chile and New Zealand, who wish to sell what Britain wants to buy, and vice versa. The countries with which Britain can least gainfully negotiate on trade are countries like France and Poland, whose interests are served by our being prevented from pursuing our best negotiating opportunities.

It seems therefore that Britain loses more in acceding to a common EU position than it gains from the collective pursuit of that position. The common position is not, as the name might be taken to imply, a vehicle for pursuing a common interest. It is often enough a common straitjacket, preventing some Member States from pursuing interests they could better advance if negotiating alone. The concept of solidarity is turned on its head.

Britain would surely do better speaking for itself in the WTO.

Did Margaret Thatcher Support Remaining in the EU ?

It is surprising to hear it claimed that "even Margaret Thatcher" supported remaining in the EU. Whether her views matter or not, they should not be misrepresented.

The views she came to after leaving office are argued at length in a book she published in 2003 called "Statecraft": following are extracts. It will be seen that she framed her recommendation in the familiar language of "re-negotiation". But it is clear that this was just a polite way of leaving. Her preconditions for remaining were clearly not negotiable, and clearly not intended to be.

Page 397 - "Given the speed at which the federalist project is now being driven in Brussels and other European capitals, it is no longer realistic to imagine that a future Conservative government can achieve its goals for re-negotiation while pledged to

remain a member of the EU under anything like the present arrangements. ... I do not think that talk of "variable geometry", etc is any longer worth the effort.

Page 400-1 - "The preliminary step should be for an incoming Conservative government to declare that it seeks a fundamental re-negotiation of Britain's terms of EU membership. There would be five objectives." This language is painfully familiar, but for her it meant something very different. Her five objectives can be summarised as:

- Not to remain subject to the CAP;
- Or the Common Fisheries Policy;
- Withdraw from pursuing a common foreign, security and defence policy;
- Remaining in the Single Market if this can be achieved without submitting to over-regulation, which she admits is improbable;
- Britain to regain control of its trade policy;
- Later on she added what amounts to a sixth objective. The British Parliament to take back powers lost through the European Treaties.

Page 402-3 - "It should be made clear from the start that in order to secure our objectives we would be prepared, if necessary, unilaterally to withdraw from EU membership. ... Major changes in the operation of the EU to make it congenial to Britain are not likely to be forthcoming. It is only realistic to expect that the outcome may well amount to Britain's leaving the EU. ... We must try to make such a parting of the ways as amicable as possible, but friendship is a two-way street.

Page 403-8 - Options - Thatcher looks at various models for the UK's trade relationship with the EU after leaving. She rejects the various arrangements the EU now has with other European states (EEA/EFTA). She considers the best model to be the EU-Mexico free trade area of 1999. This covers movement in goods, agriculture, and services, but not free movement of people. Disputes are referred to bilateral arbitration through the WTO, not through the ECJ. She also recommends joining NAFTA.

Page 410 - "That such an irrational project as the building of a European superstate was ever embarked upon will be seen in future years as perhaps the greatest folly of the modern era. And that Britain ... should have taken part in it will appear a political error of historic magnitude."

Some will agree with her, some not. All should recognise that the route she advocated was intended to lead to withdrawal.

Announcement on Trade Policy

If the referendum indicates that Britain will be leaving the EU, a period of uncertainty will be inescapable. It will surely be wise for the government (as soon as there is one) to

issue an immediate statement of the principles on which it will be constructing its trade policy. It will, after all, be the first time for 40 years that Britain has been in a position to have a trade policy. The announcement should state that: -

- Britain will trade for mutual benefit with all nations. Its trade policy will face the world, rather than any one region. It will be based on two pillars: -
- The open international trading system maintained through the World Trade Organisation;
- Free trade agreements in conformity with WTO rules.
- Britain will once again participate in the WTO as an independent member, and will support other members aiming to develop the WTO Agreement in a liberal direction.
- Britain will adopt, as its own Most-Favoured Nation tariff, the existing Common External Tariff of the EU. This will mean, on industrial products, a tariff averaging about 3%. It will consider itself bound not to increase these levels. They will apply wherever free trade agreements do not. Wherever Britain adopts new tariffs, they will be phased in over a transitional period of 5 years.
- This will also be the level of the MFN tariff facing British exports to the EU, in the unlikely event that no continuing free trade arrangement is agreed. (All members of the WTO are committed not to increase their bound tariffs, and to treat all members equally.)

However it will also be the government's aim to negotiate free trade agreements with the aim that substantially all Britain's trade will be tariff-free. It will aim in negotiation: -

- To continue all the free trade agreements to which it is now party as a member of the EU. These include the EU itself and several third countries. Pending negotiation on definitive arrangements, Britain will seek a "standstill" under which neither side raises tariff barriers.
- To negotiate new free trade agreements with substantially all trading partners not currently covered by existing ones.
- To ensure, in particular, that all imported food enters Britain tariff-free (as it currently cannot under the CAP, except from the EU at high prices. Agricultural policy will once again be separated from trade policy, as it was before Britain acceded to the CAP.)

As Britain will be seeking free trade with both the EU and the US, this might best be achieved by Britain acceding to the transatlantic trade and investment partnership now under negotiation. Britain will seek discussions on this with the trading partners concerned.

Regulatory and technical standards and non-tariff barriers. Britain will work actively in all international standard-setting institutions, such as the International Standards Organisation and the Bank for International Settlements. It will aim for international agreement to reduce non-tariff barriers world-wide.

The government is aware that much burdensome and pointless regulation has been introduced in recent years in implementation of European legislation. The government will now undertake a long-term programme of regulatory simplification, in conformity with international standards and in consultation with producer and consumer interests. The aim will be to retain European regulation only when it accords with British interests.

This announcement should perhaps be accompanied by background notes along the following lines: -

Following successive GATT/WTO rounds, the EU's tariffs on industrial goods (though not on food) average around 3%, the preference lost through being outside it has almost vanished. If any tariffs applied, Britain would gain in the exchange: having a large bilateral trade deficit with the EU, it would receive more tariff revenue than it paid.

Nevertheless, there are obvious arguments of principle for preserving free trade in Europe, and these are likely to weigh heavily with both sides. These arguments of principle are supported by commercial considerations: for it seems that Britain is the world's largest market for German cars.

On all the evidence, the benefits of regaining policy-freedom in commercial and regulatory matters far outweigh any difficulty caused by a 3% tariff.

Like the US, which has negotiated a thick network of free trade agreements around the world, Britain would be able, outside the EU, to enter into bilateral or multilateral free trade agreements with any country that wanted one. It is a point of critical importance that these would be FTAs, as distinct from customs unions. (Britain should surly never consider joining another customs union).

Candidates for FTAs would be the EU itself, NAFTA, Commonwealth countries and others. But with all these counties Britain should make clear that an FTA is something we are willing to negotiate, but not dependent on achieving, absent which we'd remain happy to deal with then under the normal MFN rules of the WTO.

Many of these countries would value access to the UK's market for agricultural products. Britain is one of the largest importers of foodstuffs in the world. Both Britain and its potential suppliers are damaged by the high levels of tariff protection maintained under the CAP.

In addition to the prospects of FTAs, Britain could also, having control of its tariff for the first time in 40 years, unilaterally liberalise imports when it saw fit. This applies not only not only to imports of food, where but also to key industrial inputs such as semiconductors.

The above recommendations are not fundamentally altered by the (welcome but not yet certain) prospect of an EU-US FTA, now under negotiation under the name TTIP (Transatlantic trade and investment partnership). One option would be for the UK to join it. Another would be to join NAFTA (as favoured by Baroness Thatcher).

There is no apparent advantage in the UK joining the European Economic Area. This involves commitments to just the sort of discriminatory regulatory stricture we are trying to escape. Having to contribute to the EU budget looks too much like tribute money. But this is obviously an open question for detailed assessment.

We have aligned our competition laws on the EU model, and should keep them so. In our FTAs we should seek and accept strong disciplines against industrial subsidies: both in order to protect British firms threatened by aids granted by other governments.

But Surely it's Peace that Matters Most?

Of course it is. We are sometimes told this as if our leaving the EU would set France and Germany fighting again. Of course no-one really thinks that, or indeed that France and Germany have ever been disposed to fight one another at any stage since 1945. If, improbably, a restraining hand had ever been needed, it would have been that of NATO rather than the EU. It makes more sense to see the EU as an ex-post symbol celebrating their reconciliation, rather than as a prior condition permitting it.

Yet lurking in the background is the Monnet doctrine, which seems to have come to him as a result of his disappointments as Deputy Secretary General of the League of Nations before the war: he seems to have come to believe that nations are inherently warlike, and can avoid warfare only by merging and coalescing themselves so they become nations no more. If this meant that they should adopt joint institutions to promote amicable exchanges, who could disagree? But no, to the Brussels bureaucracy it means complete absorption.

In that form, the doctrine has disquieting implications. If war can be avoided only by the absorption of the would-be combatants into larger units, what is to prevent war between those larger units? Another round of coalescence? And what when the opportunities for coalescence come to an end? Does that bring an end to all opportunities for avoiding war? This is very reminiscent of the scenario George Orwell foresaw. He did not foresee it leading to peace.

And does history show that when smaller political units coalesce into larger, the larger units then always set themselves to pursue peaceable paths? For example, in Spain in the C15, or in Germany in the C19? Does not history show that such coalescences are often pursued in the spirit of some ideology or other, carrying intolerance and conflict with it? Look at the EU itself, with its childish and mean-minded resentments directed towards the USA, and its narcissistic pretensions of rivalry.

Britain has every reason to welcome the post-war reconciliation of France and Germany. And every reason to support that reconciliation by joining co-operative mechanisms to promote amicable exchanges, commercial and otherwise. This indeed is what British governments have always hoped Europe could be cajoled into becoming.

But those efforts have reached the end of the road. They have completely failed, but we cannot face the extent of our failure. Although the European superstate is not yet complete, the Lisbon Treaty seems to have removed all obstacles to its creation. Before that, we already had an overriding supreme court, and a parliament lacking any concern to uphold (or even to define) any limits to the centralisation of power. And now, with the Lisbon Treaty, the Member States' control over the Brussels executive has gone too.

A European army is openly anticipated. Will national armies be brought under its command? Will we discover that, under the Lisbon Treaty, this too can be achieved by a QM vote in the Council of Ministers? Are we sure?

And are we sure that will make for peace? Is that question being candidly put to the British people?

Will Leaving the EU Cut Off Inward Investment?

We are often told we cannot leave the EU because our economy is unusually dependent on inward investment. Foreign firms, we are told, have chosen Britain as their base within the European Single Market, and will leave Britain if we can no longer serve them in that role. We are told this in spite of denials by major foreign investors.

It is true that Britain gets a lot of foreign direct investment. After the US, we are apparently the biggest recipient in the world. Do these firms invest here in order to gain access to the European Single Market? If so, it is strange to find so many of them coming here from the Eurozone itself. It seems more investment comes from there than from anywhere else. Obviously these European firms have not built bases here in order to gain access to the Single Market: they were in it already. They must have had other reasons for investing in Britain.

What other reasons? Surveys of foreign investors here find that they are attracted by an entrepreneurial culture, social and political stability and other predictable factors. One

might expect investors with motives of this sort, to come here whether or not Britain is in the EU.

Investors will also consider growth. We have seen how British economic growth has for some 30+ years remained substantially above the countries that now make up the Eurozone. (See above). Even while British exports to the Eurozone have been falling, apparently reflecting both the stagnation of the Eurozone economy and the tightening noose of EU regulation, British exports to the rest of the world have grown. This will matter to investors. It casts doubt on the claim that they come to Britain mainly to export to Europe.

The factors which promote investment in Britain may be much the same, whether the investors are British, European or third-country. Wherever their origin, they will be looking to build a successful base for selling to the world. Britain may attract them best by shedding the encumbrances of the EU, which have done such damage elsewhere.

That Seat at the Top Table

Some thoughts on all those “seat at the top table” arguments: arguments that claim, one way or other, that Britain must compromise its interests in order to accede to a common position, because then we will gain when the common position prevails.

The language is varied. We are told we must learn to share our sovereignty. Otherwise we will be isolated, excluded, marginalised. We won't maintain our influence in the world. Laws will be made without our participation which nevertheless affect us. We'll have no clout.

But these warnings share a common logical flaw. They assume, without argument, that the compromises required from us to reach the common position must necessarily be justified by the payback. But in the practical world the reverse is often the case. Sometimes we may have little influence on the common position, and little to gain if it prevails. The facts differ from case to case: -

A successful military alliance involves compromises, but these are overwhelmingly repaid if aggression is deterred.

With the World Trade Organisation, the facts are different, as we saw above. By giving up its right to participate directly, Britain seems to have lost more than it has gained.

And in the EU generally? How often does Britain influence the common position in its favour? And how often does the common position prevail to Britain's advantage?

To the topmost table, Britain has no access at all. The topmost table is not an EU body; it is the machinery established under the bilateral Franco-German Elysee Treaty of 1963. It is here that the French and German leaders meet and come to a common position in

advance of meetings of the European Council. Its existence is eloquent of the subordinate nature of all other Member States within the EU.

Real access to a top table must mean inclusion in a relationship of mutual confidence, based on shared objectives. But Britain does not share the EU's objectives, and is seen as not doing so. Cameron has now made that official, renouncing "ever-closer union" and claiming a "Special Position in Europe". Many would call that a declaration of marginalisation. Britain cannot say that and also aspire to the top table! We are often going to find that our "special position" is a special exclusion from consultation.

The more so if their economies continue to stagnate, while ours continues to grow, as for 30 years past. How could European leaders and the Brussels bureaucracy tolerate a "special position" having that result? We cannot really think they will tolerate Britain remaining outside the Eurozone for ever, even if they have for the time being accepted it de facto. Not if we seem to be continuing to gain by it. Similarly, their attitude to the ever-growing regulatory cat's cradle. It has strangled the Eurozone economy, but they cannot now escape it: ("We know what to do, but not how to get re-elected afterwards"). Their recourse has to be to spread it instead: hence the trend of ever-more predatory EU regulation.

These resentments feed into their wider irritation at British exceptionalism. British observers need to see this through European eyes. As they see us, Britain refused to join the ECSC in 1951, undermined the still-born European Defence Community in 1954, stood aside from the EEC in 1957, and after eventually accepting the inevitable and joining it in 1973, were demanding a re-negotiation within a year. In the 1980s they were demanding another re-negotiation over the EU budget, and no sooner was that settled, than their then Prime Minister delivered (Thatcher's Bruges speech, 1988) what amounted to a manifesto for a different kind of Europe, which has marked its attitude to the enterprise ever since. It was in this spirit that the British stood aside from the single currency.

European leaders see Cameron's recent re-negotiation is another round in Britain's constant effort to be in Europe but not of it. In their eyes, they have yet again been constrained to reward us for our narcissism and our disloyalty. This sticks in European throats, but we can be sure that the reward will not last. Soon it will be paid for. And as they scheme to bring us to heel, we can hardly expect to be included in their confidence.

The likeliest site of this battle will surely be the continued war against the City. Harmonisation in this field, although supposed to be an instrument of liberalisation, is often the opposite, and in the EU it has now become more like a theatre of war than a neutral forum for trade facilitation, as Sarkozy openly admitted. He and the Commission made no secret of their aim of cutting the City down to size, and transferring its

operations into the Eurozone. We must presumably expect them to use their virtually unlimited powers under the Lisbon Treaty to promote draconian legislation as a bargaining lever to force us into the Euro. After the referendum we may learn more.

So if Britain's subjection to the European acquis is entailing mounting sacrifices, what reward can we expect in exchange? The theory is that a single set of standards will serve British exporters across the European market. But this is not such an advantage as it sounds. The theory may apply to some extent to those EU Member States which do most of their trade in the EU (cf France 60%, Netherlands, 75%+). But we have seen that in Britain that proportion is down to 44%, and falling.

Any country seeking to export worldwide has to be prepared to conform to the standards or regulatory requirements mandated in each of its export markets – there is no avoiding the acceptance of multiple standards, and there is no way of sitting at every table. In that situation, the tables that matter are the international ones, precisely the ones that EU Member States are often banned from.

And in the EU, being “at the table” can often (as seen in financial services) force us to accept damaging internal rules, which undermine the competitiveness of our trade with the rest of the world. It is in that situation that the question arises, does the cost exceed the benefit?

Would Britain have more influence in the world as an EU member or as an independent nation? That question answers itself, someone said, if you compare California with Canada. Both have 30m prosperous inhabitants, and both give every evidence of success. But which has more influence in the world?

None of this argues against ever pooling our efforts with other countries. Only that we should be discriminating. Sometimes there is a case for it, with suitably chosen partners; sometimes it is a costly error. Rhetoric about top tables will always fog the issue. We cannot be discriminating while we remain in the EU.

Final Thoughts

Home now: I've been trying to use these thoughts from abroad to clear my mind after years of fretting and confusion. Confused I may still be, but at last I have made up my mind.

What are the arguments the other way? I have become clear that the economic & political arguments are decisively for independence. The main fears must be : -

Brexit could lead to an anti-European and isolationist backlash among the British public. A very early and very open announcement on trade policy will be an important counter to that;

The saddest drawback is that it will clearly upset respected partners with whom we will wish to maintain amicable relations. Independence must mean, not selfish isolation, but freedom to co-operate with friends, neighbours and allies everywhere, in whatever ways seem mutually beneficial and right - including ways currently barred to us;

The Americans in particular have always made clear that the British voice will sound loudest in Washington when it is heard loudest in Paris and Berlin. This is a powerful argument, but not one which can finally rule our decision.

We've come a long way down the European road. That cuts both ways. By coming so far we have been able to see the destination more clearly. We can now see it is unacceptable to us: and that all our strivings can do nothing to alter it. We hoped we could steer the enterprise towards co-operation rather than fusion. When we failed at first, we did not jump to hasty conclusions. But we now know enough to recognise an existential threat.

Psychology is what I fear most. We can't imagine ourselves capable of independence, or perhaps even of deserving of it. Least of all, it curiously seems, can those among us who would support any other independence struggle but this one.

Frank Field was right when he said of New Zealand that a country of 4½ million people had re-shaped its entire social and economic system, while we were complaining we were too small to shape our destiny. I repeat as my final thought: this referendum is about whether we can break that psychology of helplessness.