



the risk of brexit

THE POLITICS OF A REFERENDUM

ROGER LIDDLE



SECOND EDITION

THE RISK OF BREXIT

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Second Edition

Roger Liddle



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ABOUT THE AUTHOR

Roger Liddle is co-chair of Policy Network and became a life peer in 2010. He was formerly Tony Blair's special adviser on European policy and subsequently worked for three years in the European commission, first in the trade commissioner's cabinet and then advising the president of the commission. He has been at the heart of the Europe debate for two decades, with detailed knowledge of both the politics and public policy.

Roger has written extensively on European and British affairs, including *The Blair Revolution* (with Peter Mandelson, 1996), *Global Europe, Social Europe* (with Anthony Giddens and Patrick Diamond, 2006) and *Beyond New Labour* (with Patrick Diamond, 2009), and most recently *The Europe Dilemma: Britain and the Drama of EU integration* (IB Tauris, 2014), as well as several other Fabian Society and Policy Network pamphlets.

He also co-authored two papers for the president of the European commission's thinktank, the Bureau of European Policy Advisers, on *Europe's Social Reality* (February 2007) and *The Single Market: Yesterday and Tomorrow* (July 2006), and since then has contributed to various edited collections on the single market, the social challenges facing Europe, the case for a social investment strategy and Britain's European policy.

PREFACE

This short book is an up-to-the-minute political analysis of the Conservative government's European policy. As David Cameron put it to the House of Commons in July 2015, we have a clear strategy for "reform, renegotiation and referendum". The pledge in the Conservative manifesto for the 2015 general election was unequivocal:

We will negotiate a new settlement for Britain in Europe, and then ask the British people whether they want to stay in the EU on this reformed basis or leave. David Cameron has committed that he will only lead a government that offers an in-out referendum. We will hold that referendum before the end of 2017 and respect the outcome.¹

The author has deep personal reservations about the wisdom of Cameron's policy. I have argued that holding a referendum on Europe is a reckless gamble with Britain's future. I am not so foolish as to argue that the British public are closet Euro-enthusiasts: scepticism runs alarmingly deep. In my earlier book *The Europe Dilemma*² I sought to explain why this scepticism was so deep-seated in the British psyche. On the basis of my experience as an adviser in 10 Downing Street and then at the European commission, I went on to analyse why the Blair governments failed in their ambition to end Britain's semi-detachedness from the EU. The failings of

British policy towards the EU are not all David Cameron's. Yet the reason this referendum is taking place is not because of overwhelming popular demand for it from the British public: Europe was not a major issue in the recent general election campaign. And David Cameron never wanted this referendum either: the only reason for it is because Cameron saw no other way of handling the internal pressures within his party and dealing with the incipient threat posed by the UK Independence party. Cameron's European policy is fundamentally an issue of internal Conservative party politics and it is in those terms that it is best analysed and understood.

Any referendum in an age of massive public disillusionment with established politics is by definition a gamble. It is reckless because the consequences of a vote to withdraw could be extremely serious – for the continuation of the British economic recovery from its worst crisis since the 1930s, for what is left of Britain's wider influence in the world, and for the unity of the United Kingdom itself.

However, while the gamble is reckless, the British people have chosen to give David Cameron the permission to throw the dice. Personally, I want Cameron to emerge the winner. Whatever the outcome of his renegotiation, and whatever position the Labour party decides to take on it, I will campaign for Britain to stay in the EU. I say this despite my conviction that Cameron's vision for the future of Europe, and for the future of Britain within the EU, is limited, and his concept of 'reform' stunted. But to campaign for real reform in Europe, British pro-Europeans have first and foremost to ensure we stay in.

This volume is not an argument for or against Britain's membership of the EU. That would be all too predictable. Rather it is about understanding what Cameron is trying to achieve and why; how he intends to persuade the Conservative party and then the British public to stay in the EU; estimating his prospects for success in the renegotiation and outlining the likely shape of the package he will bring home; assessing what this will mean for his prospects of winning a referendum and in particular keeping in good order a sufficient phalanx of Conservative support to guard his position; and

concluding with an analysis of the significance of defeat or victory for Britain's position in Europe.

The first section serves as a reminder of the political background to the emergence of Cameron's European policy and explains why he felt he had no alternative but to make a referendum pledge. The second analyses the shaping of the government's renegotiation agenda and how it has evolved since Cameron's Bloomberg speech in January 2013.

The next three sections consider the immediate political context of the renegotiation: the impact of the outcome of the 2015 general election on the politics of the European question; the attitude of our EU partners to Cameron's policy; and an analysis of what it is that Cameron really wants.

The succeeding four sections examine in critical detail the four key objectives of Cameron's renegotiation: Britain no longer part of 'ever-closer' union; fair treatment between those member states within the eurozone and those outside it; a new deal on migration; and a more competitive EU.

The concluding three sections examine the politics of the referendum within the Conservative party, whether Cameron can win a vote for the UK to remain in the EU in the referendum; and what difference the outcome will make. The author believes that Britain's Europe dilemma will essentially remain unresolved.

In writing this short book I am grateful to the many people who have talked to me in confidence about their views of Cameron's policy. These include in Brussels, senior officials and members of the European commission, European council and European parliament; present and former British diplomats and officials; ministers and officials in the capitals of key member states. My role as chair of the thinktank Policy Network has enabled me to maintain and develop many of the contacts I first established in my time working for Tony Blair and later in the European commission for Peter Mandelson and José Manuel Barroso. I am also grateful to the House of Lords of which I became a member in 2010 and where I served as the Labour spokesperson on Europe from 2011 to 2014. Many of the criticisms

of the Lords are legitimate, but the level of expertise it contains on European matters would be hard to match in any other legislative assembly, and particularly its select committee on European affairs, which I have recently rejoined. However, I want to stress that all the opinions expressed in this book are my own.

I would also like to thank the staff at Policy Network who have been a constant support in my years as chair: particularly the former directors, Olaf Cramme and Michael McTernan, my co-chair Patrick Diamond, our deputy director, Renaud Thillaye; Ben Dilks and Robert Philpot who helped with the editing of this publication; and Emma Kinloch, Katherine Roberts and Mamataj Begum who have offered practical support along the way.

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NOTES

1. The Conservative party. *The Conservative Party Manifesto 2015* p72.
2. Liddle, Roger. *The Europe Dilemma: Britain and the Drama of European Integration* (London: IB Tauris, 2014).

HOW WE GOT HERE

THE REMORSELESS LOGIC OF CONSERVATIVE DIVISION ON EUROPE

The promise of an in-out referendum on Britain's EU membership was something that David Cameron never wanted to make. When he ran for the Conservative leadership in 2005 a central part of his analysis of why the Conservatives had lost three successive general elections was their perceived obsession with Europe. In his first speech as leader to a Conservative conference in October 2006, he could not have been more emphatic:

Instead of talking about the things most people care about, we talked about what we cared about most. While parents worried about child-care, getting the kids to school, balancing work and family life – we were banging on about Europe.¹

Since going into opposition in 1997, the Conservatives had struck highly Eurosceptic positions, opposing the ratification of every single one of the four European treaties that the Labour government signed and making the commitment that under the Conservatives, Britain would “never” join the euro.² Cameron's objection was not apparently to the substance of these positions, but to the priority the Conservatives had given them in their campaigning and public image. On the issue of substance, no one quite knew where he stood.

No one imagined he was a pro-European enthusiast. As a young man, he had joined Conservative central office in the late 1980s at a point when Margaret Thatcher's Bruges speech had set a new, more sceptical tone. He then worked as a special adviser for Norman Lamont and Michael Howard, both leading Eurosceptics. Yet for all that, it is difficult to believe that someone of his naturally conservative disposition, rooted in his comfortable stockbroker background in the Berkshire countryside, would see his place in history as leading Britain out of the European Union.

The Conservatives still stood on the ground defined by both parts of the slogan that William Hague had coined in 1999, "in Europe, not run by Europe".³ No one disputed that there existed within their ranks what was often dismissed as a strong anti-European 'fringe'. However, the 'fringe' now penetrated to the 'core' with the cabinet itself containing a significant number of hardcore sceptics. At the height of the euro crisis in 2011–12, James Forsyth, the respected *Spectator* columnist, estimated that nine Conservative cabinet members were perfectly relaxed about the possibility of UK withdrawal.⁴

Cameron himself presented an ambiguous stance. On becoming prime minister in 2010, Cameron refused to go back on the pledge he had made in his 2005 leadership campaign to withdraw Conservative MEPs from the European People's party (EPP) group in the European parliament. Instead they formed the European Conservatives and Reformists grouping (ECR) of anti-integrationist MEPs, along with the Polish Law and Justice party and others from mainly small eastern European parties, among whose number were members with an unsavoury antisemitic and homophobic past. Cameron had made his pledge on the EPP under duress in the early stages of the Conservative leadership election. He did it in order to win over a crucial handful of Eurosceptic MPs who had been supporters of Liam Fox (who was to become Cameron's short-lived first defence secretary). Yet it was telling that Cameron proved unwilling to reverse this commitment, despite being fully aware of the very real loss of credibility and influence in Europe that the decision would cause. By it, not only did Cameron preclude his party from major

roles in the European parliament, he equally excluded himself from the influential, regular leaders' meetings that always precede European councils.

His decision greatly upset the German Christian Democrats, including Angela Merkel personally, who set great store by the development of pan-European political links between 'respectable' centre-right parties with a pro-EU, pro-social market orientation. In response Cameron launched a charm offensive with the German chancellor, which convinced her that he genuinely wanted to keep Britain in the EU. This relationship is fundamental to any prospect of Cameron's successful renegotiation, but Cameron has only gradually come to realise that Germany alone cannot deliver for Britain and that German chancellors have other pressing priorities besides keeping Britain in the EU.

Cameron's decision to press ahead with Conservative withdrawal from the EPP was symptomatic of what became his general approach on Europe. It was that of the tactical Eurosceptic appeaser. Despite his evident admiration for Blair, he did not follow Blair's example over clause IV, in deliberately engineering a battle against the hardline Eurosceptics within his party to rid it of one of the most damaging shibboleths that since the 1990s had weakened both its public credibility and its capacity to govern.

Rather, time and again the prime minister has retreated in the face of Eurosceptic pressure. With his activists Cameron chose to avoid a direct challenge to their prejudices and assumptions: on Europe there was nothing to compare, for instance, with his firm stand on gay marriage. In 2010, Cameron must always have been aware of the risk he was running inside the Conservative party on the European question: that at some point, an EU development of some kind would cause Europe to come back as an issue to haunt the Conservatives. But his short-termist mindset led him to take the risk of assuming nothing dramatic was in prospect that would threaten the weak consensus in support of British membership that had been established in the UK after Blair's failure to take Britain into the euro. He reckoned without the impact on his party of the eurocrisis.

Cameron first entered office in 2010 with little political capital in the bank. For all his strength of personality, his natural presence and command, and Gordon Brown's weakness as his opponent in the 2010 election, the Conservatives failed to win an overall majority. His leadership failed the ultimate test of politics. In 2010, the Conservative share of the vote on 36 per cent was some six to eight per cent lower than the 42–44 per cent share the Conservatives consistently won from 1979, when Margaret Thatcher last ejected Labour from office, to 1992, when the Conservatives had last won a general election under John Major. In the aftermath of the inconclusive 2010 result, Cameron moved swiftly to enter into a five-year coalition agreement with the Liberal Democrats – without the wider party consultation that his coalition partners undertook. Arguably the fragile state of the economy required a strong and stable government, which to a remarkable degree the coalition managed to provide. However, this was not Cameron's only option: an alternative would have been to form a minority government as the largest party and hold another general election within a year or so. This would have followed the precedent of Harold Wilson who had formed a minority government in similarly grave economic circumstances in February 1974 and went on to win a small overall majority in a second general election that October. Many Conservatives would have preferred Cameron to have taken that risk. Few accepted the leadership's argument that the government of the country was strengthened by the very act of forming the coalition. Dislike of the coalition was commonplace at the party grassroots and among MPs outside the Cameron/Osborne 'magic circle', particularly those disappointed by their failure to secure office. Dislike of the constraints that their Liberal Democrat coalition partners were assumed to impose on the government's European policy was part of the reason.

One might have expected the unexpected Conservative victory in May 2015 to have transformed Cameron's political strength. This is only true in part. In sections of the Conservative party he is still seen as a tactical politician, rather than someone motivated by deep beliefs – still less ideology. This adds to the sense that his planned

renegotiation is a cynical exercise designed to secure a successful yes outcome in the referendum for remaining in the EU. This sticks in the gullet of the genuine Eurosceptic. Cameron has also complicated his position by announcing that he will not seek re-election as prime minister in 2020. While on the one hand this may liberate him to do what he thinks right for the country, there are many in the party who will resent any sense that he is putting his 'legacy' before Conservative party interests. This was certainly Blair's experience in the mid-2000s with an increasingly restive parliamentary Labour party. His pre-announcement of his retirement also motivates all his potential successors to judge his European renegotiation in terms of how it advances their personal prospects for the succession. This has set up a dynamic of division that he may find difficult, if not impossible, to control.

Initially, however, Cameron wanted to avoid tackling the European question at all. Before 2010, his desire that the Conservatives "stop banging on about Europe"⁵ had been helped by events. By the late 2000s, Europe had faded as a political concern. The Conservative attempt to demand a referendum on the Lisbon treaty between 2007 and 2009 never really took off. Europe barely featured as an issue in the 2010 general election. Cameron was sensitive, however, to how far the creation of the coalition disappointed Conservative Eurosceptics. The Lisbon treaty's final ratification by all 27 member states came six months before the British general election, scuppering his own firm pledge to hold a referendum on it. President Václav Klaus of the Czech Republic ignored the pleas of British Eurosceptics to delay his signature on the treaty until after the UK election. While David Cameron had made a well-publicised personal appeal to Klaus, the Czech president's firm rejection of his entreaties must have been a genuine relief. Conservatives rested on William Hague's enigmatic promise that if Lisbon was ratified before the Conservatives came to office, the new government "would not let matters rest there".⁶ To this end, the 2010 Conservative manifesto had pledged to "repatriate"⁷ limited powers from Brussels, but this was abandoned in the coalition agreement. Instead the coalition merely committed

to examine the “balance of competences”⁸ between Britain and the EU. Yet Eurosceptics must have known that, even before the election, allies of David Cameron and William Hague had been briefing that the commitment to repatriation of powers would not be an early priority for them for fear of setting off an immediate confrontation with EU partners. For the Conservative leadership, the coalition with the Liberal Democrats was a convenient excuse for inaction.

The coalition’s major concession to Eurosceptic opinion was the European Union Act 2011, introducing a so-called ‘referendum lock’ on any future transfers of power to Brussels. This measure passed through parliament with little resistance, except from pro-Europeans in the House of Lords. The Act reflected the prevailing received wisdom, shared by the leadership of all three main parties, that the Lisbon ratification should draw a firm line under any further EU treaty change. Such institutional navel-gazing, it was confidently asserted, would be unnecessary for a generation: Brussels already had more than enough powers and certainly did not need more.

The explosion of the eurozone crisis overturned these complacent assumptions. It faced the Conservative leadership with a tough choice. Many Conservatives welcomed the prospect of a breakup of the hated euro: they leapt with alacrity at Merkel’s warning that “if the euro fails, Europe fails”. There arose a united chorus of voices gleeful with *schadenfreude*, insisting that their principled objections to the euro had been proved right. Former Conservative chancellors Nigel Lawson and Norman Lamont powerfully reinforced these arguments. However to his credit, George Osborne, the current chancellor, mounted a brave response that it was in the interests of the British economy and banking system for eurozone cataclysm to be avoided.

Osborne sought to sugar this pill for his Eurosceptic party with a clever argument that became the driving idea behind Cameron’s original concept of renegotiation. In the chancellor’s view, the “remorseless logic”⁹ of the further eurozone integration necessary to make the single currency viable for the long term would require the negotiation of a major new European treaty. This would establish a more fiscally federal and democratically accountable eurozone.

In his view, Britain would never be part of this more integrated currency area. However, as part of this process of inevitable treaty revision, Britain as a euro-outsider would then be able to negotiate a looser relationship within the EU. At the same time, Britain would insist on robust protections against unfair discrimination by the 'euro-ins' to the disadvantage of the 'euro-outs'.

The chancellor's decision to put so much stress on the "remorseless logic" of eurozone integration also served a wider political purpose. He was setting up a binary choice about the future of the euro: on the one hand, the high degree of economic and political integration within the eurozone that was an assumed inevitability made membership impossible for any British government; on the other, it was perfectly possible for the UK to remain in a looser EU outside a federalised inner core. A two-tier Europe was unavoidably emerging that would require a thorough institutional rethink for all EU members. Through this inevitable evolution, Britain could negotiate a new relationship and a 'new settlement'.

Osborne's logic was, however, a revolutionary proposition in terms of 40 years of British European policy: for the first time, the UK was arguing for the establishment of a two-tier Europe in which Britain would exclude itself voluntarily from the inner core and be content to be consigned to a looser outer ring, simply sharing the single market with eurozone partners. Among Eurosceptic Conservative MPs, the prospect on offer was of freedom from being locked into a remorseless escalator to a superstate; yet among pro-Europeans outside Conservative ranks, it felt more like permanent relegation to Europe's second division.

Of course, the eurozone crisis had some short-term political upsides. It offered the government convenient cover for Britain's continuing economic difficulties and an explanation for their failure to meet their ambitious fiscal targets. It also enabled the coalition to support from the sidelines the ongoing rescue of the euro, though this was done in a way calculated to exasperate EU partners. Fierce public criticism of the eurozone's slowness in taking decisive action was combined with point-blank refusal to offer or underwrite a cent

of financial support for the various rescue packages (except for a bilateral loan to Ireland). The UK gave its approval to the small treaty change necessary to set up the European stability mechanism. Yet Conservative backbenchers criticised the government's failure to use the leverage offered in order to secure progress on the repatriation of powers. The increasingly heated politics of the Conservative party culminated in a near-farcical UK 'veto' of the fiscal treaty in December 2011, seen as essential by Merkel to secure German public support for the euro rescue: the farce was that the treaty went ahead as an intergovernmental treaty outside the formal EU structure with only the UK and Hungary refusing to sign up. Use of the 'veto' was seen to have practical limits.

As the eurozone crisis dragged on, it added to the government's medium-term political problems on Europe. First, it brought back the European question with its full divisive force. In part this was because the eurozone's clumsy handling of the crisis undoubtedly undermined public support for EU membership. Earlier generations had in part been persuaded that Britain had no alternative but to 'join Europe' because on economic growth the continental record had, until the 1990s, far outshone its own. Now the public saw on their television screens constant witness to a failing and divided Europe. The never-ending drama played out in the media of the euro crisis in 2011 and 2012 – the absence of any single clear step towards its resolution, the endless succession of summits in Brussels which never appeared to do enough, banking collapse in Ireland, the political crisis in Italy, civil disturbance in Greece and Spain – conveyed an image of chaos, confusion and deep woe. The whole European project seemed on the point of collapse. Understandably, the British public were horrified and it was no surprise that support for EU withdrawal rose in opinion polls. (The significance though of this shift should not be exaggerated: there was a similar period during the 'Eurosclerosis' of the early 1980s when a clear UK majority in the opinion polls favoured withdrawal.)

Second, the salience of Europe as a political issue offered the oxygen of publicity to the UK Independence party, which took full

advantage of the opportunity. Paradoxically, the Ukip surge was a different side of the same coin as the Liberal Democrats becoming a party of government for the first time in generations. As the Liberal Democrats surrendered their position as the third-party receptacle for midterm protest votes, Ukip gained a considerable midterm boost in the 2010 parliament, culminating in their emergence as the largest party in the May 2014 European parliamentary elections, and their two parliamentary byelection victories in Clacton, Essex and Rochester and Strood, Kent in autumn 2014. In the May 2015 general election, Ukip went on to win 13.6 per cent of the national vote, the largest score for a new party since the success of the SDP-Liberal Alliance in the 1983 election. Their success was the more remarkable for being a movement rising from the 'grassroots' and not a Westminster-led breakaway.

The rise of Ukip initially had a profoundly disturbing effect on the Conservative party base. Conservative party membership has collapsed from 2.5 million in the 1950s¹⁰ to not much more than a 100,000 today.¹¹ As a result, Conservative MPs owe their position in parliament to a 'selectorate' of Conservative activists which is much less representative of 'middle Britain' than in earlier decades. The remaining activists are, in the main, middle-class, elderly, non-cosmopolitan in outlook and out of touch with the social currents of modern Britain. This was vividly illustrated on the issue of same-sex marriage in the early months of 2013 – an issue which aroused seething discontents among Conservatives, but on which public opinion was much more relaxed. That is why since the early 1990s, it has become virtually impossible to win a Conservative constituency selection without striking a Eurosceptic posture.

Several reasons explain this strong hostility to the EU among Conservative activists. A minority opposed Britain's European Economic Community membership from the very start and many sympathised with the positions taken by Enoch Powell in the late 1960s and early 1970s. However, the major shift to Euroscepticism took place in the early 1990s. The severity of the early 1990s recession was blamed on British membership of the exchange rate mechanism. The lasting

aftershocks of Thatcher's deposition reinforced the view that she 'had been right all along' about Europe. This message was constantly reiterated by what the political scientist Tim Bale describes as the "party in the media"¹² preaching an ideological Thatcherism in which the myth of her consistent hostility to Europe played a crucial part. The reality of course is that, throughout her premiership, Thatcher accepted that EU membership was vital to UK national interests: she was after all one of the creators of the European single market. Rather she had a somewhat Gaullist view of the EU's future based on cooperation between sovereign nation states, prepared vigorously to stand up for their national interests, and eschewing a deeper pooling of sovereignty, except when national interests made it necessary as in the case of the single market.

The gut instinct of the depleted Tory base was initially that Ukip was made up of natural allies and friends who should return to their true home. With the rise of Ukip (under its charismatic leader, Nigel Farage) these instincts first grew stronger, as Ukip has branched out from its anti-European core to campaign on issues like immigration and welfare, and exhibited hostility to gay marriage. The Conservative party 'base' blamed the absence of 'sufficiently strong' Conservative policies, particularly on Europe and immigration, for the success of the Ukip insurgency; the promise of an in-out referendum seemed the obvious panacea. Not only would it help the Conservatives ward off the undoubted Ukip threat in European elections, but the more considerable risk of vital votes in Conservative marginal seats draining away in a general election.

The explosion in Conservative Euroscepticism came in many shapes and sizes, both in motive and aim. The Conservative parliamentary party had always contained a group of anti-European 'last ditchers' who objected to Britain's EU membership on the grounds that it was incompatible with the sovereignty of the House of Commons: it meant laws could be agreed in Brussels, admittedly with British ministers having their say but potentially being overruled by qualified majority voting, over which the Commons would have no say. Yet hostility to Europe also brings together a number

of different and broader ideological currents – from old fashioned xenophobes, anti-immigration populists and ‘little Englanders’ to more sophisticated critiques from neocons, libertarians, and ‘hyper-globalisers’ who see Britain as ‘shackled to the “EU corpse”’, sinking under the weight of EU over-regulation and missing out on growing worldwide opportunities as a result. These were joined by sceptics of many stripes and hues who wanted to see a fundamental change in the nature of the relationship between Britain and the EU: many professed a desire to remain members of the EU, but to see profound changes in its nature. Some argued for a narrowing of EU competences and a new relationship confined to ‘trade and cooperation’; others for a less ‘top down and centralised’ and a more ‘networked’ Europe. There was a huge question mark over the realism of the conditions on which they imagined these different conceptions of a new relationship to be realisable. Their only point of unity was an increasing vocal chorus in favour of an in-out referendum.

This rumbling volcano in an unmodernised Conservative party first erupted into public view in a Commons vote on a backbench motion calling for a referendum on Britain’s continued EU membership on 25 October 2011. No fewer than 81 Conservative backbenchers defied a (clumsily imposed) three-line whip to vote against a referendum, a far larger rebellion than any there had been on Maastricht ratification in the early 1990s. And the ranks of the rebels extended well beyond what one might describe as the anti-European ‘last ditchers’. They included able young backbenchers from the 2010 intake, whom one would normally expect to be loyal to the whip in the hope of future office. They may have acted from high motives of conviction or the low calculation of pleasing constituency activists in reselections to come. However, it also showed that many backbench Conservatives believed the momentum behind a referendum was unstoppable and that the leadership would eventually be forced to bend to this demand, or that, if it did not, the party leadership itself would not survive.

The October 2011 vote gave the call for an in-out referendum irreversible momentum inside the Conservative party. David Cameron’s

‘veto’ of the fiscal treaty at the December European council in the same year reflected in part a political calculation that he could not carry a ratification bill through the Commons without huge pressure to amend it to include an in-out referendum. As the eurozone began to debate the necessary measures to ensure full completion of economic and monetary union in the first half of 2012, the supporters of a referendum assumed their moment had finally arrived. When, at the June council later that year, David Cameron appeared to dismiss a referendum at his press conference the storm of protest on the backbenches became such that he was forced to concede in a newspaper article the following day that in his mind the words ‘Europe’ and ‘referendum’ went together.¹³ From then on, all that had to be written was the language and argument of his Bloomberg speech.

NOTES

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THE SHIFTING RENEGOTIATION AGENDA

For Eurosceptics and anti-Europeans, what really mattered about Cameron's Bloomberg speech was his unconditional commitment to an in-out referendum by the end of 2017. Cameron's primary concern appeared quite different: to sketch out an agenda for his proposed renegotiation that had a plausible chance of success and enable him to argue that his intention was for Britain to remain in a 'reformed' EU.

However, by the time he came to formalise his referendum pledge in January 2013, the "remorseless logic" of comprehensive treaty change that George Osborne had taken as a given when the eurozone crisis exploded in 2010 no longer had the same air of inevitability about it – or at least not on Cameron's 2017 preferred timetable. No one would claim the underlying problems had been 'solved', but temporarily at least the eurozone had stabilised. The period from autumn 2012 to the return of the Greek crisis in the spring and summer of 2015 was one of relative calm. The Irish exited their bailout and the Irish economy returned to strong growth. So did Spain, where unemployment, which had grown to a quarter of the labour force with half of young people seeking jobs, at last began to fall. There were some signs of optimism in Portugal. Even Italy began to see some faint stirrings of recovery after a catastrophic decade

of stagnation. The problems of the eurozone appeared to have moved from being systemic to chronic. Much of this improvement was due to how the European Central Bank under Mario Draghi's leadership interpreted its mandate. It has shown a boldness and imagination not foreseen when the institution was first established in 1999. Remarkably it pursued that course in spite of the resignations of the two most senior German members of its executive board – a point that critics of German economic hegemony in the eurozone too easily forget. In addition, significant integrative steps have been taken to tighten fiscal discipline, to establish the European stability mechanism and to build a banking union, all by stretching the existing treaty framework or, in the case of the fiscal treaty, agreeing a new intergovernmental treaty outside it. A legitimate criticism of the new fiscal rules was that they entrenched austerity, particularly the 'balanced budget' requirement and the provision that member states with excess debt (defined as over 60 per cent of GDP) should in normal times run a budget surplus of three per cent. However the commission chose to interpret its new mandate to monitor the fiscal policies of eurozone member states in a more flexible way by taking as its reference point the underlying structural deficit in public finances rather than the nominal position that reflected the consequences of low growth. As in the case of Chancellor George Osborne's moderation of his 2010 austerity plan, the commission began to take the 'automatic stabilisers' into account in setting objectives for lower budget deficits.

This combination of successive eurozone bailouts, stronger banking supervision at EU level, monetary activism on the part of the European Central Bank, and fiscal rules applied with a measure of discretion and flexibility was sufficient to avoid the need for comprehensive change in the existing EU treaties. Few of our eurozone partners are keen to address the evident democratic deficit in the new governance arrangements they have agreed. For one thing, there is no consensus over what further eurozone integration means; for another, there is a desperation to avoid the political problem of new treaty ratification that could well require national referendums

on an unpopular EU in some member states. This is a particularly unappealing prospect for François Hollande in the present political conjuncture in France. Ironically, the only member states that consistently agree with the British preference for comprehensive treaty change are at present Belgium and Italy from their traditionally federalist perspectives. We shall consider the impact of the renewed Greek trauma in 2015 in a later section. But at the time Cameron came to reshape his renegotiation strategy, no dramatic move for a major new treaty looked likely before 2017.

Stymied by the lack of EU enthusiasm for comprehensive treaty change, Cameron and Osborne changed tack and argued that their top priority was a reform agenda for the whole EU. In the Bloomberg speech, Cameron set out a wide-ranging reform agenda, pitched to appeal to continental as well as British opinion. His speech called for a more flexible, adaptable and democratically accountable EU, focused on competitiveness, with power flowing back and forth between the member states and Brussels and with a greater role for national parliaments in its governance. Its thrust struck a real chord in many member states.

In truth, the Bloomberg speech was couched in more positive terms about Britain's membership of the EU than any speech made by a Conservative leader since John Major's 'Heart of Europe' speech in Bonn in 1991. The peroration hit emotional highs worthy of one of Tony Blair's better European speeches:

When the referendum comes, let me say now that if we can negotiate such an arrangement I will campaign for it with all my heart and soul.

I believe something very deeply. That Britain's national interest is best served in a flexible, adaptable and open European Union and that such a European Union is best with Britain in it.

Over the coming weeks, months and years, I will not rest until this debate is won.¹

The bulk of the speech, however, was a characteristically British argument that, while the EU had massive historical achievements to

its credit, it now needed to change and reform. Cameron's "vision for a new European Union, fit for the 21st century" was built on "five principles" well-honed to appeal to business opinion, much of the continental centre right, and 'northern liberals' of all mainstream political persuasions:

- **Competitiveness**

Completing the single market should be "our driving mission". The EU should urgently address "the sclerotic, ineffective decision-making that is holding us back".

- **Flexibility**

"We must not be weighed down by a one-size-fits-all approach that implies all countries want the same level of integration". The "essential foundation" of the EU is the "single market rather than the single currency". In place of ever-closer union, the British had a vision for the EU's future based on "flexibility and cooperation – [that] is just as valid".

- **Power must be able to flow back to member states**

"Let us not be misled by the fallacy that a deep and workable single market requires everything to be harmonised ... Countries are different. They make different choices ... We need to examine whether the balance is right in so many areas where the European Union has legislated including on the environment, social affairs and crime".

- **Democratic accountability**

"We need to have a bigger and more significant role for national parliaments ... in the way the EU does business".

- **Fairness**

"Whatever new arrangements are enacted for the eurozone they must work fairly for those inside it and out." That is why "Britain has been so concerned to promote and defend the single market as the eurozone crisis rewrites the rules on fiscal coordination and banking union".

Cameron justified his decision to back an in-out referendum on the basis that it was now inevitable:

Public disillusionment [in Britain] with the EU is at an all-time high ... People feel the EU is heading in a direction they never signed up for ... They resent interference ... by what they see as unnecessary rules and regulations ... They feel the EU is heading for a level of political integration that is far outside Britain's comfort zone.

I believe in confronting this issue – shaping it, leading the debate ... not simply hoping a difficult situation will go away.

Despite the referendum pledge, such was the positive tone of Cameron's speech that it led to a rise in public support for Britain's EU membership, a movement of opinion that also coincided with the easing of the eurozone crisis. Among the governing and opinion-forming classes and within the business community, his speech induced a spirit of complacency about the risks of Brexit. Despite Cameron's concession of a referendum, most imagined that from a pro-European point of view it would somehow 'work out alright on the night': Cameron would be able to cobble together with our EU partners some superficially attractive renegotiation deal and the public would follow an all-party and business lead advocating a vote to stay in.

Eurosceptics inside the Conservative party reacted quite differently. For them, absence of a convincing prospect of major treaty change undermined the credibility of Cameron's concept of a "fundamental renegotiation of Britain's EU relationship". Their preferred model for future British membership is limited to a polity that (at least as far as the UK is concerned) is based on no more than free trade and intergovernmental cooperation. They see the European question in terms of a stark choice between membership of a body that is evolving inexorably in the direction of a federal superstate and a free trade area of friendly nations which is much looser than at present. No other member state shares this aspiration for the EU; nor do any of our partners accept the reality of the stark choice that invigorates the British Eurosceptic imagination. In the eyes of our partners, to pose this stark choice betrays a poor understanding of the complex polity of multi-level governance that the EU has become, which operates as a hybrid of intergovernmentalism and supranationalism over specific policy domains where member states

have decided that the benefits of pooled sovereignty outweigh its national loss.

Also, the Eurosceptic view that the EU should fundamentally be about free trade dismisses the essentially political foundations of the European project. It also fundamentally misunderstands the nature of the single market, which represents a far higher degree of economic integration 'behind the border' than can simply be achieved through free trade and depends for its existence on a complex body of European regulation.

For these reasons, David Cameron may be quite relieved that comprehensive treaty change is not in prospect. British Eurosceptics would have little chance of achieving their stated aims. His political problem remains, however. Eurosceptics have convinced themselves that threats to leave will be sufficient to attain their unrealistic demands. They assume that Britain can renegotiate anything it wants, as long as the government shows sufficient toughness with our EU partners. They exaggerate by a wide margin Britain's bargaining power inside today's EU, convincing themselves that threats to leave will be sufficient to obtain their unrealistic demands. As a result, they are complacent about the risks of ending up outside, shut out from the free trade benefits to which they attach such priority. Cameron's problem is that many of his sceptics, who may currently imagine themselves as voting in a referendum to stay in, are a long way from understanding these realities.

Yet Eurosceptics have already won an important victory from their perspective, with the very promise of a renegotiation, David Cameron is the first British prime minister since Harold Wilson tacitly to have accepted that the existing basis for our membership is unsustainable (though in the "I want my money back" budget clashes of the early 1980s, Margaret Thatcher may have come pretty near).² It is one thing to call for 'reform' of the EU; quite another to imply that without 'reform', Britain might be better off outside. Cameron has been extremely opaque on this point (one might say shiftily, if this was not unkind): he insists his demands for EU reforms will be met and has so far used refused to be specific about what

course he would recommend if his renegotiation fails. This political line will prove difficult for him to sustain in the coming months: in his immigration speech on 28 November 2014, Cameron headed off the pressures to say that in some circumstances he could recommend a no vote with the elliptical phrase “if our concerns fall on deaf ears, I rule nothing out”.³

The inherent difficulties Cameron faces became fully apparent in the summer of 2014. Ukip emerged top of the poll in the European parliamentary elections on 22 May. While the unanimous view of political analysts is that the Ukip phenomenon is far more complex than anti-EU protest, Ukip constantly played on the link between public concerns about immigration and our EU membership, because of the EU treaty commitment to free movement. These concerns became more salient with the flood of publicity about the consequences of the end of transitional controls on free movement from Bulgaria and Romania in January 2014. For Conservative Eurosceptics (for whom Ukip is seen as either an existential threat or a potential ally because it is campaigning on what should be ‘their’ territory) the issue of curbing free movement soared to the top of their agenda for Cameron’s EU renegotiation. The rest became a side issue.

The Conservatives were able to stall the Ukip bandwagon with a convincing win in a byelection in Newark on 5 June 2014. However, Ukip gained unexpected new momentum with the defection of the Conservative backbencher Douglas Carswell to their ranks and his overwhelming victory as the Ukip candidate in a byelection in his seaside constituency of Clacton, Essex on 9 October. The shock of Carswell’s defection transmuted into fear of a Conservative pre-election meltdown when, on the eve of their 2014 annual conference, Carswell was joined by Mark Reckless, MP for Rochester and Strood on the north Kent coast, who went on to capture his seat for Ukip in November, though he was to lose it the following May.

At that moment, Britain stepped much nearer the fatal edge in its dangerous ‘sleepwalk to exit’ from membership of the European Union. Under electoral pressure from Ukip, the defection of two

Conservative MPs to Nigel Farage's populists, and the rumoured threat of even more to come, the Conservative party leadership hardened its rhetoric and announced a major change in the government's EU negotiating strategy.

Political rhetoric is a currency of little solid worth. But an interview between the prime minister and the *Today* programme's Jim Naughtie on 30 September marked a significant change of tone from the Bloomberg speech.⁴ Naughtie began by recollecting that Cameron had said he would be "heartbroken" by the breakup of the United Kingdom if the Scots had voted yes to independence in the September 2014 referendum. He then asked how Cameron would feel if Britain voted to leave the EU. Cameron, in a show of mock surprise at the question, replied that he cared "a thousand times more strongly" about the campaign to keep Scotland in the UK. "The United Kingdom was an issue of heartbreak. This is a position of pragmatism: how do we get the best deal for Britain. That's what I feel strongly about". Something fundamental had happened to his Bloomberg statement on Europe that he would campaign for Britain's EU membership "with all [his] heart and soul".

In his conference speech the same week, Cameron emphasised a single new focus for his renegotiation: "the biggest issue today is migration from within the EU".⁵ He declared that the issue of migration would be "at the very heart of my renegotiation strategy". Looking straight into the TV cameras, he solemnly pledged: "Britain, I know you want this sorted. I will go to Brussels, I will not take no for an answer. When it comes to free movement, I will get what Britain needs".

Cameron's 2014 Conservative conference speech marked a crucial change. A mere 21 months earlier at Bloomberg, Cameron had set out a plan for renegotiation that involved a series of reforms that were in the interests of the whole EU. Now, the question of migration and free movement, which had not even been mentioned in the Bloomberg speech (except to warn Britons that the rights that hundreds of thousands took for granted to live, work and retire on the continent could no longer be guaranteed if we left), took

centre stage. This was the culmination of a gradual hardening of Cameron's statements on free movement in response to Ukip's success and the growing salience of immigration. Initially the prime minister had talked about tighter numerical controls on, and longer transition periods for, migration from newly acceding member states with much lower income per capita than western countries. Next, in advance of the European elections, the Conservatives had pledged to crack down on 'benefit tourism' and refuse permission to settle in Britain to EU migrants who failed to find jobs. But in his conference speech Cameron went much further. According to Cameron, "the biggest issue today" is not just abuses of welfare but "numbers that have increased faster than we in this country wanted ... at a level that was too much for our communities [and] for our labour markets". The only common sense interpretation of his language is that he was pledging to curb the numbers of EU migrants coming to the UK, whether they were able to find jobs or not.

This led to much speculation that Cameron was about to call for some form of quota control on EU migration. But in his immigration speech later that autumn, Cameron stepped away, in the face of pressures from the European commission and the German chancellor, Angela Merkel, that imposing quotas on EU migrants would cross their 'red lines' of negotiating feasibility. Instead he proposed restricting the ability of migrants to stay here without a job and reducing the incentives for lower-paid, lower-skilled workers to come here in the first place. This was to be achieved by imposing new requirements that those who want to claim tax credits and child benefit must live and work in the UK for a minimum of four years before they become eligible. The government acknowledged that in order to do this within EU law, some treaty change might be required.

Less than a month after his conference speech, Cameron found himself forced into another destructive row over British contributions to the EU budget. Cameron claimed that only two days before the October meeting of the European council he had discovered that Britain was being required by the European commission to make a

back payment of £1.7bn to the EU budget as a result of a statistical adjustment to the calculation of Britain's annual national income stretching back a decade or more. He insisted that Britain would not pay the bill by the time demanded and that a special meeting of finance ministers be called to discuss its justification. He won some support for this from other member states, particularly the Netherlands and Italy, who were also hit by the adjusted back charge.

This was a classic EU row. The commission saw itself as implementing a set of rules on annual budgetary adjustments that member states had unanimously agreed, based on estimates of national income provided by independent national statistical offices under definitional guidance given by Eurostat: no British official had apparently flagged up a problem in advance, despite the fact that the UK Office for National Statistics had warned back in the spring that the revised gross national income estimates submitted to Eurostat would have implications for Britain's payments to the EU budget. The British, on the other hand, saw themselves as victims of a continental conspiracy: an unaccountable European commission levying an unfair penalty on Britain's economic success. Cameron first said he would refuse to pay and then said only that he would not pay by 1 December 2014. At a meeting of finance ministers on 7 November, Osborne secured a delay in the payment until July 2015 and claimed that he had halved what was due. It then emerged that the explanation for his victory was that the British rebate would apply to the additional contribution. A climbdown had taken place with George Osborne attempting to cloak it in a clever disguise, but only at the larger cost of a further souring of our EU relations.

Of course, a political case can be mounted in Cameron's defence. He had little alternative to be tough on immigration and the budget in the autumn of 2014 if the two high-profile Tory defections to Ukip were not to be followed by a steady stream of others, fatally undermining Conservative chances in the general election. Yet, Cameron has been forced by events and internal political pressures to move a long way from his 2006 statement that, if the Conservatives were to modernise their appeal, they had to stop "banging on

about Europe”. Even when left with little alternative, as he saw it, to making his referendum pledge, he tried to make the best of it, claiming it would enable the government to get on the front foot on Europe, as he put it at Bloomberg: “confronting this issue – shaping it, leading the debate”. But it is evident that towards the end of the 2010 parliament, it was Ukip and his anti-European backbenchers who have been leading and shaping Britain’s European debate. He was forced into a complete about turn on his renegotiation strategy in a desperate attempt to head off Ukip. These pressures are not going to go away; the tragedy for Cameron is that his offer of an in-out referendum appears only to have strengthened them.

NOTES

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3. Cameron, David. “David Cameron’s EU speech”, *BBC News*, 28 November 2014, <http://www.bbc.co.uk/news/uk-politics-30250299>.

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GEARING UP FOR THE RENEGOTIATION

THE IMPACT OF THE 2015 GENERAL ELECTION ON THE EUROPEAN QUESTION

Europe played little visible role in the May 2015 general election, despite spasmodic attempts by Nick Clegg and Ed Miliband to make Europe into an election issue. Both accused David Cameron of putting British membership of the EU at risk as a result of the Conservatives' 'renegotiation and referendum' commitment.

For Miliband this attack on Cameron's European policy was his primary defence against the charge that Labour under his leadership had become anti-business. Most surveys of business opinion suggested that chief executives of companies, both large and small, sympathised with Miliband's concerns that Cameron's policy on Europe risked access to Britain's largest market and could diminish Britain's influence in the world. The argument however cut little ice. David Cameron's response that a referendum was necessary "to end the uncertainty"¹ over Britain's membership appeared sufficiently convincing to quiet business concerns, even though it was Cameron's own weakness in facing up to his Eurosceptics that had greatly contributed to, if not caused, that uncertainty. Complacency in the business community was reinforced by a stream of opinion polls suggesting steady public support to remain in the EU, especially if Cameron were to recommend it. Also the way Miliband put his point on Europe may have strengthened business suspicions that the rest

of Labour policies were indeed anti-business. Europe might have provided strong ground on which the Labour opposition could have attacked the Conservatives, but only if business had had confidence more generally in Labour's economic competence and credibility. That was patently lacking.

For political analysts the most remarkable outcomes of the 2015 election were both the extraordinary Labour collapse in Scotland and that across the whole UK; roughly a quarter of voters voted for parties other than the three that since the 1920s have dominated the mainstream – the Conservatives, Labour and the Liberal Democrats.

The Scottish National party positions itself as a strongly pro-European party, at one time arguing that an independent 'Scotland in the euro' was a viable and attractive alternative to Scotland remaining in the United Kingdom. The euro crisis, and particularly Ireland's travails, forced the SNP to abandon its pro-euro position. For as the euro crisis deepened the SNP were no longer able to uphold the Republic as an exemplar of economic and political independence within the euro. The consequence of this political retreat was that the SNP no longer had a clear policy on the 'currency question': this may have been the biggest factor in the no victory in the referendum on Scottish independence in September 2014. Yet that turned out a pyrrhic victory for Labour. The fact that Labour 'sided with the Tories' in arguing that an independent Scotland would no longer be able to use sterling as its currency contributed to the fatally damaging perception that Labour could no longer claim to be a reliable and stalwart defender of Scottish interests. The SNP now appear, at least for the moment, impregnable at both Holyrood and Westminster with their leader, Nicola Sturgeon, emerging in the UK general election as a politician of rare charisma and appeal. For the SNP, the Cameron referendum on Europe is not only an opportunity to argue for the yes vote in which they believe. They also know that if Scotland votes to remain in the EU and England to leave the case will become very powerful for a second referendum on Scottish independence. An English vote against the EU has become a vote for the breakup of the UK.

Outside Scotland, the most remarkable result was the unprecedented success of the UK Independence party, an anti-establishment party explicitly founded in order to campaign for Britain's withdrawal from the EU. In May 2015, Ukip won four million votes and raised its vote share from 3.1 per cent in 2010 to 12.6 per cent in 2015. Does Ukip's success not run counter to the assertion that Europe played little part in the 2015 campaign? Most political analysts are agreed that Ukip's surge of support appeared loosely related to its core proposition.² This is despite the fact that Nigel Farage's discourse strongly linked Britain's membership of the EU to the government's inability to stop immigration from other EU member states. However public resentment against immigration is not just confined to the half of net immigration that is accounted for by the EU. If the public's concerns about immigration are mainly ones of culture and identity, then growth of Islam and concerns about Islamic extremism may be a more potent concern. If they focus on perceived abuse of the welfare system, then all forms of immigration may be equally problematic. EU free movement of labour may give rise to particular concerns about wage undercutting, measures to address which featured strongly in Labour's policy responses to immigration, but this is by no means the only concern voters have and may account for the fact that our EU membership did not become a central issue in the campaign.

YouGov's Peter Kellner concluded from his company's polling that among voters inclining to Ukip, Europe ranked as only the fifth most important issue.³ Among voters as whole, Europe was always in the bottom half of their concerns, its salience higher among older Conservative-inclined voters, much lower among working families and younger people. Rather, it was the perceived authenticity of Ukip's leader, Nigel Farage, his credentials as an outsider challenging a discredited political establishment, and his strong opposition to immigration that defined Ukip's support. Rob Ford, an academic who, along with Matthew Goodwin, has specialised in the study of the Ukip phenomenon, found that Ukip's appeal was:

- stronger among older than younger voters,
- concentrated socially among C2DE working class and C1 lower-middle-class voters,
- particularly concentrated – and this was the key factor in determining the likelihood of being a Ukip voter – among that part of the electorate that had no further education beyond the statutory school leaving age.⁴

On this analysis, education level more than class was much the most important factor in Ukip's electoral appeal.

Yet, the most publicly compelling conclusion from the actual election result was that for all its profile in the campaign, Ukip failed. Despite Ukip's unprecedented success in winning votes, it won only a single parliamentary seat – Douglas Carswell's constituency of Clacton. The first-past-the-post system had once again done its brutal work of cutting down to size anti-system insurgents with broad appeal across the country and without a strong geographic or class base, as had been the experience of the centrist Social Democratic party in 1983. Ukip's momentum was certainly checked by the general election; a large uncertainty hangs over whether its momentum has gone into permanent reverse. Much will depend on whether Labour's choice of Jeremy Corbyn as leader alienates the party further from what is left of its core working-class support; and whether a Conservative party split over Europe presents Ukip with a new opening.

The surprise of the election was how well the Conservative party stayed united. Conservative Eurosceptics buried their doubts about Cameron's European policy, at least for the duration of the campaign and during the immediate run up to it. A year before the election the air had been thick with rumours that Cameron would come under irresistible pressure to include hardline Eurosceptic demands in the Conservative manifesto. But if there was such pressure, it was remarkably below the surface and the leadership headed it off. The manifesto contained little more than the carefully honed generalities that had underlain Cameron's Bloomberg speech, plus the specific

commitments on EU migrants' access to benefits that he had made in his December 2014 speech.

For the duration of the campaign, Conservative Eurosceptics appear to have accepted the Cameron argument that only a Conservative election victory could bring "real change and a real choice" on the European question. Only the election of a Conservative government would guarantee Eurosceptics the chance they had been seeking for a generation, to campaign for Britain's exit in a referendum.

This truce on Europe went along with a hardening of the party's approach to Ukip. Initially many Conservatives viewed Ukip as an errant child. But the experience of 2014 changed that, both with Ukip winning first place in the European parliament elections in May and later the defection to Ukip of sitting Conservative MPs Douglas Carswell and Mark Reckless. This seems to have convinced many Conservatives that Ukip now represented a mortal threat to Conservative chances in the coming election. This had two consequences. On the one hand it put on the spot potential Eurosceptic defectors to Ukip within the Conservative parliamentary party: the much talked about string of defections to Ukip failed to materialise. On the other, the Ukip threat stirred the embers of Conservative tribal loyalty and rallied the party faithful. The national party put an unprecedented national effort into defending Newark in the July 2014 byelection. It threw maximum resources into (unsuccessfully) attempting to defeat the Ukip defectors at their byelections in Clacton and Rochester in the autumn. It went on in the general election to hold off Nigel Farage's challenge in South Thanet, regain the seat it had lost at Rochester, and beat off the Ukip challenge elsewhere.

In adopting these aggressive tactics, the Conservatives avoided making further concessions on Europe and immigration to the Ukip insurgency, which they realised would only shift the election battle onto Ukip's preferred territory. Rather they pointed to the risk that a Ukip vote would let in a leftwing Ed Miliband government. This played to the electorate's fears of Labour's weak leadership and economic competence. In the campaign itself, the Conservatives

made this threat loom larger still by pointing to the likelihood that an Ed Miliband minority government would be dependent on SNP support.

Had Labour seemed less of a threat to much of the electorate, then the Ukip challenge to the Conservatives might have been a bigger feature of the election. Conservative Eurosceptics might then have been tempted to break ranks in order to protect their personal position in their constituencies by expressing support for Ukip policies. As it turned out, the tactic of offering an in-out referendum on Europe played well for Cameron. It was enough to keep his Eurosceptics quiet. It is also probable that it helped shepherd some wavering Ukip supporters back into the Conservative fold, particularly in Labour-Tory marginals, where on election day Ukip polled below their national average.⁵ At the same time it did not cause serious damage to the Conservatives' business support, nor weaken their potential appeal to centrist opinion, because by comparison with the prospect of an Ed Miliband government, Cameron seemed the lesser threat.

Three points are worth emphasising about the consequences of the failed Ukip insurgency for the coming Europe debate.

First, Ukip's relative success is weakening Labour's pro-European commitment. In the end Ukip damaged Labour as much, if not more than the Conservatives. According to the Oxford academic, Steve Fisher, some 40 per cent of the Ukip vote came from Labour's 2010 support, against the initial assumption that fewer than one in five Ukip votes would come from Labour.⁶ Ukip gained more still from C1/C2 voters who would have voted for Tony Blair in 1997 and 2001. In the aftermath of the election, Labour's remaining MPs, concentrated in working-class constituencies in the midlands and the north, convinced themselves that Ukip rather than the Conservative party now represents the greater threat to their long-term political position. Voices now argue that Labour should not risk alienating its 'core' support further (as well as the voters the party needs to attract back from Ukip) by joining a cross-party campaign in favour of continued EU membership.

Second, the Ukip insurgency has posed an acute dilemma for Eurosceptics campaigning for Britain's exit in a referendum. Election analysts are clear that Ukip support was heavily dependent on the appeal of its leader, Nigel Farage. Farage is a high-profile but divisive figure with the public. Paradoxically this may well be one factor behind the firming up of pro-European support since he became prominent. He is at one and the same time both a considerable asset and a large liability for the anti-European cause.

Farage divides committed Eurosceptics. His rhetoric on the EU focussed heavily on migration. Yet many Eurosceptics prefer to make their anti-European arguments on different grounds. For them it is a wider loss of sovereignty that drives their antagonism to the EU. If only that lost sovereignty could return to Britain, they envisage a national strategy that would free Britain of the perceived burdens and constraints of EU regulation. They argue that Britain would then be free to compete more successfully in the wider world. For this brand of libertarian hyper-globaliser, anti-immigration rhetoric and a policy of closed borders sits oddly with their worldview. The Eurosceptic camp is divided both on how it wants to make its case and what it sees as the alternative to our EU membership. The Ukip phenomenon has intensified these divisions.

Third, the Conservatives' victory creates the opportunity for David Cameron to win a vote to remain in the EU in the coming referendum. In the May 2015 election, Eurosceptic parties (the Conservatives and Ukip together) won 49.4 per cent of the vote – in all, about half with the addition of Northern Ireland's Democratic Unionists and other anti-European groups. On the other hand, a broad progressive pro-European front (though a long way from being a united alliance) consisting of Labour, Lib Dems, Greens, SNP, and Plaid Cymru won 47.4 per cent. These figures crudely suggest that if Cameron leads the campaign to stay in the EU, and defections within the progressive camp can be contained, the prospects for a vote to remain in the EU are in principle quite good.

Yet Cameron and Osborne have somehow now to deliver on their renegotiation commitment. In terms of rational political calculation,

a vote to remain must be their shared aim. This is far bigger than a question of David Cameron's personal legacy. A referendum vote to withdraw from the EU is probably the biggest threat to Conservative party hegemony in the foreseeable political future, barring an economic crisis the scale and timing of which no one can anticipate. A vote to stay in Europe seems essential if the Conservatives want to continue to occupy the political centre ground. A vote to leave would have consequences that are difficult to predict. It might seriously undermine Britain's economic recovery, creating great uncertainty over our future trading position. Businesses would in all likelihood postpone major investment decisions until the eventual outcome becomes clear of what would be complex negotiations for the UK to leave.

A vote to leave the EU also has the potential to destabilise seriously the leadership of the Conservative party. The person with the strongest interest in a yes outcome is probably Osborne, as the politician who is currently Cameron's most likely successor. For him it is vital to minimise the extent to which the referendum causes internal disruption within the Conservative party. He must avoid division over Europe becoming a surrogate for the future leadership battle. That means if possible keeping potential rivals for the leadership, for example Theresa May and Boris Johnson, firmly within the 'in' camp. In part this depends on maintaining confidence that the referendum can be won by a healthy margin: no potential leader of the Conservative party would want to pin their fortunes to a losing cause on such a vital issue of national strategy. But this means the momentum of success has to be sustained on the pro-EU side.

Tactically, Cameron and Osborne are likely to want to maintain internal cabinet and ministerial discipline for as long as they can. Once the party leadership settles on an 'agreement to differ', it has lost a lot of the power that comes with the patronage of government office to marginalise dissent. Even more important though, the government must maintain the presumption (some would say 'illusion') that it can negotiate 'real change' and secure a new relationship with the EU. It is to this highly uncertain prospect that we now turn.

NOTES

1. Cameron, David. "EU speech at Bloomberg", *The Cabinet Office*, 23 January 2013, <https://www.gov.uk/government/speeches/eu-speech-at-bloomberg>.

2. Goodwin, Matthew. and Ford, Robert. *Revolt on the Right: Explaining Support for the Radical Right in Britain [Extremism and democracy]* (London: Routledge, 2014).

3. Kellner, Peter. Talk at a Policy Network seminar, May 2015.

4. Ford and Goodwin op cit and seminar at Nuffield College Oxford analysing the general election result. 23 June 2015.

5. Fisher, Steve, Nuffield seminar, 23 June 2015.

6. Fisher, Steve, Nuffield seminar, 23 June 2015.

WILL BRITAIN'S EU PARTNERS DELIVER WHAT CAMERON NEEDS?

How will our EU partners respond to David Cameron's demands for 'renegotiation'? How much do they care about British membership? Will they be prepared to make the concessions for which he is fighting as the price of keeping Britain in?

The starting point is an uncomfortable one for Cameron. He has much ground to make up. For most of his first term as prime minister, the dominant reaction to him in Brussels and among our main partners was one of extreme irritation, bordering on contempt. They regarded his cavalier stance on Europe as driven purely by domestic politics, rather than rational calculation of the British, nevermind European, interest.

Throughout the early years of the euro crisis, Cameron behaved as though his only concern was to trumpet to his domestic audience how fortunate Britain was not to have joined the euro and at the same time ensure Britain was not liable for a penny or a cent of the bailout costs. Good politics in Britain, but totally lacking in any public appreciation of the fact the prospects for British recovery were heavily intertwined with that of the eurozone. The failed attempt to veto the fiscal treaty in December 2011, at a moment when European integration was facing one of its greatest ever crises, came close to being seen as a wrecking manoeuvre by someone who showed little

respect for the first rule of the club: an acceptance that, for all the inevitable clash of national interests, the show has somehow to be kept on the road.

Much of this is a question of tone. It is impossible to envisage Cameron reiterating in public Angela Merkel's clear conviction that "if the euro fails, Europe fails and that would be a catastrophe".¹ Arguably, in truth, this was the reality for the UK as much as for the eurozone in terms of the impact of eurozone break up on the British economic recovery – and Cameron and Osborne knew that full well.

As for his plan for renegotiation and referendum on the terms of British membership, this was widely viewed in Brussels as putting the interests of the Conservative party before the national and European interest. This view was only in part redeemed by the well-constructed argument for 'reform' in his January 2013 Bloomberg speech.

Cameron continued to make major misjudgements. In the summer and early autumn of 2014, he mishandled the appointment of the new commission president by going out on a limb against Jean-Claude Juncker's nomination. It may have been legitimate for the British to object strongly to the *Spitzenkandidaten* (lead candidate) process for choosing the next president. It may also be understandable to argue that Jean-Claude Juncker is not a convincing symbol of the EU seizing the mantle of reform: as prime minister of Luxembourg, he had been around for far longer than any other current European leader and is a classic creature of Benelux coalition building and compromise. On the other hand, it may not be such a bad thing from a UK point of view to have a Benelux 'fixer' in charge of the European commission when Britain is pursuing a complex agenda of 'renegotiation': after all, the commission is the EU institution that commands the sole right of legislative initiative over any items in Cameron's renegotiation agenda that require new EU directives or an amendment to existing directives. However, Cameron stuck to his guns in opposing Juncker's appointment, even when it became obvious that he was in a small minority. He persisted in pushing the issue to a formal vote in the European council in which his only ally

was the somewhat dubious support of Hungary. While his stubborn approach was helpful to him in the short term in winning the praises of Conservative MPs, it was counterproductive in winning support for his renegotiation aims in Europe.

The episode revealed a dangerous weakness in Cameron's understanding of the politics of the EU. He conveys a belief in the classic intergovernmentalist mindset of old-fashioned diplomacy. Because Merkel said to him privately that she did not think much of Juncker's candidacy, he assumed that meant Germany would back his opposition to Juncker's appointment. But Juncker had managed to secure the formal backing of the European People's party congress (the European federation of centre-right Christian Democrat parties) in a contested vote. The German Christian Democrats felt honour-bound by that decision. Nor did Cameron take fully into account the changes in the Lisbon treaty where the European parliament now has the formal right to approve the nominee of the European council to be commission president. Once the major groups in the parliament had made clear that they would reject any nominee who was not the winning *Spitzenkandidat* in the European elections, Cameron's position was done for. But because he had withdrawn the Conservative party from membership of the EPP, he was not as alive to these currents of opinion as he should have been.

A more constructive approach would have been to highlight the opportunity to achieve real reform under the Juncker commission. To have made this case, Cameron could have prayed in aid several positive features of the new commission:

- the individual quality of the commissioners;
- Juncker's internal reorganisation of how the commission works, with powerful vice-presidents now responsible to him for cross cutting policy areas;
- the decision to cut down and focus the new commission's work programme on key economic reform objectives such as the digital single market, the single market in services, and new trade agreements;

- and the priority the new commission is giving, under its senior vice-president, Frans Timmermans, to better regulation, in cutting back on the volume of new regulation, improving the process of impact assessment, and reviewing the continued utility of existing bodies of regulation – all in keeping with a strict focus on the principles of subsidiarity and proportionality.

In addition, Juncker set aside any sense of personal affront at Cameron's opposition to his appointment by making Cameron's nominee as British commissioner, Jonathan Hill, responsible for the key UK national interest of financial services and the City of London.

Our partners' frustration is that the 'reform' agenda that Cameron advocated in his Bloomberg speech is actually making progress. Cameron could argue, if he chose, that many of his reform objectives are contained within the five-year plan agreed between the European council and the incoming commission president, which has in turn been endorsed in principle by the European parliament. Indeed, the opportunity of a new commission appointed at the start of a new European parliament's five-year term should have been celebrated as the golden opportunity to set Europe on a new course.

Yet for all the irritation with Cameron in Brussels and member state capitals, and underneath the *froideur*, the politics of the EU is supremely realist. David Cameron won the UK general election on a platform of renegotiation and referendum on Britain's membership of the EU. In a union of 28 nation states, the democratic will of any single member cannot override that of all the others, but it has to be taken into account, particularly when that nation state is the third largest in population and GDP. So the British problem has been added to the list of major vexing issues with which the EU is currently attempting to grapple: Greece and the future of the euro; the refugee crisis; and Vladimir Putin and Ukraine. Our partners would much prefer this was not the case; but they accept political reality.

Any rational analysis suggests that it remains strongly in the interests of our partners to try hard to keep Britain within the EU.

As economic and political power shifts away from Europe to the emerging regions of the world, the EU itself would be seriously diminished without the UK's economic weight, global reach and vision, transatlantic affinity and military capability. Yet obviously, continuing British membership, for all that it brings to the EU, cannot be secured 'at any price' in terms of the EU's long-term policy goals and institutional integrity.

The strongest supporters of British membership are in northern Europe. The Netherlands regards keeping Britain in the EU as central to its national interest. The Swedes are also very supportive, though as non-euro members less inclined to take a public lead. The Germans very much want Britain to remain in the EU, in part because they share British instincts towards economic openness, and in part as a political counterbalance to France – however, Merkel has made clear this cannot be interpreted as meaning that Germany will support British membership at any price. Germany will not brook any fundamental breach of the EU's founding principles, for example on free movement of labour, and sees the refugee crisis and the future of Schengen border controls as a separate issue.

The eastern Europeans are much more problematic. They used to see the British as strong allies when, with John Major's and Tony Blair's pro-active support, the new post-communist democracies were fighting for their earliest possible admission to the EU. Like Britain they remain strong supporters of Nato. However the fact that under Cameron Britain took the lead in pressing for a real terms reduction in the EU budget was viewed very negatively as a direct attack on the EU structural fund transfers that are vital to eastern European economic development. Even more, they regard anti-immigration populism as unfair demonisation of their hard-working nationals. Calls for restrictions on EU migrants' entitlement to social benefits are particularly sensitive. For the member states that joined the EU in 2004 or later, this is seen as offering their nationals second class status within the EU.

In southern Europe attitudes to the British question are more ones of indifference. Locked as they have been in a 'life or death' struggle

to remain part of the euro, other priorities are more pressing. As they lament the lack of European solidarity among euro members in supporting growth and jobs in their countries, the British have hardly been more *communautaire* in the positions they have struck. Two examples in June 2015 struck home. First, Britain decided not to participate in the scheme for sharing the asylum burden across the whole EU, when Mediterranean frontline states like Italy and Greece are facing a huge humanitarian crisis. Second, Britain insisted on ringfencing the UK contribution to the EU fund used for emergency aid to enable Greece to pay its immediate debts to the International Monetary Fund and European Central Bank. These decisions were indicative of Cameron's instinct to prioritise Britain's domestic politics over any gesture to win friends and influence people at the start of his EU renegotiation.

There are also bilateral problems with some member states, for example the historic sensitivity in Spain towards Gibraltar. Spain's ability to impose effective sanctions on Gibraltar is limited by the fact that as part of the UK, Gibraltar is also part of the EU: Gibraltar's strongest defence against Spanish pressure (paradoxically for UK Eurosceptics) is the European commission's obligation to ensure that the free movement provisions of the EU treaties are not breached. Not many Spanish nationalists would like to see Britain's departure from the EU for this specific reason, but it is a factor (and a potential negotiating gambit) not to be ignored.

Similarly, in Austria there is a strong legacy of internal opposition to nuclear power. In the post-Chernobyl era this led to Austrian insistence that Soviet nuclear reactors in bordering member states be phased out as the price of their admission to the EU. Austria is deeply suspicious of UK plans to revive nuclear power with extensive state subsidy and support: it would not be surprising if Austria sought to use the leverage of the British renegotiation to secure fresh assurances on nuclear power.

For all that, across the EU as a whole, Britain can still draw on a (perhaps diminishing) fund of goodwill towards Britain, the stability of its democratic institutions and its role in European history.

Even in France, where the positive history of the *entente cordiale* has often been marred by Gaullist truculence, Anglo Saxon rivalry and genuine differences in attitude towards the US, there is increasing recognition on both sides of the Channel that the global interests of the two nations are now historically aligned. There may be some Parisian resentment about the success of the City of London and a broader sense of French upset about the number of their citizens migrating to work in the UK. However, it is far-fetched to think that France would happily see the back of Britain with its departure from the EU in the hope that some internationally mobile banks and finance houses might shift their location across the Channel. French hopes of making Europe a powerful force for good in the world, which they want to lead, depend for their realisation on active partnership with the British. Germany lacks the same post-imperial global outlook.

Of course, there are strong integrationists (and not just in France) like Michel Rocard, the socialist intellectual and former prime minister of France, who believe Britain has for most of its 40 years of membership proved a 'ball and chain' around the neck of closer union. This view has in the past resonated with a significant and influential band of genuine federalists in the European parliament and in other parts of the 'Brussels bubble' such as the senior ranks of the commission and council secretariat. Federalists complained bitterly that the constitutional treaty (torpedoed by the French and Dutch referendums in 2005) was a 'British text'. The complaint was made even more loudly about its Lisbon treaty substitute that was eventually ratified in 2009.

The integrationist ambition in the early 2000s was to make a greatly enlarged EU work better. It was to undo the 'three-pillar' structure of the Maastricht treaty of 1992, which was deemed to have been ineffective in the light of experience, and 'federalise' EU structures as a whole: to make majority voting in the council the rule, including on foreign policy; to turn the commission into a European executive of government elected by, and accountable to, the European parliament; to transform the council of ministers into

a legislative council of the member states, stripping it of its present quasi-executive functions in the implementation of EU policies; to establish the European parliament's right of co-decision as the norm; and to ease future treaty change by removing the requirement for unanimous ratification by all member states. Of course few expected all of these reforms to be achieved in one push, but the intended direction of travel was clear: to curb creeping intergovernmentalism and 'restore', as many federalists saw it, the primacy of the original 'community method'.

The eventual Lisbon treaty made concessions to these principles, for example extending the scope of qualified majority voting (though not making it the 'rule'), making co-decision between the European parliament and the council of ministers the virtual norm, and clarifying the commission's accountability to the European parliament. However, Lisbon also contained a highly significant institutionalisation of intergovernmentalism: the formalisation of the European council as the leading institution responsible for the formulation of the EU's strategy and direction, led by a new permanent president. These changes, pressed very hard by Britain and France, have given us the Europe we have today, warts and all. The crucial role played by the European council's first permanent president, Herman Van Rompuy, in the management of the euro crisis is testament to the significance of the changes Lisbon introduced. The European council now meets six or more times a year. It has become the EU's key political decision making body. Playing a leading part in its deliberations has become a central part of any British prime minister's job. Britain's place as a leading member of the European council offers some guarantee that Britain will not be marginalised in any process of deeper integration within the eurozone.

This is important, as in recent years the nature of the 'future of Europe' debate, and with that, attitudes to the UK, have undergone significant change. In the early 2000s, Britain was thought to be on the verge of joining the euro. The euro itself had been launched trouble free and its apparent success confounded its many sceptics, who were not just confined to Britain. It is remarkable how at the

constitutional convention in 2002–03 there was little enthusiasm for opening up questions of economic governance in the eurozone – few thought radical change was needed. The euro crisis, like the banking crisis that in part triggered it, took most observers by complete surprise.

Yet to paint now the British as the main political obstacle to the advance of EU integration has been discredited by recent eurozone experience. As a non-euro member, the UK is in a weak position to block integrationist progress. Yet the failure of the eurozone crisis to result, so far at least, in a new radical institutional settlement, suggests that the UK is far from being the only member state standing in the way of closer union. The truth may be that in the past the UK has acted as an instinctive sceptic of grand integrationist schemes as well as ‘Europe for Europe’s sake’ proposals, behind whom other equally reluctant member states have been only too glad to hide.

The euro crisis has also profoundly changed the nature of federalist ambition. As described above, in the 2000s, particularly at the time of the constitutional convention in 2002–03, the challenge was seen in terms of how to make the EU work more effectively and democratically in the light of the impending dramatic enlargement of Europe to the east and south east – from an EU of 15 members, to first 25 in 2004 and now 28. Today the ‘future of Europe’ debate is defined by the eurozone crisis and its aftermath.

This shift of focus has dramatically altered perceptions of Britain’s place in the EU. Britain is seen as a long-term outsider of the euro and an outsider that, as long as its key interests as a non-euro member are protected, is content to see greater integration on the part of the eurozone inner core. This is a potentially profound shift in both Britain’s ‘national strategy’ and continental priorities.

There is another way in which the eurozone crisis has changed perceptions on the continent. The bitter and bad-tempered talks over a third Greek bail out on 12/13 July 2015 dramatically highlighted the fragility of European integration. There may be good economic arguments for a managed Greek exit from the euro, but the German proposal that Greece ‘temporarily’ withdraw shocked

pro-Europeans, for whom the irreversibility of European integration is an article of faith. They fought hard against it (and for the moment at least successfully) for two strong reasons. First, for all the Syriza government's rejection of the previous Greek bailouts and their harsh terms in their eyes, a clear majority of Greeks did not want to leave the euro. Second, a process of disintegration, once set in train, might not be confined to Greece.

Whereas 10 years ago the rest of Europe might have taken UK withdrawal in its stride – and some true federalists would have welcomed it – now it would send a signal to the anti-European populists who have been gaining ground across the continent that the breakup of the EU was a real political possibility. The beneficiaries would be Beppe Grillo in Italy, Marine Le Pen in France, Geert Wilders in the Netherlands and all the other populist forces that are often only united by their hatred of the EU. In this wider political context, UK withdrawal would be a massive blow. In this sense, David Cameron embarks on his process of renegotiation as a lucky politician.

NOTE

1. Merkel, Angela. *Speech to the German Bundestag*. 7 September 2011. The full quote is “The euro is much much more than a currency. The euro is the guarantee of a united Europe. If the euro fails, then Europe fails”.

WHAT DOES CAMERON ACTUALLY WANT?

The frustration with Cameron in Brussels and national capitals is not because of a point blank refusal to contemplate the idea of renegotiation. Rather it has been the British government's opaqueness in spelling out what its precise renegotiation objectives are. For two and a half years after his Bloomberg speech in January 2013, Cameron played his renegotiation cards close to his chest. There were three significant developments on what he had said then.

- His article for the Telegraph in March 2014 offered some “detail of the specific changes” he would seek in Britain’s relationship with the EU, which for the first time raised the demand for a British opt-out from ‘ever-closer’ union and questioned Britain’s continued commitment to the European convention on human rights.¹
- His party conference speech in October 2014 dramatically shifted the emphasis of his European agenda to curbs on EU migration, which had been totally absent in his Bloomberg speech.
- His immigration speech later that year set out specific demands for changes in EU migration rules including a four-year waiting period for eligibility for in-work benefits.

The Conservative election manifesto added nothing to what had already been said, except to reaffirm the commitment Cameron had

made the previous autumn that he would not lead a government unless it was firmly committed to an in-out referendum on EU membership.

Since the Conservatives' victory in May, little new of substance has been disclosed about the government's renegotiation objectives. The only policy shift has been tangential: the government has back-pedalled on the pledge to withdraw from the European convention on human rights. The Queen's speech pledged further consultation, not legislation. This is in part because of the inherent complexity in drawing up a British bill of rights, not least the opposition of all three of the devolved administrations within the UK. This may also be a tactical retreat on the government's part in order to keep this policy 'in reserve' as a potential sweetener to Eurosceptic opinion, should the EU renegotiation not fully meet their expectations.

But for all the lack of detail, there has been a big change in the Conservative government's mood and approach since May 2015. The renegotiation and referendum policy is now for real and the government's approach has ceased to be casual and dilatory. The government clearly wants to press ahead speedily with the process of renegotiation. It has done nothing to squash speculation of a referendum in 2016, possibly as early as June. It has signalled a clear intent that it is aiming for an outcome which will enable Cameron to recommend a vote for Britain to stay in the EU.

Cameron has also launched a charm offensive with our partners. Before the June European council, David Cameron met or spoke to every single one of his opposite numbers individually. He invited the Commission president, Jean Claude Juncker, to spend the weekend in Chequers. He has met the president of the parliament, Martin Schulz, and the leaders of the mainstream political groups. By all accounts this exercise has paid dividends in terms of establishing a more positive and committed tone to relationships than had been in evidence before the 2015 election. Cameron is planning more bilateral contacts, as are other senior ministers including the foreign secretary and chancellor, who is exercising a strong grip on the negotiations.

There has been repeated speculation about whether or not the government's renegotiation agenda requires treaty change.

Cameron insists that it does, but with little clarity about what he means in practice by this statement. The government does not expect treaty change to be ratified in all member states before a British referendum. However the government is exploring some legally binding form of pre-commitment to treaty change. There are precedents in the Danish protocol of 1992 and the Irish protocol of 2008. Both instruments contained legally binding assurances sufficient to persuade the Danish and Irish electorates to approve treaty changes they had previously rejected in national referendums. However, these legally binding guarantees were largely specific to the member state concerned – though the Irish won a commitment that every member state would continue to have its own commissioner, kyboshing earlier plans to reduce the size of the commission. Nonetheless, it is difficult to envisage how a legally binding protocol could embrace a significantly wider agenda of treaty changes. For this would amount to a pre-negotiation before they had gone through the proper procedures laid down in the present treaties for a convention and intergovernmental conference. The EU is a legally ingenious entity but it would be difficult for our partners and the European parliament to go along with such an approach.

One possibility is that the European council might agree to issue a declaration setting out an agreed direction of change. There have been many such declarations before, for example the Laeken declaration of 2001 that set the agenda for the constitutional convention and subsequent treaty negotiations. The British stance has been relatively relaxed about such declarations in the past, precisely because they were not seen as having the same binding legal effect as treaty change: rather in cases before the European court of justice, they would be treated as strong guidance, rather as the British courts sometimes refer to ministerial second reading speeches when they look at the intentions behind legislation.

What might it then be possible for Cameron to negotiate? One can envisage that an eventual package might emerge consisting of three elements:

- First, a protocol that contains legally binding opt-outs and guarantees specific to the UK.
- Second, a declaration of some (but lesser) legal effect about the future direction of treaty change in the EU.
- Third, when it comes to specific changes in EU legislation, regulation and policy, a formal white paper tabled by the European commission could be endorsed by both the European council and European parliament. The contents of such a paper could be quite detailed, including draft amendments to EU legislation. However this would have a status no different to a UK white paper. It could not pre-empt the detailed legislative process. The commission would make clear that this was not a precedent for restricting their future right of legislative initiative under the treaties; the council of ministers would still be obligated to agree the precise terms of any legislative change in detail; and the parliament could not compromise on its right to co-decide new EU legislation.

Democratic purists object to the government's reticence in setting out its renegotiation agenda in more detail. For one thing it makes it difficult for the UK parliament to hold the government to account for its conduct of its EU renegotiation, which for all the politics is a question of vital national interest. Yet the government's reserve is understandable from a tactical perspective. The publication of a detailed set of renegotiation objectives would be a hostage to fortune. Our EU partners would immediately be pressed to say whether they agreed or disagreed with each item on the list, which could have the effect of hardening their position in later discussions. Similarly British Eurosceptics would be emboldened to insist on a toughening up of the government's list of demands. The government appears to be operating on the maxim: 'we may never disclose precisely what we were asking for until we know what we've got'.

Certainly no discussion of substance took place at the June European council. The British question occupied a mere ten minutes of the council's time; there were far more pressing pre-occupations, on that occasion the Mediterranean migration and asylum crisis, with

the unresolved questions of Greece hanging threateningly in the background. This must have come as a timely reminder to Cameron of how the British question could easily become viewed as a time-wasting distraction by other leaders.

The June 2015 European council conclusions merely note: "The UK prime minister set out his plans for an in-out referendum in the UK. The European council agreed to revert to the matter in December".²

At the European council meeting on 15–16 October, the European council president, Donald Tusk, is expected to present a brief 'work-in-progress' report on technical discussions that are now taking place at official level in Brussels between British, council and commission officials. The key players on the British side in these discussions are Ivan Rogers, the permanent representative in Brussels and Tom Scholar, the head of the European and overseas secretariat in the Cabinet Office, with Cameron's former chief of staff, Ed Llewellyn, in the background. The Foreign Office in the UK will obviously play a supporting role, with the minister of Europe, David Lidington, an energetic pro-European networker across the continent.

The commission interlocutors will include Martin Selmayr, President Juncker's chef de cabinet, and a German Christian Democrat; Jonathan Faull, a long standing British official in the European commission, formerly director general in the commission in charge of financial services, who has been put in charge of a special unit to handle the commission's role in the British renegotiation; and possibly first vice-president Frans Timmermans. For the council, key roles will be played by the new Danish secretary general, Jeppe Tranholm-Mikkelsen and the chef de cabinet of President Tusk, Piotr Serafin. The commission and council legal services will also be crucially involved in drafting and vetting texts and determining what change is possible within the existing treaties.

Depending on the outcome of these initial discussions, a detailed paper may or may not be prepared by the presidency of the European council and its secretariat for its 17–18 December meeting. If this paper sets out, as it may, potential areas of agreement, and alternatives where there is not, the government's 'asks' will then

become unavoidably much clearer. At that stage the prime minister would face a difficult – but for the moment inevitably unresolved – handling question. Is it better for the prime minister to settle for what he can achieve in private before December and announce a ‘done deal’ then, perhaps after some stage-managed late-night haggling at the European council? Or is more to be gained politically by a public row and breakdown in December that fully exposes Britain’s ‘must-haves’ – but runs the risk that it might harden attitudes all round. Eurosceptic pressure from the Conservative backbenches might become unbearable. At the same time anger may grow among our partners who think too much has already been conceded to Britain.

Were there to be a high-stakes clash at the December council with a failure to agree, the government might hope to set itself up for a public relations triumph at a further European council meeting in February or March 2016. However, Cameron would run the risk that the desired “game, set and match” for Britain (as John Major famously claimed at the conclusion of the Maastricht negotiations in December 1991) could easily turn into a protracted period of long and agonising ‘tie-breaks’. These could easily end in some visible defeat or humiliation, particularly if one believes that the government has ultimately no real alternative or intention but to accept the best deal it can obtain and then sell the result to the British people.

Success also depends, as Herman Van Rompuy warned in a speech to a ‘New Pact for Europe’ conference in Brussels in October, on the ability of those in charge of the negotiations, principally Tusk, his successor, to prevent other member states bringing issues of specific concern to themselves to the table as a condition of their agreement to the British package. This may, for example, become an issue if there is a change of government in Tusk’s native Poland this autumn where the opposition Law and Justice party has a strong Eurosceptic agenda of its own; Poland will be a key to any agreement on change in treaties, legislation or policy on free movement of labour. But it could also apply to Austria, Greece, and Spain – indeed any single member state.

In his report back to the Commons on the June European council meeting David Cameron claimed the government “have a clear plan of reform, renegotiation and referendum”.³ At the council he had set out the case for substantive reform in four areas – sovereignty, fairness, immigration and competitiveness:

First on sovereignty, Britain will not support being part of an ever-closer union or being dragged into a state called Europe – that may be for others, but it will never be for Britain, and it is time to recognise that specifically. We want national parliaments to be able to work together to have more power, not less.

Secondly on fairness, as the eurozone integrates further, the EU has to be flexible enough to make sure that the interests of those inside and outside the eurozone are fairly balanced. Put simply, the single currency is not for all, but the single market and the European Union as a whole must work for all.

Thirdly, on immigration, we need to tackle the welfare incentives that attract so many people from across the EU to seek work in Britain.

Fourthly, alongside all those, we need to make the EU a source of jobs, growth, innovation and success, rather than stagnation.

Among EU experts there are widely diverging views on what all this means and its ease of negotiability. There are those who claim they could draft overnight an outcome that could be presented as acceptable to all, which would enable the prime minister to walk away from the December council with a substantive looking agreement that he could wave to journalists (most of whom have little grip on the detail) as ‘peace in our time’. On the other hand there are those who argue that if the government is serious about real change then all of the points Britain is pressing will cause severe difficulties for at least some of our partners.

Osborne and the Treasury may be aiming to achieve substantive and difficult objectives on the question of fairness between those inside the eurozone and those outside it – the ‘euro-ins’ and ‘euro-outs’. These will not be easy to negotiate with our partners, particularly as they raise politically sensitive questions about the

City of London. Moreover they involve assumptions about the consequences for the ‘euro-outs’, including the UK, of future integration in the eurozone on the nature of which there is at present no consensus between euro members. Similarly, detailed reforms to freedom of movement rules and migrant benefits are a legal and political minefield, given the potential for conflict with fundamental treaty rights and sharply divided interests within the European council.

Of course the fundamental point is not the seriousness of the issues on the agenda, but what is regarded as an acceptable outcome. Cameron himself sometimes leaves the impression that the details are of secondary importance to the result – and in big picture terms, he is of course right. By contrast, many British Eurosceptics behave as though they think that if only Britain bangs the table hard enough, whatever is asked for is attainable. It is often forgotten in the British discussion that any European council agreement requires the assent of all member states – not just France and Germany, though that obviously helps. The EU is far from being a federal state – countries as small as Cyprus, Latvia and Malta have a technical veto over any deal. Eurosceptics sometimes forget that that is how they want the European Union to be!

In the succeeding four sections we next consider the negotiability of the British position under each of the prime minister’s four headings.

NOTES

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2. European council meeting (25 and 26 June 2015) – Conclusions. EUCO 22/15.

3. Cameron, David. “Prime Minister’s statement to the House of Commons on Tunisia and the European Council”, 29 June 2015. *Hansard*, <http://www.publications.parliament.uk/pa/cm201516/cmhansrd/cm150629/debt-ext/150629-0001.htm#1506295000632>.

THE RENEGOTIATION AGENDA

NO LONGER PART OF 'EVER-CLOSER' UNION?

David Cameron sets great store by his insistence that the treaty language on 'ever-closer' union should no longer apply to the UK. Pro-Europeans tend to scoff at this, but for him it is of deeply significant importance. It is vital in convincing Conservative sceptics that it is worth Britain remaining in the EU. Essentially the prime minister is targeting his renegotiation strategy at those Eurosceptics whose constant refrain is that 'the British people voted to join a common market in 1975, but never to join a political entity which is now the European Union'. Cameron and George Osborne want to claim that they are taking Britain's EU membership back essentially to the original motivation and justification. For them, establishing clear blue water between Britain and the continental concept of 'ever-closer' union is deeply laden with a vital political symbolism.

We caught a glimpse of this in Cameron's June 2015 European council statement to the House of Commons:

We will put the common market back at the heart of our membership, get off the treadmill to ever-closer union ... It will not be the status quo ... it will be a membership rooted in our national interest and a European Union that is better for Britain and better for Europe too ...¹

The chancellor too has talked in similar terms, about making our membership of the EU again all about "a single market of free trade".²

Of course this whole line of argument is tendentious and historically inaccurate. In the 1960s and 70s it was the anti-Europeans who opposed British membership of the 'common market', to which they attached all kinds of adverse connotations for British farmers, in higher food prices, denial of access to cheap New Zealand lamb and butter, and on the left, free market rules that would inhibit the potential for socialist planning. In the same era it was the pro-Europeans who advocated support for the 'European Community' as a new coming together of Europe which it was in the British national interest to join. On the Labour side of the debate, pro-Europeans such as George Brown as foreign secretary launching Britain's second application to join in 1967 and Roy Jenkins as chancellor of the exchequer producing a white paper on the costs and benefits of UK membership in 1969, accepted that the economic arguments for membership were finely balanced, but the political arguments decisive. On the Conservative side both Edward Heath, but also Margaret Thatcher, made a powerful case for British membership on political grounds.

During the 1975 referendum campaign, the government issued a 16-page pamphlet to every voter setting out its views. The pamphlet's title was *Britain's New Deal in Europe*. On page five it set out the aims of the common market:

- "To bring together the peoples of Europe"
- "To raise living standards and improve working conditions"
- "To promote growth and boost world trade"
- "To help the poorer regions of Europe and the rest of the world"
- "To help maintain peace and freedom"

These are ambitious and progressive political objectives for an entity whose only rationale was allegedly the promotion of free trade! Yet 'we only ever voted to join a common market' is a myth

that anti-Europeans over the last three decades have propagated with so much success that it is widely believed.

A depressing fact of political discourse is that once the grip of myth over a political debate is established, it is very difficult to break. Most politicians accept (and this may of course be one reason why the public today so detests establishment politics) that they have to work within a set frame of public discourse, however mythical and inaccurate its origins. If they are wise, Cameron and Osborne should be honest with our partners about this: their opposite numbers are, after all, politicians and have to work within the same constraints in their own countries.

Doctoral theses can be written on the legal and practical significance of the reference in the treaties to 'ever-closer' union. Edward Heath fully accepted the phrase in the UK treaty of accession as it had been contained in the 1957 treaty of Rome to which the UK was then committing. He could do no other, and would not have wanted to anyway, nor did Harold Wilson seek to make any such change in his 1974–75 'renegotiation'. 'Ever-closer' union never appeared to trouble that great French patriot and sovereigntist, Charles de Gaulle. De Gaulle never imagined that it implied a binding commitment to a United States of Europe.

In any event, the present treaty text is a modification of the original Rome version. It now calls for an "an ever-closer union of the peoples", not, pointedly, the member states, and goes on to add that this union should grow closer in a Europe which acts only on the principle of subsidiarity. John Major secured this amended version at the Maastricht summit in 1991. Of course there undoubtedly are some who would argue that it is an insult to British national pride that we should be bound by treaty to like the French! But the 1992 version of 'ever-closer' union should not trouble those supporters of Britain's EU membership who believe in a European Union that is neither federal, nor centralised and where the nation states continue to play a leading role.

However, the sentiment of 'ever-closer' union clearly grates with Eurosceptics in Britain as a lingering symbol of a 'United States

of Europe' ambition. Tony Blair as prime minister felt this. He actually succeeded in removing 'ever-closer' union from the original draft of the failed constitutional treaty in 2003, but it later reappeared, essentially because Blair had more important British objectives to secure in those negotiations. Some politicians on the continent are as deeply attached to pro-European symbolism, as the British in all parties are to stamping on it.

At the June 2014 European council, Cameron succeeded in securing agreement to a political interpretation of what 'ever-closer' union means today:

The European council noted that the concept of ever-closer union allows for different paths of integration for different countries, allowing those that want to deepen integration to move ahead, while respecting the wish of those who do not want to deepen any further.³

Cameron now wants to go further and secure a formal British opt-out from 'ever-closer' union. He is not insisting on a treaty change that would apply to all member states, but wants to cut a special deal for Britain.

If this demand was viewed simply on its own merits, it would undoubtedly encounter some fierce resistance. Why should the UK now secure an opt-out from a founding principle of a treaty that it signed 43 years ago? If Britons have lived with the supposed mandate for 'ever-closer' union for over four decades, what is the problem? The EU still seems some considerable distance from the realisation of a 'United States of Europe'.

There is also awkward politics at stake for our partners. Why agree to a high-profile symbolic retreat from the general commitment to European integration by a single member state, when the EU itself faces powerful forces for disintegration from within? Who would be the next to follow? How would the anti-European populists in other member states make use of such a significant concession to Britain? Why should François Hollande agree to a change in order to ease David Cameron's political problems with Ukip and its Tory sympathisers, when the National Front's Marine Le Pen (who represents

a far greater threat to Hollande's politics in France than Farage does to Cameron's politics in Britain) will criticise him for weakness in not securing similar anti-European symbols for France?

Cameron may well try to link his demand for an opt-out from 'ever-closer' union to his acceptance of the need for closer integration by other member states, particularly the eurozone. Superficially this sounds as though it has certain symmetry, but in practice it raises further questions. Would the abandonment of 'ever-closer' union apply to all states outside the eurozone? Some 'euro-outs', possibly in eastern Europe (Hungary for example), might quite like that, but not all: there are others where the domestic commitment to being part of European integration is very strong.

Then there is the question of the practical effect of any UK opt-out. What would change as a result? Does the removal of a British commitment to 'ever-closer' union rule out closer British cooperation in future in other non-euro fields such as defence and external relations, energy and climate change, migration and asylum? Would it be seen as giving the British a right to opt-out of any future piece of legislation to which they objected? Why should the British have the right to be members of a 'pick and choose' Europe, when the basic principle of European integration is that the same set of rules should apply to all – even though the existence of much 'variable geometry' means that this principle is sometimes honoured only in its breach.

The council and commission lawyers will almost certainly find a way through this minefield. What might be possible would be a commitment from our partners to include the June 2014 European council statement in a legally binding protocol that in due course would become part of the treaties. Our partners might accept an addendum that the UK does not see its commitment to membership of the EU (and all its treaty obligations) as extending to the goal of 'ever-closer' union. But the price of such an agreement will in all likelihood be new language drafted by the council legal service, that would clarify that a British opt-out from 'ever-closer' union could not be used more widely by Britain to opt out of its existing and future EU legal obligations.

In other words, Cameron could claim victory in securing the removal of a piece of unwanted symbolism, but nothing of any substance would change.

MORE POWERS FOR NATIONAL PARLIAMENTS

The other aspect of Cameron's sovereignty agenda is to increase the powers of groups of national parliaments to question unwanted EU legislation. This is where in 'Europe-speak' the mechanisms of the 'yellow' and 'orange' card, and possibly a 'green' card come into play. William Hague as foreign secretary made much of his ambition to strengthen the power of national parliaments, but since his departure from the government, it is not clear whether this objective remains a high priority.

The Lisbon treaty contains a 'yellow card' provision: where a third of national parliaments question a piece of proposed legislation, the commission must think again. Where half of national parliaments object, an 'orange card' comes in play where the commission must not only think again, but put the matter to the council of ministers. The House of Lords European Union select committee has proposed in addition a new 'green card' – under this arrangement, a group of national parliaments could take a positive initiative in proposing the need for legislative change.

Existing arrangements could be strengthened without treaty change, if there is a will by other member states to do so. This means overcoming the objections of national officials in several member states, including Germany, who believe it is difficult enough to get agreement to legislative action within the EU without putting in place additional potential obstacles. However, their national parliaments, when consulted, tend to disagree.

One possibility is to beef up the role of an obscure Brussels body called Cosac that represents the EU committees of national parliaments. Cosac could give earlier warning of impending new legislation to national parliament scrutiny committees, and more actively

coordinate their responses in order to make the Lisbon treaty provisions more effective. The time limits by which national parliaments can make representations could be extended. The grounds for national parliament objection could be widened to include proportionality as well as subsidiarity.

The Conservative-Liberal Democrat coalition government of 2010–15 conducted a comprehensive 'balance of competences' review, involving detailed public consultation within the UK, to test the proposition of whether there were EU 'competences' that should be returned to the member states. After hundreds of pages of analysis in a series of departmental reports, the overall conclusion reached was that the 'balance' was broadly right and not much change was needed. William Wallace, the Liberal Democrat minister responsible for European questions in the House of Lords, took a close (and in terms of time commitment, heroic) interest in this thorough Whitehall exercise. It came up with conclusions many Eurosceptics did not like, but nonetheless Conservative ministers signed up for. This now makes it difficult for a majority Conservative government to argue for 'repatriation' of powers. For once the Eurosceptics were corralled.

Across the EU, however, there is great sympathy and huge support for stronger application of the principles of subsidiarity and proportionality (power 'flowing back' as Cameron elusively puts it) but not at the expense of the single market's disintegration. Before the new European commission took office at the end of 2014, the Dutch government advocated the idea of a new inter-institutional agreement between the European council, parliament, and commission on how the competences of the EU should be exercised in the future. The purpose of this exercise would be to reinforce a narrower focus on key policy priorities, strengthen the system of legislative impact assessment, give new dynamism to the process of regulatory review of the existing *acquis* (accumulated legislation), and add real substance to the principles of proportionality and subsidiarity in how the EU acts. Since his appointment as first vice-president of the commission, Frans Timmermans is trying hard to put these principles

into practice. The commission's legislative agenda has been cut back to the bare essentials. A comprehensive 'better regulation' initiative has been launched. From the UK government's perspective, this is very good news, but the government needs to do much more to acknowledge it – and bank it as a positive achievement of British-friendly reform.

However, for hardline British Eurosceptics, whatever changes are made to the role of national parliaments in the EU legislative process and however much effort is expended in applying the principles of proportionality and subsidiarity, this will not be enough. The 'holy grail' of British Euroscepticism is a unilateral right for the British parliament to 'disapply' EU laws in the UK. In terms of negotiability, this demand is totally unattainable because once conceded in a single member state, it would lead to the disintegration of the EU. Cameron knows this and has been clear that it is only collective action by a group of national parliaments he aims to reinforce. Yet for dozens of Conservative Eurosceptic MPs, this impossibilist demand – 'impossibilist' because they know it to be unattainable – remains their bottom line.

NOTES

1. Cameron, David. "Prime Minister's statement to the House of Commons on Tunisia and the European Council", 29 June 2015. *Hansard*, <http://www.publications.parliament.uk/pa/cm201516/cmhansrd/cm150629/debtext/150629-0001.htm#1506295000632>.
2. Winnett, Robert. "George Osborne: Britain should return to a trade relationship with the EU". *The Daily Telegraph*, 28 July 2015.
3. European council meeting (June 27th, 2014) – Conclusions. EUCO 79/14.

FAIR TREATMENT BETWEEN THE 'EURO-INS' AND 'EURO-OUTS'

Strengthened binding safeguards of fair treatment in the single market between those within the eurozone and those outside it have become crucial British objectives in the renegotiation. But what is the British government driving at that does not already exist? Non-discrimination within the single market is a core principle of the EU treaties. Rulings of the European Court of Justice (ECJ) have consistently upheld that core principle. A good example is their recent overturning of a European Central Bank (ECB) attempt to insist that clearing houses dealing in euro-denominated securities are physically based within the eurozone. In this case, the British government was of course pleased at what they saw as a victory for the City against the ambitions of the eurozone.

How far that praise will extend for the ECJ's consistency in upholding the principle of non-discrimination remains to be seen, for it is against that same principle of non-discrimination that the ECJ will judge member state attempts to discourage freedom of movement by denying benefits to EU migrants to which their own citizens are entitled. The British government is caught in a cleft stick: it aims to strengthen the treaty principles of non-discrimination in one policy domain and weaken them in another.

The spectre that the British government (and particularly Treasury officials) appear to fear is that, as the eurozone integrates, it will act more as a bloc. If the eurozone votes as one, it can muster a qualified majority in the council of ministers; that inbuilt majority could then impose single market rules that are detrimental to UK interests. This is a particular Treasury fear in relation to the City of London, where financial services regulation is subject to qualified majority voting, but it also potentially applies to other policy areas and sectors. Hence, the government argues, the need for new 'safeguards'.

The 'problem' of course is of Britain's own making. Britain has chosen not to join the euro. In the long road to Maastricht, where the project for a single currency first became specified in a European treaty, monetary union was envisaged as ultimately a project for the whole EU. Britain and Denmark won a permanent right of opt-out, but all other member states were treaty-bound in theory to participate in the single currency when they satisfied the convergence criteria. Few thought then in terms of a permanent division between 'euro-ins' and 'euro-outs'. Britain now appears to be asking for a clearer and more specific acknowledgement in the treaties that the division between 'euro-ins' and 'euro-outs' is a permanent one, and that EU decision-making should formally accommodate the interests of the permanent 'outs' as well as the committed 'ins' in order to secure a 'level playing field' in the single market.

A basic difficulty David Cameron and George Osborne face is that while they frequently assert that Britain will never join the euro (and British public opinion at present overwhelmingly agrees), most of our 'euro-out' partners are reluctant to say 'never'. Most 'euro-outs' still see themselves as eventual members of the single currency someday, or at least want to keep the option open, even though the euro crisis has warned everyone of the risks of forced convergence on an arbitrary political timetable. This poses an obvious political conundrum which divides the present 'euro-outs'. Britain wants its status outside the single currency to be more clearly recognised in treaty form, with stronger safeguards against discrimination by the

'euro-ins'. Other member states presently outside the euro are not so keen on their status as 'outs' being recognised as permanent, precisely because their fear is a reverse one: that the 'ins' may try to keep them in a state of what they see as second-class membership indefinitely, even when they aim in time to join as full members of the euro club. In Poland, for example, the question of eventual membership of the euro is highly contentious between the moderate centre and its more rightwing nationalist opponents.

This demand for a special status from the UK sits alongside a fact of life British policymakers find difficult publicly to acknowledge: the high degree of economic integration between the British economy and the eurozone. The City of London is the financial centre of the eurozone, handling roughly two thirds of all the eurozone's financial services business. Over 40 per cent of all British exports go to the eurozone – nearly half our goods exports, and over a third of services, including financial services. The vast majority of larger British-based businesses operate across the single market's borders and think in terms of Europe as their home market. As a result, Britain has not escaped the reality of the euro's existence or its consequences, by being outside it. Because it matters so much to UK economic prospects, the sustainability and prosperity of the eurozone is a core British national interest. In 2010, George Osborne concluded that eurozone break up would be a catastrophe for the UK. In the recent Greek crisis, he has consistently urged our eurozone partners to do all they can to keep Greece inside the euro.

What's more, the British government has acknowledged that, in Brussels language, economic and monetary union is 'incomplete'.¹ The single currency came into being with a single monetary policy but little more. In Osborne's view, greater fiscal and economic integration within the eurozone has an inexorable logic. The British government is therefore caught on the horns of a dilemma. It wants the eurozone to act more effectively together as a bloc, but at the same time it fears that the consequences of greater eurozone integration could be actions that either consciously or unconsciously discriminate against British interests in the single market.

Britain's dilemma became a real one in 2012, with the creation of the banking union. Two years earlier, as a consequence of the 2008 banking crisis, the British had been forced to make a fundamental (but largely unnoticed) change of policy on financial regulation. Whereas, for a decade or more before, the UK had insisted on minimal EU interference as financial markets were liberalised, it now recognised the need for stronger EU-wide regulation. The change of policy was first announced by Alastair Darling as chancellor of the exchequer, but swiftly confirmed, after the 2010 general election, by his successor George Osborne. At the same time Britain aimed to minimise the role of the new EU regulatory bodies by keeping EU directives "principles-based".² The new EU regulatory bodies were positioned as having a coordinating rather than directing role and as a result, relatively under-resourced. It was imagined that national bodies, especially those based in London, would continue largely in the driving seat as the main source of expertise and clout. Then in 2012, the mighty ECB took over prime responsibility for eurozone banking supervision.

When the eurozone banking union was established, the UK decided not to join. This was despite an offer by our EU partners that non-euro members could participate, but the British government decided (for reasons that have never been thoroughly scrutinised) not to take it up. However, the creation of a single supervisor and effective rulemaker in the ECB clearly had implications for the regulation of the single market in financial services across the whole EU. Although the ECB did not have a vote in the council of ministers, if all eurozone members acted on its advice it would command a qualified majority. As a result, as a concession to UK sensitivities, special voting rules were agreed for the European Banking Authority, mandating a double majority requirement for 'euro-ins' and 'euro-outs'. But these rules were explicitly classed as temporary: they would cease to apply when there were four or fewer non-euro members. Nor do they apply to primary financial services legislation which remains a matter determined by qualified majority voting in the Ecofin council of ministers. In theory a bloc or 'caucus' (in the more

unfortunate pejorative language sometimes used) of eurozone member states could impose new laws on the City of London, which the UK would not be able to stop.

In the UK government's eyes, to raise these concerns is perfectly legitimate. However, it has led our eurozone partners to believe that when the British talk of new 'safeguards' they are in effect asking for special protection for the City against the application of qualified majority voting. During the December 2011 European council discussion of the fiscal treaty, David Cameron tabled a last-minute set of demands which other leaders interpreted as an attempt to secure a unanimity rule on issues concerning the City. Cameron failed and Britain did not sign the fiscal treaty, but his move caused anger and consternation.

The British know that a new requirement for unanimity in the council on financial services matters is a 'red line' for our partners. How can it be democratically legitimate, if the eurozone faces a crisis, on what are fundamental questions of economic policy that are at the core of politics, for the consent of non-euro members to be obtained before the eurozone can act in its own public interest! The UK Treasury is in the wrong place on this issue. For example, they have objected to the fact that our partners made use of funds from the European Financial Stability Mechanism, by qualified-majority-voting decision, to assist Greece in the July 2015 Greek crisis, despite earlier assurances that they would not be used in aid of the euro rescue. The purpose was to obtain the emergency funding necessary to enable Greece to pay its outstanding debts to the International Monetary Fund and ECB, which would otherwise have resulted in a Greek default. Given the gravity of the Greek crisis, the consequences of Grexit for the whole European economy, and the fact that Britain was vocal in its demands that Grexit be avoided, Treasury complaints ring hollow: they are a denial of the reality of politics.

A veto right for London on City questions would also breach a fundamental principle of the EU. If every member state demanded special protection for the sector which was most crucial to its

economy, there would be no single market. Despite claims sometimes made by British Eurosceptics, the French have no veto over agriculture: decisions on the future of the common agricultural policy are made by qualified majority. Why should London's financial services enjoy a special favour they do not?

Finding a political solution to these questions has not been helped by visceral suspicions of the City of London in continental political circles. 'Bankers' are blamed for the scale of the 2008 crisis and the UK government is held responsible for the fact proper financial regulation was not in place at EU level to prevent it. There are elements of absurdity in this. It was not just bankers in the City of London who committed huge mistakes; they did so across Europe. And there was no intellectual or policy consensus that either anticipated the scale of the crisis or conceptualised regulatory reforms that might have averted it. Nonetheless, the emotional anger is only slowly fading.

Is there a way through this impasse? The British government denies that their aim is to secure unanimity on City matters. But if not, what are the British after? The truth is that the City and euro-zone are bound up with each other so inextricably that the only way of dealing with inevitable regulatory tensions is through consistent engagement and the building of long-term trust. Codifying processes may be of value here:

- Close working relations between the ECB and Bank of England are the *sine qua non* for non-discriminatory behaviour.
- Procedural mechanisms mandating non-eurozone observer participation in all meetings could help.
- A provision for an 'emergency brake' where a member state that spots an issue that they see as vital to their national interest can have the matter discussed at the European council, could be a last resort.

There is a bigger responsibility on the City as well to ensure that the political class across Europe understand how its activities contribute to jobs and growth. It is significant that the proposals to

introduce a financial transactions tax by France and Germany appear to have been much watered down as soon as businesses in those countries realised how much such a tax might damage their ability to raise capital.

By a wide majority, the City of London wants Britain to stay part of the EU. Being outside will for them be a far worse alternative, with many banks and financial institutions already warning that they would reduce their presence in the UK. What matters to the City above all is having a British government that is committed to the success of the City within the EU's single market.

Is it only the City that needs special single-market protections against potential abuse of eurozone power? Following the Greek debacle of July 2015, the debate about the necessity for further eurozone integration is once again firmly on the table. François Hollande is attempting to give new momentum to old French ideas about a '*gouvernement économique*': a continental political/fiscal authority at eurozone level to match the monetary independence of the ECB. Wolfgang Schäuble, the German finance minister, has reiterated his support for the creation of a eurozone finance ministry. Sigmar Gabriel, the Social Democrat vice-chancellor of Germany, and Emmanuel Macron, the reforming French economy minister, have tabled a set of proposals for more convergent economic policies within the eurozone. Eurosceptics may see in these developments a threat to UK interests, though there is very little specific in these ideas that could as yet be so defined.

However, from the perspective of the British renegotiation, assuming there is no further dramatic instability in the eurozone, none of this speculation will come to fruition in terms of treaty change until after the French and German elections in 2017. Until then, much as British policymakers may wish differently, it is impossible to anticipate what a two-tier Europe would look like, how this might in theory have an adverse effect on Britain, and what 'safeguards' against those adverse effects might be possible.

What might be achievable would be for the European council to agree a declaration of principles about the future shape of a two-tier

Europe, and Britain's place within it. Such a declaration could address the reality of an increasingly two-tier EU, with a more closely integrated inner-core eurozone and the existence of a group of member states outside, for whom membership is not in prospect for the foreseeable future. Such a declaration of principles would nonetheless immediately raise a number of difficult, if not intractable, issues that would have to be resolved if a two-tier Europe were to be formalised. For example:

- How legitimate is it for a commission and parliament representing all 28 member states to rule on policies that only concern the 18 member countries of the eurozone?
- What would be the basis of representation on eurozone matters: population, GDP, potential financial liability?
- Would representatives of national parliaments sit alongside MEPs in decision-making on eurozone economic and fiscal policy?
- Would a double-majority system of eurozone 'ins' and 'outs' operate in the European parliament and council of ministers – and on what issues?
- For which EU appointments could candidates from non-euro member states still be eligible?
- If British MEPs could no longer vote on eurozone matters, how would these issues be defined and by what procedure, and would that in reality weaken UK influence over eurozone policies?
- What would happen to voting arrangements on other issues where member states have opt-outs – for example on Schengen, asylum rules and European defence cooperation.

These questions are the EU equivalent of the West Lothian question – and given its known intractability, it seems heavily against the odds that they will be resolved in David Cameron's timetable for renegotiation. An informal two-tier Europe is what Britain has in practice opted for by its self-exclusion from the euro. This may be for good reasons, but there are limits to how much, in reality, Britain can secure the benefits of being both an insider and outsider

at one and the same time. This was the harsh lesson Britain learned from the treaty of Rome onwards and led to Harold Macmillan, Harold Wilson and Edward Heath pursuing the goal of full British membership.

Britain is raising large issues but in its renegotiation is likely to achieve small results beyond strengthened treaty guarantees against non-discrimination.

NOTES

1. Juncker, Jean-Claude (in close cooperation with Tusk, Donald, Dijsselbloem, J., Draghi, M., and Schulz, M.). *Completing Europe's Economic and Monetary Union* (Brussels: European Commission, 2015).

2. Darling, Alistair. *Chancellor of the Exchequer's letter to EU Finance Ministers*, March 2009. This letter accepted the principle of EU financial regulation, the structure of which was agreed – by the UK and other member states – at the ECOFIN meeting in December 2009.

A NEW DEAL ON MIGRATION

Migration is a huge issue that that affects many member states within the EU. To listen sometimes to our domestic political debate one might imagine that migration was an issue that uniquely ‘threatens’ Britain. The truth is that other member states have experienced migration on a far bigger scale both absolutely and in proportion to their population. Germany and Sweden are two examples. If migration creates political problems within EU member states, where there are important similarities of political culture, then it ought to be possible in theory to develop a common approach. A ‘new deal’ ought to be negotiable.

However, the migration problem is multifaceted as well as politically toxic. Most member states now have a significant political party whose support base largely rests on anti-migrant feeling. Migration is a major political issue for them, as well as for us. This creates an inevitable domestic political angle to any change or ‘concession’ on migration policy that might be offered Britain. For our partners, any specific deal for the Brits could become a major domestic complication in ways that the question of ‘ever-closer’ union or ‘fairness to “euro-outs”’ never would. This poses Cameron with a significant and awkward political choice. Does he accept political reality and narrow the scope of what he can in practice achieve, yet trumpet the

outcome as a major victory? Or does he try for a genuine 'new deal' on migration which can win support from other member states? In a way it is a choice between the politics of public relations and the politics of substance. But if he goes for the substance, a package deal may involve reforms that would be a hard sell with his target audience in Britain.

The current focus in most of the EU is on refugees: the tide of desperate people seeking a new life in Europe as an escape from the horrors of war and dire poverty in Africa and the Middle East. Of these, many are refugees genuinely entitled to asylum; others are often equally desperate 'economic migrants' and the distinction is often hard to draw. The question of how to control these flows, how to assess their refugee status and how to share the 'burden' of accepting legitimate new arrivals is acutely divisive within the EU. The British government has accepted that this is a matter of 'common concern' to EU member states and has joined humanitarian and rescue efforts, but has so far refused to participate in EU burden-sharing schemes that would involve the UK accepting an agreed quota of refugees. Cameron has agreed only that Britain will, over a five-year period, accept 20,000 additional Syrian refugees from camps in surrounding countries.

Rather, the British government has chosen to put its main effort into strengthening our national border controls at Calais, which we continue to exercise as a non-participant in Schengen, in order to deter migrants from crossing the Channel. The effectiveness of such efforts depends on the continued willingness of the French and Belgian governments to allow the UK to police its border within their territory. The present UK policy is acutely vulnerable to a breakdown in cooperation with our closest EU partners. The British negotiating position on the migration question is far weaker than most of our politicians accept, and still less acknowledge.

In Britain by contrast, over most of the last five years, the debate has mainly focused on 'freedom of movement' within the EU. This is also an issue in other parts of Europe: for example, one million Romanians are estimated to be living and working in Italy, but on

the whole, in other member states, it is not such a difficult one. The German economy has been needing and accepting migrant labour from other parts of Europe (and Turkey) since the 1950s. In France, there have been periodic demands from the far right to abandon Schengen and reintroduce national border controls on all forms of migration. In the mid-2000s a major public concern was the 'Polish plumber' stealing French jobs. But immigration also touches on fears of loss of French identity in face of what anti-immigrant politicians describe as the creeping 'Islamisation' of French society. Mainstream French politics has not been insulated from these pressures. Nicolas Sarkozy, in his desperate efforts to win over National Front (FN) voters in the second round of the French presidential election in 2012, pledged to reinstate national border controls. In the autumn of 2014, Marine Le Pen, the FN leader, demanded action to protect the French borders and prevent the 'floods' of migrants from outside the EU making their way to Calais in their attempt to seek work in the deregulated labour markets of the UK. Yet for all this sound and fury, the Schengen agreements – in France and other EU countries – that have led to the dismantling of vexatious border controls over much of the continent (from which the UK and Ireland have opted out) have become an accepted and welcome part of modern European life.

Cameron approached the migration issue warily – and he was right to do so. It was not mentioned in his January 2013 Bloomberg speech, except to warn that withdrawal from the EU could affect the lives of Britons living and working on the continent. Until the October 2014 Conservative party conference, Cameron was careful to confine himself to supporting new rules on migration that would apply to new countries joining the EU, not interfere with migration rights for existing EU members. However, the Conservatives had added curbs on 'benefit tourism' to their list of renegotiation demands in the light of the UK Independence party's surge in the spring and summer polls of 2013. These demands encompassed curbing entitlement to unemployment benefits beyond three months residency in the UK, and restricting access to public services free

at the point of use, principally the NHS. The media frenzy over the ending of the UK's transitional controls on free movement of labour from Bulgaria and Romania in January 2014 added to the pressure to sound 'tough'. In December 2014, Cameron had added to his renegotiation demands a specific proposal to deny EU migrants access to in-work benefits until they had worked for four years in the UK, on the basis that such benefits were a significant 'pull factor' in attracting EU migrants to Britain. However, in deference to warnings from the German government and the European commission, he fell short of arguing for the introduction of temporary quota controls on EU free movement which John Major had floated earlier.

Cameron's caution was for good reason. Free movement of labour is one of the founding 'four freedoms' established in the treaty of Rome. It is as much a part of the common market (which is all, according to the Eurosceptics, that we voted to join in 1975) as freedom of movement of goods, services and capital. What's more, millions of Brits have taken full advantage of it. The question for any renegotiation is whether this freedom is absolute, or can in some way be qualified, and whether to so do, requires treaty change or can simply be obtained through clarifying or amending existing EU directives.

On the issue of so-called 'benefit tourism', the evidential basis for believing that abuse of benefits by EU migrants is widespread is thin, if 'abuse' refers to those who come to Britain with no intention of seeking work, but with the sole purpose of living a life of idleness and sloth off UK social benefits. Most EU migrants are young people only too keen to work and earn: their employment rate is higher than native citizens of a similar age. Nonetheless, claims of benefit tourism strike a chord across the EU, not just the UK. One reason for this may be that anger at 'benefit tourism' is a polite proxy for widespread public prejudice against the Roma, who for all kinds of historic cultural reasons integrate as badly into western societies as in the south-east European nations of their origin, where they suffered centuries of harsh discrimination.

UK tensions over benefit tourism reflect the way in which the British social security system has evolved since the Beveridge report in the 1940s. What started as an 'insurance' model has gradually become a means-tested system. Over decades, the British welfare system has prioritised 'need' over 'contribution', in part because generous contributory benefits were judged unaffordable. There is little earnings-related element in unemployment insurance; instead social benefits mainly reflect family size and housing costs. Social housing is allocated on the basis of need and homelessness, not length of stay on a waiting list. Tax credits vary according to earnings. Benefits that were once universal, such as child benefit, are no longer available to higher-rate taxpayers. Whether or not Britain had seen large-scale labour migration, it is questionable whether the present welfare consensus among the elites chimes with the attitudes of the general public. But the reality of large-scale labour migration has broken the perception of 'fairness' necessary to underpin any social welfare system.

Finding acceptable solutions to those problems depends mainly on reform of national social security systems to shift entitlements back towards the contribution principles of William Beveridge. Yet it ought also be possible to change EU law to reflect the legitimacy of the principle of contribution before an entitlement to benefits (and access to other non-emergency services offered by the welfare state) is established. Most social democratic parties, certainly in northern Europe, would advocate such a change.

It should also be negotiable to tighten the rules on so-called 'benefit tourism' and send home migrants who fail to find work. There is political momentum among our EU partners behind the demand for benefit abuses to be tackled. The general principle that there is an absolute right to travel across internal EU borders and an absolute right to work in any member state will be reaffirmed. Yet our EU partners will agree that there is no right to remain beyond a strictly limited period unless migrants demonstrate their ability to support themselves and their families through obtaining and keeping

a job. Stricter enforcement of existing 'free movement' rights should therefore be achievable.

However, while these actions would tackle 'abuse', they would not significantly reduce the scale of internal migration, which is largely driven by economics. The eurozone has been locked in stagnation and at best slow growth. Huge divergences in living standards between all EU member states remain, and between north and south they are growing. In these circumstances, the plentiful supply of jobs in the UK's loosely regulated labour market will continue to be a strong magnet.

Large-scale eastern European labour migration has occurred in a decade when wages and standards of living for families in the broad middle of the income distribution have been squeezed and on average have fallen. Most economic research disputes the reality of any general causal relationship. Yet it can be no surprise that the public makes a link between the two phenomena. There are clearly some instances of competitive wage undercutting, for example where foreign subcontractors bring over groups of migrant labourers to work at (or below) the minimum wage or where highly skilled migrants can undermine and outperform pockets of labour monopoly that particular groups once enjoyed because of previous shortages of skilled labour.

Some of the labour market problems that UK citizens experience as a result of migration are mainly ones for national labour market regulation: for example, the setting and enforcement of minimum wages or a new 'living wage' as George Osborne proposed in his July 2015 budget; the abuse of subcontracting; and the regulation of zero-hour contracts. The UK could take domestic action to make its labour market less flexible. These are not matters the rest of the EU can resolve for the UK, but EU action could help. A less ideologically free-market British government could press for strengthening EU rules on the 'posting of workers' that better protect enforcement of minimum wages and collective agreements. This is a Dutch objective for their presidency of the council of ministers in the first six months of 2016, which the UK could back. The UK could also

argue for EU curbs on the abuses of some employment agencies. Also, the idea of setting up a new EU fund to help localities that are suffering the stresses of migration should be developed; it is a sensible reform of the EU budget for which the UK should argue.

Numerical controls on internal EU migration are altogether another matter – and clearly impossible within the EU treaties as they stand. Cameron is seeking to find a way through this dilemma with his proposal to deny EU migrants access to in-work benefits – tax credits and child benefit – for four years. In the UK, tax credits serve to top up low wages and are available universally on the basis of family income (wherever the rest of the family lives) not on the basis of past contribution. The impact of Cameron's proposed tightening of the tax credit rules would be on migrants, the vast majority of whom (to repeat an overworked political sound bite) 'work hard and play by the rules'. The belief is that a four-year wait before migrants can claim in work benefits will reduce the incentives for EU citizens to come and work here.

However, the proposed four-year stay on benefit entitlements would obviously not deter highly skilled people who come to work in the UK in well paid jobs. Nor does it seem plausible that it would have much impact at the bottom end of the labour market on single young people who come to Britain to work because there is a plentiful supply of low paid jobs – jobs, it has to be said, that employers in many parts of the UK find it difficult to fill with native British talent. The main reasons for this are not much to do with low-wage competition forcing British young people into involuntary unemployment. Rather they reflect: the deep regional imbalances within the UK; the mismatch between the availability of decent housing and the places where jobs are plentiful; the failure of the English education and training to produce people with right levels of basic skill and aptitude for employability; and cultural barriers to undertaking certain types of work such as fruit-picking and service in hotels.

For these reasons, it is highly problematic whether the proposed curbs on in-work benefits would create new job opportunities for British workers or do much to stem migration flows. The likelihood

is that they would have a partial but not significant impact. They therefore come into the category of political promises that are dreamt up to address a general grievance that may turn out to have a small practical effect. A legitimate question is whether this is the way to rebuild the appallingly low levels of trust people have in politicians and politics, especially on immigration.

Unfortunately, Cameron's demands on in-work benefits appear to contradict our existing European treaty obligations, which have been agreed by every member state on the basis of unanimity and supported by successive British governments of all parties. Article 45 of the treaty on the functioning of the European Union lays down that citizens of other EU member states should enjoy "equal treatment with nationals in access to employment, working conditions and all other social and tax advantages". It is difficult to see how the European Court of Justice (ECJ) could regard any new EU directive or national law to deprive EU citizens of access to tax credits and other in-work benefits as compatible with that treaty article.

Treaty change is of course technically feasible, as the foreign secretary, Philip Hammond, has hinted. It might be achievable quickly, if member states agree that the treaty change be made within the simplified revision procedure of the Lisbon treaty, as happened in 2011 when the European Stability Mechanism was established. But such a change to the treaties cannot be made on the simple say so of David Cameron, the European commission or even Angela Merkel, the German chancellor. Every single member state has to agree the change and obtain parliamentary approval within their own country for it.

Why would Poland or other eastern and south-eastern EU member states voluntarily agree to forgo the rights of their nationals in this way? Why should they give in to what they will see as Cameron's attempted blackmail on the basis of a threat to leave the EU? Most will regard his threat as empty bluster given Britain's dependence on access to the single market. Is the British prime minister seriously going to put at risk the half of UK goods exports and over a third of our overseas services earnings that depend on access to the

European single market, all because he cannot obtain a four-year delay in migrant entitlements to in work benefits?

There are three possible ways through this likely impasse. First, Cameron drops or softens this set of demands: this will of course offer the kiss of life to Ukip. It will delight those Eurosceptic backbenchers now joining the 'Conservatives for Britain' group, who hypocritically claim they want to stay in the EU if better terms can be renegotiated, but in fact are itching to condemn the whole exercise as a fraud so they can campaign for withdrawal.

Second, the UK could agree to pay a price in future for getting other member states to agree to a treaty amendment. This price might well involve increased British contributions to the EU budget. The poorer member states who have been the source of much low-skill migration to the UK might reasonably argue that if their unemployed citizens are to be denied their fundamental treaty rights to fair access to labour markets in more prosperous member states, then their member states should be entitled to increased structural fund transfers to promote their faster domestic development. One possibility would be a supplementary fund to the social fund to enable eastern Europeans to receive training and work experience in their own countries without moving elsewhere. Would that be an impossible price to pay?

Third, the government could alter the benefit entitlements of UK citizens so that access to in work benefits would be restricted until after completion of say, two or four years of contribution. This would meet EU non-discrimination principles and treat all EU citizens equally, including British citizens. There is a strong case for this as a desirable reform to rebuild public confidence in our welfare system: a return to the principles of Beveridge for a new century, on the lines that Frank Field, for example, has advocated.¹

However, this would involve an admission by the government that this major change in Britain's social security entitlements was being implemented to comply with EU rules. What would the Daily Mail think? They might agree with the policy, but criticise its European inspiration. A weaker alternative would be to argue for a

‘residency requirement’ before in-work benefits are paid: this would restrict entitlements for Britons who had worked abroad (but not to all British resident citizens) as well as migrants from other EU countries. There is some risk that such a policy might come under legal challenge before the ECJ as a quasi-discriminatory measure, though in all likelihood some time only after a referendum had taken place!

On the migration question, as matters stand, there is no obviously happy outcome. Pro-Europeans need to start making the argument that the free movement of people is as much part and parcel of the single market as the free movement of goods, services and capital. Internal EU migration has been a considerable economic benefit all round, including to many millions of Britons. Free movement is increasingly vital to the viability of the public services that British citizens hold most dear: for example, in the NHS, it is one of the few means by which the present shortage of qualified nurses can be addressed. However, the present situation is leading to unacceptable social tensions. All markets, including the labour market, within the ‘social market’ economy of the EU need to operate in a reformed and strengthened framework of social and public interest rules that apply across the whole EU. A major reform package to re-regulate migration within the EU is necessary to bolster public support for European integration. This would involve:

- more proactive deployment of a larger EU budget, to tackle migration pressures at source, both outside and inside the EU, as well as help member states and localities under migration stress;
- better enforcement of the EU common border;
- a fair sharing of the refugee burden;
- tightening EU-wide labour market and social security rules;
- a recognition that contribution is a condition of entitlement;
- and action to curb potential benefit abuse.

Yet elements of this reform package could put David Cameron at odds with his own supporters. His UK-centric approach in his renegotiation risks crossing an extremely difficult and dangerous line.

He is putting at risk the rights to free movement of which millions of British citizens take full advantage, including the two million British citizens estimated to be currently resident in other EU member states. If he wishes to secure a new deal on migration, then Britain will have to show more sense of collective European responsibility for tackling the migration problem. To promise to ‘solve’ the migration problem with national ‘fixes’ that in practice will affect migration flows very little would simply undermine further the public’s trust in politics.

NOTE

1. Field, Frank. “Rebuilding Beveridge”, *Prospect*, 19 September 2012. <http://www.prospectmagazine.co.uk/opinions/rebuilding-beveridge-welfare-frank-field>.

A MORE COMPETITIVE EU

On the face of it, David Cameron should not have too much difficulty in demonstrating progress in making the EU “a source of jobs, growth, innovation and success, rather than stagnation” as he put it in his June Commons statement.¹ The Juncker commission has grasped the nettle of economic reform with more determination than any commission since that of Jacques Delors. The European council has endorsed a five-year agenda of policy goals that meets virtually all the British demands for the extension of the single market and new freetrade agreements. And the European parliament has signed off its agreement in principle.

The commission has already produced ambitious plans to take forward the projects of a digital single market and capital markets union. It promises enforcement action to ensure member state compliance with the 2005 services directive. Its actions on competition policy have been unexpectedly robust under the new Danish commissioner Margrethe Vestager. On the trade agenda it is sticking to the objective of an ambitious transatlantic trade and investment partnership (TTIP), despite an unprecedented campaign orchestrated by NGOs (which has drawn considerable support within the European parliament) against the dispute mechanisms designed to secure investor protection.² In addition, to complement this burst

of economic reform activism, the commission has dramatically cut back on its proposals for new legislation and regulation.

Under Frans Timmermans, the commission has produced a 'better regulation' package in line with longstanding British ambitions. Juncker's appointment of Timmermans, the former Dutch Labour foreign minister, as his deputy is a highly significant and positive change from Cameron's perspective. It puts a key British ally, who is totally committed to keeping the UK as a member of the EU, in a crucial position on a subject of huge UK sensitivity.

It remains to be seen of course how much of this agenda is implemented. Promises of reform have been made before, as in the first year of the Barroso commission in 2004, yet progress was limited. However, in the term of the 2014–19 commission and parliament, there may be a more favourable political opportunity. Juncker is on record as having talked about him presiding over the "last chance commission" for Europe.³ While the eurozone has stabilised since 2012, lack of sustained growth has created a renewed impetus for structural reforms to raise productive potential. In key member states, attitudes towards economic reform are much more positive than they once were, particularly on the part of the governments that came to power in France and Italy in 2014 under Manuel Valls and Matteo Renzi respectively. Cameron could demonstrate progress towards his goals by signing agreements with other member states supporting key aspects of his reform agenda, as he succeeded in doing with Spain in September 2015. At the European council, he could attempt to secure deadlines for agreement on crucial pieces of legislation.

Yet the great unknown is how Cameron intends to take advantage of this new reforming mood for the purposes of his renegotiation. There remain critical difficulties for him in doing this, arising from a clash of (mis)perceptions within his own party. The British Eurosceptic perception of Brussels is as an overmighty agent of bureaucracy and regulation. In their mindset, the European commission and parliament are seen as having a single-minded mission to regulate business, to stifle enterprise with red tape, and lumber

onto companies burdensome obligations to strengthen consumer protection, corporate governance requirements, employment rules, environmental sustainability, and health and safety provisions – all adding to business costs and reducing competitiveness.

No one would dispute the genuineness with which these views are held. They represent a yearning for a model of raw, free enterprise capitalism, redolent of Britain at the height of its economic success and power in the mid-19th century – before the rise, first, of organised labour, then of social liberal and social democratic parties committed to the creation of a welfare state, culminating in the Keynesian/Beveridge postwar settlement. This also marked the start of the era in which Britain's long relative decline became apparent. For British Eurosceptics, the Thatcherite 1980s were a miracle of economic renaissance: with trade union power vanquished, the nationalised industries privatised, the City liberalised and top tax rates slashed, the enterprise spirit was reborn. The simultaneous advance of globalisation gave Britain the opportunity to rebuild the commercial strength it had once enjoyed at the height of empire. Yet in the Eurosceptic mindset two factors continued to hold Britain back: the attachment of the British electorate to public services and a welfare state that even politicians of the mettle and courage of Margaret Thatcher were unwilling to challenge head on; and Britain's entrapment as members of the European Union.

This vision has little if no resonance on the continent. Business people, heading some of the most successful international companies in the world (of which there are far more than in the UK), happily sign up to the European concept of a 'social market' economy. They may complain about high taxes and object to particular laws and regulations, but they do not challenge the basic assumptions of social partnership, nor the idea that open markets should be subject to proportionate cross-border regulation. Indeed, they see regulation that demands high standards as assisting competitiveness and acting as a barrier to low-cost competition. The most important feature about the single market from their perspective is that it has abolished the alternative – which would be 28 sets of different national

regulations – and that the EU as bloc is able to use its economic power to ensure fairer trading terms than would otherwise be available for their businesses in global markets.

The critique of the ‘social market, single market’ consensus on the continent comes generally from the left, not the business community. From that quarter, the common continental argument is that the EU has been too uncritical a handmaiden of globalisation and liberalisation. German political economists of the eminence of Fritz Scharpf and Wolfgang Streeck argue that the founding ‘four freedoms’ of the Rome treaty, as backed up over the decades by European Court of Justice jurisprudence and the commission’s exercise of its competition powers, now represent a significant neoliberal threat to the European nation state’s ability to maintain a social and economic order that reflects the underlying principles of a social market economy.⁴ These intellectual critiques of the European model are of course echoed in the raw anti-Europeanism of the populist right and left.

Cameron and George Osborne therefore face considerable barriers of ideological understanding in persuading their supporters that the EU has now grasped the nettle of improving European competitiveness. Conservative Eurosceptics (though this is not true of Cameron and Osborne personally) have never properly understood the difference between a free trade area and the much deeper economic integration that the single market makes possible. Previous British governments of all parties have traditionally supported the rights of the commission to open up markets and the European court to enforce fair trading rules, because of the UK national interest in a strong competitive single market. However, persuading Eurosceptics that this is the way forward to a more competitive Europe will not be easy.

Rather, Eurosceptics traditionally argue for an agenda of repatriation and deregulation, combined with greater discretion for member states. This is frankly contrary to a rational view of the UK national interest. Cameron and Osborne must realise that the only way through this clash of perceptions is not to set out on an impossible mission to rip up or repatriate the EU *acquis*, but rather

to ensure that the commission has a strong reforming agenda which the British government should back with all possible vigour. They should also welcome the commission's efforts to ensure EU laws and regulations are proportional to their purpose and fairly applied in all member countries. This is the Timmermans agenda, on which Cameron should hope to build. Yet how Cameron and Osborne seek to convince the Conservative party of this is as yet unclear. When Conservative Eurosceptics talk of a 'reformed' EU, they imagine British membership of an entity which is confined to the limited purposes of 'trade and cooperation'. There is no way Cameron and Osborne can in practice deliver on this aspiration. The question is how far they will press for mere symbols.

In seeking to satisfy their own Eurosceptics, one obvious blind alley that Cameron and Osborne might venture down would be to press for a renewal of John Major's Maastricht opt-out from the 'social chapter'. So far they have made no explicit commitment to this. There has been a lot of unspecific language about the need for a more competitive Europe and some reference to the problems that the working time directive has caused. But so far at least the government has avoided a clear commitment to make rolling back the impact of EU social legislation one of its specific renegotiation objectives. Indeed, the Financial Times has been authoritatively briefed that the renegotiation is not seeking a renewal of John Major's social 'opt-out'. One suspects that the government is trying to work out what, if anything, they can 'get away with' in this policy domain.

This caution is for good reason. The whole of the 'social Europe' area is a legal and political minefield for the British Conservatives. They would be wise to steer clear. First, there is no longer an overwhelming demand from business in the UK that EU social legislation represents an unsupportable burden. This was evident in the major study of the European issue that the CBI presented in advance of their annual conference in November 2014.⁵ There are continuing complaints about the costs to business associated with the working time directive, but as the British Conservatives learned to their cost in the 1990s, the legal base in the treaties for this measure was

‘health and safety’ not the social chapter. Opting out of the social chapter was not sufficient to exempt Britain from its provisions.

The British could of course now press for a separate opt-out from the working time directive, but for reasons explained below, it is very difficult to see how this could be achieved. If such an opt-out amounted to a treaty change, the French for certain would use their veto on the grounds that it would permit ‘social dumping’. In other words a national strategy of low-wage competition based on labour market deregulation and cutting social costs to employers. If it amounted to a change in legislation, a majority in the European parliament would have to agree, which is highly problematic.

Second, there is no longer a separate ‘social chapter’ in the EU treaties from which Britain could seek a general opt-out. Rather, the Lisbon treaty entrenches social objectives within the overall aims of the EU. The treaty contains a new horizontal ‘social clause’, the principles of which are intended to govern all the EU’s specific actions. So to demand a social opt-out is in effect to demand a rewriting of the Lisbon treaty: something which Cameron and Osborne know is an impossibility. And they could face legal challenge on any UK-specific concession that arguably conflicts with the Lisbon treaty’s social goals and the horizontal social clause.

Third, any attempt to weaken Britain’s commitment to the existing social *acquis* would be a symbol to some of our partners of ‘social dumping’. It is a classic example of an issue over which the continental left would love to fight a great battle with the British Conservatives. Maybe Merkel, as a German Conservative, might admit to David Cameron privately that she has sympathy with his concerns about employment over-regulation, but in all likelihood she would immediately retreat from offering public support when the German Social Democrats in her grand coalition began to stir in opposition. Equally, François Hollande would be only too keen to display his socialist credentials by opposing such a proposal. This is much more than political posturing. The Delors idea that the single market has to be ‘flanked’ by effective regulation in the social, environmental and consumer fields is deeply entrenched in European thinking.

Fourth, it would divide the pro-European constituency in Britain. Opt-outs from EU social legislation could tip the trade unions and large sections of the Labour party into opposition to Europe in the coming referendum. Such a stance on their part would be foolish in the extreme. Whatever Cameron may put forward as the result of his renegotiation, it cannot be a view of Britain's future in Europe for all time. There would be nothing in what Cameron proposes to prevent a future Labour government reversing whatever terms on 'social Europe' he has managed to negotiate; even in the likely event he managed to secure treaty change, that is always reversible. Better then for the left and trade unions to fight to stay in and for a more social Europe.

Fifth, were EU social legislation no longer to apply to the UK, the government would have to be clear what, if anything, would take its place. Would there be domestic legislation and how far would it secure the same standards of social protection as the EU currently provides, for example on four weeks' paid holiday, maternity and paternity rights, consultation on redundancy, equal treatment of agency and part-time workers and a host of other issues. Are these the type of social protections that the British government would like to see denied to British people at work? How would this be consistent with a government that sees itself as representative of working people and is legislating to introduce a 'living wage'? This does not seem to appear an obvious agenda for supporters of a centrist compassionate conservatism.

These seem powerful practical arguments for Cameron to steer clear of the social question. What Cameron might obtain is a commitment from the commission to 'modernise' the existing body of EU social legislation for the labour market of the 21st century. The commission has already made a commitment in principle to such a review. This would be a worthwhile endeavour, and doubtless Cameron and Osborne could dress up the objectives of such a review in language that would appeal to their Eurosceptics. But the idea that the outcome of such a review could be specified in detail in advance in time for a British referendum is wholly unachievable. Those who

fear that the result would be a weakening of social protection should remember that every line of every legislative proposal would have to be approved by the European parliament.

NOTES

1. Cameron, David. "Prime Minister's statement to the House of Commons on Tunisia and the European Council", 29 June 2015. *Hansard*, <http://www.publications.parliament.uk/pa/cm201516/cmhansrd/cm150629/debt-ext/150629-0001.htm#1506295000632>.

2. The strength of the NGO campaign against ISDM and the risks of TTIP enabling global corporations to attack and privatise the NHS has deeply penetrated the thinking of the new Labour leadership under Jeremy Corbyn and many of his trade union backers. The European parliament voted in June 2015 for a compromise resolution on TTIP which called for reform of the ISDM procedure, but not its abolition. British Labour MEPs opposed this compromise.

3. Juncker, Jean-Claude. Setting Europe in Motion: President-elect Juncker's Main Messages from his speech before the European parliament (*European commission*), http://europa.eu/rapid/press-release_SPEECH-14-705_en.htmf.

4. Streeck, Wolfgang. "The Crisis of Democratic Capitalism", *New Left Review*, 71 (2011): 5–29.

Fritz, Scharpf. *Governing in Europe: Effective and Democratic?* (Oxford: Oxford University Press, 1999).

5. CBI. *Our Global Future: The Business Vision for a Reformed EU, 2013*, http://www.cbi.org.uk/media/2451423/our_global_future.pdf.

PROSPECTS FOR THE REFERENDUM AND THEREAFTER

THE CONSERVATIVE POLITICS OF THE REFERENDUM

Were David Cameron to make a firm recommendation in a referendum for continued membership, this would carry great weight and in all likelihood be decisive. He carries more respect as prime minister than any other figure in British politics, and his popularity ratings are consistently ahead of his party's.¹ Current polling suggests that a firm Cameron recommendation to stay in makes at least a 10 per cent favourable difference to the in-out margin. His advocacy of continued membership would be a decisive swing factor for many Conservative voters. The questions that this section seeks to answer are twofold. Can we be certain that this will be Cameron's call? Will he manage the referendum in a manner best calculated to ensure victory for the pro-EU side?

Cameron comes from an old-fashioned school of Conservative pragmatism, which believes, above all else, that it is in the national interest that the Conservative party remains united and in power. A big question in his mind will be whether he can achieve this objective and keep Britain in the EU at one and the same time. If the price of victory in the referendum is a damaging and permanent split in his party, would he be prepared to pay it? There is of course another way of looking at the dilemma he faces. The leitmotif of Cameron's leadership has been the desire to modernise the Conservative party,

cleanse its toxic public image and shift its political positioning onto the centre ground. Cameron's detractors accuse him, to an extent justifiably, of inconsistency in this goal: if his and George Osborne's goal was to occupy the centre ground, the Conservatives made some bad mistakes in the last parliament. Examples of this include the unnecessary NHS reorganisation; the cut in the top rate of income tax in 2012; and the 2014 autumn statement's plan for the public finances which suggested that the Conservatives' aim was to cut the size of the state to the same proportion of GDP that it was in the late 1930s. In their defence they would argue that it is not easy to be 'centrist' comfortably at a time of falling real wages for the majority and harsh restraint in public spending. Moreover, they did succeed, totally against Labour's expectations, in retaining public support for the central 'austerity' thrust of their economic policy and for controversial welfare reforms. Yet they did not remove the so-called toxicity of the Conservative brand, as a party obsessed with a rightwing ideology, not with the interests of ordinary people as its first concern.²

Conservative modernisation under Cameron has so far lacked its 'clause IV moment', when Tony Blair's New Labour abandoned, indeed publicly stamped upon, the ideological commitment to public ownership which had been a central part of 'old' Labour's identity. Blair succeeded where Hugh Gaitskell in 1959–60 had failed, as Harold Wilson memorably described it then, in "taking Genesis out of the Bible" (though Wilson's comment was typically subtle in its double meaning, as most Christian believers had long abandoned fundamentalist creationism in the century since Charles Darwin's *Origin of the Species*).³ Is Cameron's European renegotiation and referendum the 'clause IV moment' that the Conservative party has not yet had? The issues are different of course in that Conservative anti-Europeanism could always draw on a rich vein of public and media support, whereas the electoral constituency for Labour's commitment to the public ownership of the means of production, distribution and exchange was always more limited. Yet what made Cameron stand out from his predecessors since 1997 was his brave

remark in his 2006 conference speech that the Conservatives would never win back public trust while they continued to bang on about Europe.

For Cameron, his European 'clause IV moment' would not amount to a Damascene conversion to the ideals of a united Europe. He would not be calling on his party or the public to abandon their innate Euroscepticism. Rather, he would be seeking to lay to rest a visceral anti-Europeanism that blinds too many in his party to the pragmatic case for Britain staying in the EU. He would be calling on them to put a hard-headed calculation of the British national interest before an irrational and outdated obsession. In this sense, the challenge is of the essence of traditional Conservative pragmatism. Will he do it?

The general election result has created a political window of opportunity for this to be done, but it is a narrow one and not without political risk. On one dimension this is little more than a statement of the obvious. All governments encounter midterm unpopularity; the danger with any referendum is that the public ignore the question they are being asked and use the opportunity to give the government of the day a good kicking. Victory depends on speed before grievance and unpopularity colours the public emotion and judgment.

Moving quickly also makes sense given the weakness of the opposition forces presently ranged against Cameron. The Liberal Democrats have been eviscerated as an electoral force (but if the Conservatives went against Europe that would provide a solid platform for activist renewal and possible electoral recovery in their former strongholds in suburban and small-town England). As for Labour, the question after its leadership election, is not whether it continues in some disarray, but whether it continues as an effective party at all.

The UK Independence party's failure to achieve a breakthrough in the general election is for the moment a considerable strength. It represents a powerful warning to Conservative MPs that defection is not a career-enhancing opportunity. Nigel Farage's dominance as the leading public standard bearer of anti-Europeanism is deeply

divisive – both within a fracturing Ukip, and more particularly among the motley anti-European forces outside the party.

In the general election aftermath, Cameron's personal authority is at the highest point it will ever be. At some point it will become a wasting asset – a truth of political life that has been complicated by his announcement that he will not seek a third term as prime minister. If, however, Cameron holds a referendum in June or autumn 2016, there will be little expectation of his immediate resignation as prime minister after a presumed victory. This will limit the risk – though not eliminate it, as discussed later – that the Europe referendum becomes a proxy for the contest for the future leadership of the Conservative party. Also, the fact that Cameron would continue to hold the patronage of office after a referendum victory for a politically significant period (significant, that is, in the Westminster game of ministerial snakes and ladders) would limit careerist defections from his ranks.

All these political calculations lead to one single conclusion: conclude the EU renegotiation and hold a referendum as soon as possible. Of course our EU partners are not fools – they can work out for themselves where the political logic leads. They want to keep Britain in the EU, but they may judge that in practice Cameron's options are limited and that they have little need to make big concessions that run deeply contrary to their interests. Yet Cameron needs to demonstrate that he has won something significant – but something is different from an all out effort to achieve “game, set and match”, which could so easily prove elusive. Rather like Harold Wilson at the Dublin summit in January 1975, he has to settle quickly, once he has calculated he has made enough real progress in his renegotiation. In 1975 Wilson was tactically wise enough to refuse to continue pressing our partners on really difficult topics; for example, finding a permanent solution to the problem of Britain's budgetary contributions was fudged for a few years to be left in Margaret Thatcher's in-tray.

As the previous sections have suggested, the best Cameron can hope to achieve is a series of promissory notes. These will not be

counterfeit but of future cashable value. Some will concern legal guarantees of future treaty change on the applicability of 'ever-closer' union to the UK and non-discrimination by 'euro-ins' against 'euro-outs'; some will be promises of legislative changes as on migrant benefits; some will be deadlines for future action on progress towards completion of the single market and modernisation of the legislative acquis. There may be some more general statement of principle couched in British-friendly language on the future shape and nature of the EU.

The one certainty is that committed Eurosceptics in the Conservative party will not regard this package (or indeed, any feasible package Cameron could bring back) as meeting their expectations. Cameron will hope to contain opposition to his deal to 'the usual suspects', but he has to recognise that this may not prove possible. There are many genuine Eurosceptics in his party who claim they are willing to support continued membership of an EU where British membership is stripped down as they put it, to 'trade and cooperation'. There is no way that they can genuinely be satisfied. EU legislation will continue to govern wide areas of national life – nothing like the 80 per cent which Jacques Delors once unwisely boasted of, but there will be little change in the legislative acquis as it applies to the UK. There can be no rational expectation that as a result of the renegotiation the role of the EU in the future governance of Britain will significantly diminish; indeed the likelihood is that, as interdependence deepens, the EU's role will continue to grow. If Eurosceptics really want to escape this, they have to argue for withdrawal – and a withdrawal that amounts to a real withdrawal, not for Britain to assume the status of Norway in the European economic area, accepting the rules of the EU club without any say over them.

The problem for Cameron is that many of his Eurosceptics wish for a contradiction they simply cannot attain. They want Britain to be part of the single market and they want, at one and the same time, to be free of the legislative encumbrance of the EU. Essentially, at some point he has to force them to choose and in doing so, he will

inevitably force some of them into the anti-European camp. The biggest danger he faces is from those who will continue to argue that they can 'have their cake and eat it'. Some Conservatives will continue to argue that they are not (or not necessarily) in favour of withdrawal from the EU, but they do not believe that the terms of Cameron's renegotiation package are good enough. They will claim a no vote is not a vote to leave, but a vote for better terms, a vote for Eurosceptics to come back at some ill-defined future point for a second attempt at renegotiation.

This will become a bigger problem for Cameron if Boris Johnson offers to put himself at the head of such a group. There is no certainty that this is what Johnson will do, though there have been hints and whispers. He does not need to declare his position until he sees the renegotiation package. If it looks as though Cameron can achieve the backing of the great bulk of the Conservative parliamentary party and go on to win a comfortable referendum victory, the attractions of striking out into the political wilderness for Johnson will be greatly diminished. But whatever Johnson does, it is unlikely that he will abandon the position that he is not in principle in favour of withdrawal, but that he thinks Britain could have a decent future outside. The political attraction to him of such a course is if it would secure for him in a couple of years' time the support of sufficient Conservative MPs to ensure that he was one of the two candidates who would go forward to the final ballot of the full membership in the race to succeed Cameron. For a potential candidate who currently, it seems, has a weaker base in the parliamentary party than both Theresa May and George Osborne, this must be a considerable political temptation.

This would be the moment of truth for Cameron. Despite the fact that his renegotiation package does not convince a significant section of the Conservative party, he has to argue that this is the only package on realistic offer and that the only choice is now between 'in' or 'out'. His only option is to go for his referendum victory all guns blazing on the basis that he has sufficient authority and reserves of political power to pick up the pieces of the Conservative party

afterwards. It is at this point that he would probably follow Harold Wilson's example and try to make the task of reconciliation easier by offering 'an agreement to disagree'. The risk of course is that such an offer enlarges the size of the opposition in his party. He has already conceded that the Conservative party machine will stay neutral in a referendum.

A wise course for Cameron would be to follow the 1975 Wilson example and not over claim for the result of his renegotiation. Wilson was clear that he had not obtained everything he had wanted, but it was enough for him to be able to recommend continued membership. Cameron has to be able to argue to his Eurosceptics that he has established a new basis for Britain's EU membership that prevents Britain being absorbed into an unwelcome political union, but gives us new scope to pursue our national interests constructively in cooperation with our partners within a reformed EU. He can argue that further change to Britain's advantage will in time be possible, possibly in new treaties that the EU will negotiate in the years after the French and German elections in 2017 – but that is for another day. And any treaty that ceded further power to Brussels would of course require a further referendum under his 2011 legislation.

However, Cameron's main task once he has completed his renegotiation will be to change the debate from the 'terms' he has managed to secure to the decisive 'choice' Britain must now make, whether to remain 'in' or vote to come 'out'. The stark nature of the in-out choice facing the British people has to overwhelm those want to argue for a vote to leave that would in practice be a vote for better terms, not withdrawal. This requires Cameron to shift his present qualified rhetoric about being in favour of staying in if a new basis for our membership can be renegotiated, to a much more full-throated case for membership. He must stop talking about what's wrong with the EU and develop a new discourse about what is right about Britain's membership of it. He must turn the debate into a 'once in a generation', possibly 'once in a lifetime' choice.

NOTES

1. Ipsos Mori and YouGov regularly poll attitudes of British membership of the EU and voting intentions in a future in-out referendum. Results vary, but the positive impact of a Cameron recommendation to stay in is a consistent finding.

2. Diamond, Patrick, and Radice, Giles. *Can Labour Win?* (London: Rowman & Littlefield, 2015).

3. Wall, Stephen. *The Official History of Britain and the European Community, Vol. II* (London: Routledge, 2013).

CORBYN AND EUROPE

The remarkable insurgency that led to Jeremy Corbyn's victory in Labour's ensuing leadership election had little if anything to do with Europe. But Europe has already played a crucial role in defining his leadership, with helpful results, somewhat improbably, for the pro-European cause in the coming referendum.

This leadership election was Labour's first full-throated experiment in one-member-one-vote direct and open democracy. Corbyn won by a landslide in an electorate of 550,000 that had been greatly enlarged beyond the party's long-standing membership of around 200,000 on the basis of new rules never previously tested. The process bore some resemblance to the open primary of French Socialist party supporters in which François Hollande had emerged as the PS's undisputed candidate for the French presidency – but not much. Because the election was so rushed, as a result of Ed Miliband's impulsive decision to abandon ship, no systematic effort was made to recruit the millions who had been canvassed, by phone or on their doorstep, as Labour supporters in the weeks and months before, despite the fact that Labour had the computerised records to make this possible.

Instead the new recruits to the Labour electorate fell into three main camps. Trade union affiliate voters were recruited

by paid phone banks, with the largest effort being financed by Len McCluskey's Unite, explicitly motivated by its wish to rally support for the union's anti-austerity nominee, Corbyn. Then former Labour party members (many ageing, more than young), long disillusioned with the New Labour hegemony of the past two decades, seized the opportunity to rejoin and force real political change: a minority were hard leftists and former Trotskyists who had long given up the ghost, or even been expelled or barred from public office in the late 1980s and early 1990s; but their numbers were swelled by a much larger group who were disappointed by what they saw (part fair, part unfair) as Tony Blair's limited achievement in government despite his overwhelming mandate, the disaster of Iraq, and the general sense of drift, lack of vision and mission that set in after 2005. For this group Miliband made matters much worse by rubbishing New Labour but proving incapable of offering a more compelling alternative. Finally, there were the £3 registered supporters, largely recruited through social media, who wanted to stick up two fingers to established politics (and one can understand why) and for the first time could do it painlessly through a couple of clicks on their tablet device.

Corbyn was the beneficiary of what became a tidal wave. For many who supported him, the fact that he had been an MP for 32 years and never exercised any position of responsibility (other than devotedly representing his Islington North constituents) was a recommendation, not a cause of doubt. They were indifferent to his record of support for hard-left causes and in British terms, an eccentric if not positively dangerous worldview. The fact that Corbyn has held views consistently which, on any objective analysis, guarantee his total unelectability, counted for nothing. This was a moment in Labour's history (and there have been others in the past) when being true to yourself and your values mattered far more than the demeaning and careerist question of how to win the power to secure real change. For a fleeting moment in our political history, Corbyn became a symbol of integrity and honesty as well as a vehicle for the rejection of establishment politics.

Corbyn was helped by the fact that none of the other leadership candidates were seen to offer the necessary combination of vision and inspiration with electoral appeal. However, sensing a weakness in Corbyn's position with party members and supporters, they all challenged Corbyn on his long record of opposition to British membership of the European Union. But he was allowed to dodge the question. He was not forced to explain why he thought it right potentially to line himself up alongside Nigel Farage, a phalanx of Eurosceptic Tories and rightwing press proprietors, in wanting to pull Britain out of Europe. Instead he got away with equivocation. He was not going to commit to one side or the other in the referendum until he knew the terms. He was not going to offer David Cameron a blank cheque in his renegotiation.

Corbyn complained of the treatment of Greece, the presumed risks of a neoliberal Transatlantic Trade and Investment Partnership, and the intentions of Cameron, or at least many Conservatives, to unwind European social legislation. However, he did not condemn the EU out of hand, as he would regularly have done in the 1970s, 80s and 90s, as a capitalist club, with a freemarket ideology and rules that would obstruct the implementation of socialist economic policies in the UK. For he must realise that the world has moved on, that there are divided views about the European Union on the far left, and not many of his close friends and allies are any longer prepared to argue for a national strategy of socialist protectionism, which is essentially what Tony Benn's alternative economic strategy in the 1970s and 80s amounted to.

The Monday morning after Corbyn's extraordinary victory on Saturday 12 September, this equivocation came to a head. Hilary Benn (a 'Benn, but not a Bennite' as he happily describes himself), the newly appointed shadow foreign secretary was interviewed on the Today programme. Asked where Labour now stood on the Europe referendum, Benn stated without any qualification that Jeremy Corbyn would campaign for Britain to remain a member of the EU whatever the outcome of David Cameron's renegotiation. At Corbyn's first encounter with parliamentary Labour party as its

leader that same evening, many members came away alarmed, with a different impression. After two days of speculation, Pat McFadden agreed to remain shadow minister of Europe having secured an unequivocal statement from Corbyn that under his leadership, Labour would campaign for a vote to remain. Corbyn agreed to back Alan Johnson as leading a distinct and official Labour pro-European campaign.

Leading pro-Europeans in the party are confident that this positive position will now hold. It could still come under pressure from the trade unions if Cameron's renegotiation is seen to weaken social rights. There is still the possibility of a special Labour conference to debate the terms of Cameron's renegotiation in which the trade union block vote would count for half the votes. But this now appears less of a danger than it once did if Corbyn sticks to his word. Instead, Labour will campaign to 'reform' in a socialist direction as Corbyn set out in an article in the Financial Times: the problem will then be how many allies for his new approach Corbyn can identify not just among the centre-right governments who now dominate the EU, but among other mainstream social democratic parties.

So where does all this turmoil leave Labour on Europe? Paradoxically, possibly in a better place than if either Andy Burnham or Yvette Cooper had won the leadership. While they are both strong instinctive pro-Europeans, they would have come under immense pressure from Labour MPs fearful of the UK Independence party to downplay Labour's European commitment: the likelihood is that they would have compromised in some way with that pressure, particularly on immigration. Corbyn will not want to venture down the road of appeasing anti-migration populism: his only concession to that strand of opinion will be to campaign against 'social dumping'.

Nor though will Corbyn be an effective spokesperson of the case for membership. He is not the kind of leader of the Labour party who would appeal to, or persuade to go the polls, what is left of Labour's traditional working-class base, which may otherwise be tempted by Farage's populism or sunk in apathy on an issue that excites them little. On the other hand, Corbyn's position of formal

support for Britain's continued membership makes it difficult for other voices on the left and in the trade unions to campaign credibly for Brexit. To add to all this, Alan Johnson is potentially the Labour politician with the widest public appeal best able to make the pro-European case. If the outcome is to bolster Johnson's confidence in his leadership abilities and strengthen the affection and respect in which he is held among the public, so much the better for Europe and the Labour party.

CAN CAMERON WIN A VOTE TO REMAIN?

The majority of the British public are not fanatical in their opinions of the EU. They are genuine sceptics in a way members of the political class who describe themselves as Eurosceptic often are not. Robert Worcester captured this well in a pamphlet he wrote in 2000 for the Foreign Policy Centre: *How to Win the Euro Referendum: Lessons from 1975*.¹ He reckoned that only about one in six of the public really care about Europe as a fundamental value that matters to them and only a quarter rank it as an issue of primary concern. Of those though, roughly three quarters are strongly anti-European. So if only the highly committed and opinionated (on Europe) voted in a referendum, pro-Europeans would be in real trouble. Among the rest of the public, public opinion on Europe is fluid.

The 1975 referendum experience provides the locus classicus of this fluidity. To quote Worcester:

On 5 June 1975, the British public voted to retain Britain's membership of Europe ... by a margin of two to one. This marked a 22 per cent swing from the opinion polls of six months before, when 55 per cent of those with an opinion said they would vote against membership.

In the three years to the general election, polling suggested that public opinion had shifted to be significantly more positive about

our membership of the EU. The figures vary according to polling company but the trend is clear. In a June 2015 poll conducted by Ipsos Mori on whether Britain should stay in or get out of the EU, 69 per cent opted for staying in and 31 per cent for leaving. By comparison with other pollsters, this is at the high end of pro-European expectation, but Mori have been polling the same question since the 1970s. Their figure was the highest supporting British membership since the early 1990s, when both John Major for the Conservatives and Labour under Neil Kinnock and then John Smith were keen to put Britain at the “heart of Europe”. It was also a turn around since the same question was asked in October 2011 (at the height of the euro crisis), when 49 per cent wanted to get out and only 41 per cent to stay in. This replicates previous patterns. In the harsh recession of the early 1980s, the feeling that we should ‘get out’ was much stronger – by a margin of 65 to 26 in March 1980. It may also reflect the fact, as Peter Kellner has argued, that once Cameron made his firm commitment to an in-out referendum, there was a subtle shift in public responses: whereas before Cameron’s announcement, voters were being asked an opinion, now they are being invited to make a choice.² It is no longer ‘what I think of Europe’ but ‘whether it is in mine and the country’s interests to pull out’ and that prompts a different answer.

Yet the polls are still volatile. The troubles of the EU, over the summer of 2015 particularly on Greece and migration, have weakened support for membership in the UK. This may be temporary; on the other hand, if the EU is not seen to be getting to grips with the multiple crises it faces, it may not be. Also, the anti-Europeans are very determined. While hardline anti-Europeanism is only of burning concern to a minority in society, in a section of the Conservative party, it really does burn. Traditionally it has comprised an ill-fitting alliance of dogmatic free-marketeers, Atlanticist neocons, Westminster sovereigntists and radical libertarians. A real problem for this motley alliance is in agreeing and explaining their alternative to EU membership. The neocons would like Britain to join the North American Free Trade Agreement, but whether the Republican

candidate of their dreams would ever emerge as president to even bring this prospect within the bounds of remote possibility is a 'will of the wisp'; the United States is clear it wants to see its closest ally, Britain, a committed member of the EU. On this issue Cameron can count on Barack Obama as a steadfast ally.

Westminster sovereigntists also have a different outlook to populist libertarians. 'Little Englanders' have a different worldview to hyper-globalisers. Some would be content to leave the political structures of the EU, and for an interim period at least, retain some of the benefits of the single market by remaining members of the European Economic Area. Others recognise that a position of 'having to stick to the rules without playing any part in shaping them' would be a weak hand with the public. They speak as if the terms of a free trade deal with the EU would be for Britain to dictate. All round there is confusion, which, in a referendum, the yes side can exploit.

There are even rival no campaigns. Nigel Farage has now pledged his support to the Leave.EU campaign financed by the former Ukip donor Arron Banks. However, pro-Europeans should be alarmed by the well-funded mobilisation of so-called 'Eurosceptics' (in reality hard-line anti-European) opinion under the 'Business for Britain' banner and its associated 'Conservatives for Britain'.

This is a well-resourced campaign with the declared support of over 30 Conservative members of parliament and the wide-scale backing of small- and medium-sized business owners and hedge funds in the City. They claim to be the voice of the majority business opinion when survey after survey has shown them to be unrepresentative of business and City opinion as a whole, even among small firms. They are a rich, vocal, and obsessive minority and they will win the backing of most of our Eurosceptic (foreign-owned) press.

These people in reality want 'out'. They claim to be backers of David Cameron's efforts to negotiate a fundamental change in Britain's relationship with the EU. However they have set terms for this renegotiation that they know cannot be achieved, certainly in the timetable that the Conservative manifesto laid down. Take the following four examples of their hypocrisy.

First, they demand full-scale treaty change, but every observer of EU affairs knows that this is not a realistic possibility within the timetable for a British referendum laid down in the Conservative manifesto, unless there is a further major crisis in the eurozone. After 2017 there *may* be moves for greater political integration within the eurozone. At present though, there is no consensus among our partners for what needs to change and therefore no possibility of defining how a Britain outside the euro would relate to whatever change may be in prospect.

Second, they want a drastic cut in the EU budget. But the EU budget was set for seven years in 2012 with Britain fully signing up to it at the time: we are not yet half way through that period.

Third, they set as a condition of success, repatriation of all EU social and employment laws. Cameron has already acknowledged that is not going to happen and how could it? Why should our partners allow Britain free access to their markets if British firms are able to compete on the basis that British workers no longer enjoy minimum social and employment rights: the ‘antis’ advocate ‘social dumping’ on an industrial scale.

Fourth, they want a right for the House of Commons to veto EU laws. Yet the pooling of sovereignty in specific areas is the essence of what being a member of the EU means. If every member state had that right to block decisions it did not like, there would be no EU.

Yet the issue that has made this motley alliance of anti-Europeans newly powerful is the rise of anti-immigration populism. In some ways, this is similar to the late 1960s and early 1970s when Enoch Powell opposed common market membership on principled sovereignty grounds, but gained the support of a huge constituency in the country following his “rivers of blood” speech opposing immigration.³

In the run up to the general election the opinion polls suggested the ‘ins’ were heading for a comfortable victory. More recent polls have shown a drastic narrowing of that earlier lead to a ‘neck and neck’ outcome. What explains this narrowing is the recurrence of ‘bad news’ from the continent. The British media highlighted the

supposedly brutal mishandling of Greece. Yet the left populism of Syriza was shown to have as few implementable answers to the intellectual hegemony of austerity as mainstream European social democracy. Syriza split, but the majority ultimately accepted that staying in the euro was far better than the imagined freedoms of Grexit.

Even worse, the continuing refugee crisis has inflamed populist fears in Britain of being swamped by developments on the continent. The emotional pulling power of anti-Europeanism is perfectly captured by the construction of the Hungarian razor-wire fence. The appeasement of that emotion was in evidence a few weeks before when, after a meeting of the cabinet's emergency committee in response to the refugee crisis in Calais, David Cameron announced that the government would be sending extra sniffer dogs to France.

The salience of immigration today suggests there is a higher potential for an 'out' vote than pro-Europeans would like to think. What proportion of the public would actually vote in a referendum to come out of Europe in the belief that this would give Britain back control of its borders is of course uncertain. For one thing, the countervailing arguments have not yet been fully aired. For example, such a unilateral move would in all likelihood impose unpopular (and possibly heartrending) constraints on the 'free movement' that UK citizens enjoy across Europe. Second, withdrawal from the EU could put in jeopardy the present scale of cooperation Britain receives from our EU neighbours, particularly Belgium and France, in enforcing Britain's own national border controls. If Britain leaves the EU, will Belgium and France continue to allow British immigration officials to carry out border entry checks on their territory? Without that cooperation, the UK problems with asylum control and illegal immigration would be far worse. A correct reading of the July 2015 migration crisis in Calais underlines that point even though the instant public reaction may be to blame 'Europe' for the chaos. Third, public attitudes to immigration are more nuanced than crude polling data suggests. The public would like the numbers of migrants to come down, but this applies to all sources of immigration, not just

internal EU migration. At the same time, a recent British social attitudes survey revealed that the public believes migrants should, after an interval of one or two years, be entitled to equal treatment in terms of social benefits and housing, providing they work and settle. The public wants our welfare state to reflect 'contribution' more than it presently does, but not on the basis of nationality, race or ethnicity.⁴ Cameron may be able to demonstrate some progress towards these goals as a result of his renegotiation.

In a 2016 referendum, the biggest negative for Europe may be migration. There is an interesting parallel with the 1975 referendum. In 1975 the impact of Europe on prices was the single biggest issue of the referendum campaign according to the opinion polls and one the anti-Europeans constantly exploited. But as Worcester notes:

prices never did swing the government's way. As of the end of May (1975), a strong majority (58% to 28%) still thought 'food prices will go up more if we stay in', but on the day they voted against their belief that prices would go up.⁵

In 2016 the British public may vote to stay in the EU even though they know that Britain's membership constrains the government's ability to control migration.

The general election experience was that anti-immigration populism has its limits. Ukip support was shown to have a ceiling. While a sizeable minority of the electorate reject 'the establishment', the majority prefer politicians who offer credible solutions, not those that play to blind prejudices. This offers hope that an EU referendum can be won. Yet this should not be a cause for complacency in the pro-European camp. The present loss of trust in politicians and of all people in positions of authority in society still poses the most significant risk in a referendum.

Pro-European support is shallow. Polling and focus group research suggests that the economics of EU membership are seen to be either evenly balanced or negative. The majority do not at present believe pro-European talk of 'three million jobs at risk' as a result of loss of unimpeded access to the single market. The anti-Europeans

will hammer away at the fact that pro-Europeans made those exaggerated claims of disaster if Britain did not join the euro. Disaster never happened. At present, the public assume Britain's trade will not be significantly affected, for the simple reason that our partners have a strong interest in trading freely with us. They have not yet grasped that while over 40 per cent of our trade is with the rest of the EU, only eight per cent of their trade is with us. So who holds the whip hand in any renegotiation? This is a Mount Everest of popular misunderstanding that the pro-Europeans must climb.

Britain has not been able to avoid the economic consequences for our own economy of the eurozone crisis by not being part of the euro. But the public do not accept this as an argument for stronger British engagement in the EU. Eurosceptics jibe that our membership amounts to being 'tied to a corpse'. Their alternative may be delusional: that Britain should seek a new economic destiny 'across the open seas', trading with dynamic regions of the global economy without the incubus of EU membership. But pro-Europeans have somehow to counter the argument that British trade will be more successful, freed from the costly 'burden' of unnecessary EU regulations. They have to get across how our EU membership strengthens Britain's trading position in world markets and does not weaken it.

The EU regulatory burden is widely believed to be huge in scale, though complaints about it are rarely specified in any detail: the British debate wilfully ignores the counterfactual that if there was no EU regulation, then new national regulations would be needed in many areas, and that British exporters to the EU would face 27 sets of different national regulations and not just one.

Small business in particular loathes EU employment as well as health and safety regulation, but would the general public share this prejudice if they were made properly aware of its practical consequences? For example, how many members of the public would want to see the potential loss of legal rights to four weeks' paid holiday, equal treatment of part-time workers and rights to parental leave? Yet the public at present takes those benefits for granted and does not link them to an EU membership.

Equally, arguments that Brexit would diminish Britain's global influence do not presently cut much ice. Post-Iraq and post-Afghanistan, and despite recent turmoil in Ukraine and the Middle East, much of the public would prefer Britain not to get involved in conflicts that are 'none of its business'. As for the proposition that Britain gains increased weight by working with our EU partners, that tends to be dismissed on the argument that our partners are an unreliable lot anyway.

In a referendum there is the potential for these arguments to be turned round. To the extent the UK has done well economically (and had any kind of industrial strategy for the past 30 years) it is because Britain has been successful as a magnet for inward investment. That owes much to Britain's vote as an 'aircraft carrier' offering foreign investors unimpeded access to the European single market. Foreign-owned firms play a crucial role in many parts of Britain, not simply in the City of London; already there are signs that uncertainty over Britain's EU membership is casting a pall over a much needed investment-led recovery.

In turn, because the European single market is the home market for many British-based businesses, it offers the breadth and depth of scale and large enough markets for 'niche' products and services, to enable firms to compete successfully in global markets beyond Europe. And because Britain is in the EU, British-based firms have the bargaining clout of the world's wealthiest economic area behind them in trade disputes with China, India and other rising economic powers. Outside the EU, Britain on its own would lack that clout. A country with a population of 60 million cannot have the same power as a trade bloc with 450 million. Anti-Europeans point to the EU's declining share of global wealth and population. That decline is real but how would Britain with only two per cent of global GDP fare on its own?

Similarly, in foreign policy, while the present public mood is anti-intervention, this goes along with increasing recognition that we live in a dangerous world, where power is slipping away from the west at a rapid rate. In troubled times, it makes obvious good sense to

remain close to neighbours and friends. Leaving the EU would be a very big step into the unknown.

The case for Europe has been put somewhat more strongly since Cameron's Bloomberg speech. His positive tone then rallied public support for Europe and licensed the diminished ranks of British pro-Europeans, particularly in business, to be more vocal in making the case for membership. But given the political pressures on Cameron and the steady drift to a more Eurosceptic agenda of renegotiation, it is naive for pro-Europeans to assume that Cameron can easily pull off the same renegotiation/referendum manoeuvre that Harold Wilson achieved in 1975. There are crucial differences of circumstance, none of them favourable to pro-European optimism.

In 1975, all the press (with the exception of the small circulation communist *Morning Star*) supported a yes vote. Of course the influence of the press has declined since the 1970s, with circulation in sharp decline and the rise of new media. But the press still has an agenda-setting capability that the broadcasters tend to follow – and therefore they still matter. Since the late 1980s, the great majority of the British press has not just been Eurosceptic; on Europe, it has been positively malign. A key factor is the power of foreign owners, such as Rupert Murdoch, who see the EU as a high-tax, overregulated, sclerotic polity not fit for the world of globalisation. In turn, these proprietors have consistently provided a platform for a generation of centre-right journalists and commentators determined to attack the EU at every opportunity and uphold myths about Margaret Thatcher and Europe that have proved of toxic power inside the Conservative party. For example, they peddle arguments that all along Thatcher was right about Europe, and the pro-Europeans wrong; that the essence of Thatcherism was a virulent anti-Europeanism that in truth she never pursued for much of her period as prime minister; and that her famous Bruges speech was an argument for leaving Europe, when in fact it was an argument for a different kind of reformed Europe. The press proprietors have facilitated the creation of a national myth. Cameron may believe he can win the press round – this remains a huge challenge.

In 1975, business support for the UK's EU membership was crucial. Surveys demonstrate that business today remains strongly in favour of membership but there are two differences. First, there are vociferous anti-European exceptions, noisily banding together in Business for Britain, especially prominent among some hedge fund managers in the City who donate significant amounts to the Conservative party. Sometimes this conveys an impression that the City is anti-Europe, when in fact the overwhelming majority in the City see a crucial dimension of its future success as remaining the vibrant financial centre of Europe's single market. As for manufacturing, much is now owned by UK-based foreign companies, who have been reluctant to engage in what they see as domestic politics. This should change. The car industry, much of it now owned by Japanese and Indian companies, would face a 10 per cent tariff on UK exports if Britain left the European Economic Area. Second, the business message carries significantly less conviction with the public than two generations ago in the wake of a succession of City scandals and the perceived greed of top business executives. Business views matter, but pro-Europeans have to do better than rely on threats. Nonetheless, the power of business to make its voice heard was shown in the last few days of the Scottish referendum in September 2014.

In 1975 Harold Wilson had a divided Labour party to contend with, just as David Cameron today has a divided Conservative party. Wilson persuaded a clear 16 to seven majority of the cabinet to back his renegotiated terms, but a narrow majority of Labour MPs and a two to one majority of the Labour conference opposed them. Wilson handled this division by proposing an 'agreement to differ' which allowed individual Labour ministers and party members to campaign against the government's recommendation. He also successfully prevented the Labour party playing any organisational role on the no side of the referendum campaign.

Cameron faces a more serious problem in maintaining party unity. Europe risks what may prove a lasting split in the Conservative party's natural electorate. At Bloomberg, Cameron made a case for

Europe that many wealth creators in Britain would endorse: a case for “a more flexible, a more adaptable, a more open” European Union. But it is the case for openness that the anti-immigration populists who sympathise with Ukip fundamentally reject. The tensions within the Conservative constituency between being the party of the wealth creators and the party that can rally back the anti-migrant populists are considerable. In the referendum campaign Cameron will be able to trumpet whatever tightening of controls on migrant benefits he has managed to obtain, but he will not be able to deal with the fundamental point that as members of the EU, freedom of movement remains a founding principle within the EU. Cameron and Osborne have to be prepared to recognise this reality and pay the necessary political price.

In 1975, all the electable contenders for the Wilson succession (Wilson was to retire in March 1976) loyally supported his renegotiation strategy: the bulk of opposition came from the traditional left of the party, still then a minority force in the parliamentary Labour party which still retained the sole constitutional right to elect the party leader. Jim Callaghan, Tony Crosland, Denis Healey and Roy Jenkins – all centre-right candidates for the Wilson succession – backed him to the hilt on Europe. By 2016, Cameron will have been prime minister for six years and party leader for eleven. The manoeuvring for his succession has already begun – and the final choice will be made (as Conservative party rules now stand) in a ballot of all party members between the two candidates most favoured by the party’s MPs.

As already suggested, the temptation for a leadership contender like Boris Johnson to strengthen his appeal among Conservative MPs by breaking ranks on Europe must be a real one, though there are also very real risks for him if he does. A recent academic survey of the Conservative membership, conducted by Tim Bale, suggests that Conservative party members may not be as dogmatically anti-European as previously supposed. Only 20 per cent said they would support EU withdrawal whatever David Cameron recommends. There is some willingness at least to give his renegotiation

the benefit of the doubt. So Cameron has a real opportunity to sway Conservative opinion, but others will be sniffing the wind for signs of vulnerability. The referendum outcome will be inextricably linked to the 'high politics' of the Conservative party.

For these reasons, the terms of Cameron's renegotiation matter inside the Conservative party – far more than the terms did to Harold Wilson within the Labour party in 1975. Yet for the public, the same factors that ensured success in 1975 are likely to play positively in 2016 and 2017. Cameron can be reasonably confident that perhaps the most significant factor in favour of the pro-EU side is that on a subject about which the vast majority of the general public know little and care less, the public tends to judge the issue on who they believe are the most credible spokespeople. As in 1975 (with the exception then of Tony Benn, Michael Foot, Enoch Powell, and Barbara Castle), so in 2016 most of the politicians that the British public know of and trust will be on the pro-EU side.

In this contest on one side of the argument will be David Cameron, George Osborne, John Major, and Ken Clarke; Vince Cable, Shirley Williams and all surviving leaders of the Liberal Democrats; Alan Johnson, Alastair Darling, Andy Burnham, Yvette Cooper, Liz Kendall and Chuka Umunna (not to mention Tony Blair, Gordon Brown, Peter Mandelson and Ed Miliband); Nicola Sturgeon and Alex Salmond; Leanne Wood and Caroline Lucas. On the other side the public will only see Nigel Farage, Douglas Carswell, John Redwood, Liam Fox, Owen Patterson and Kate Hoey, plus, in all likelihood, Ian Duncan Smith and Len McCluskey, possibly joined by Boris Johnson, some relics of Thatcher cabinets and Jeremy Corbyn's sotto voce. Given this, I still have faith in the good sense of the British people.

NOTES

1. Worcester, Robert. *How to Win the Euro Referendum. Lessons from 1975* (Foreign Policy Centre, 2000).

2. Kellner, Peter. Discussion at Policy Network seminar. April 2015.
3. Powell, Enoch. Speech to the West Midlands Area Conservative Political Centre. 20 April 1968.
4. British Social Attitudes Survey. NatCen Social Research. 7 January 2014. For example, 77 per cent want immigration to be reduced but only 47 per cent think immigration bad for the economy. Attitudes among graduates are significantly more positive towards immigration than among people without degrees.
5. Worcester, Robert. *How to Win the Euro Referendum. Lessons from 1975* (Foreign Policy Centre, 2000).

WILL THE REFERENDUM RESOLVE BRITAIN'S EUROPE DILEMMA?

If the British people vote in the referendum to withdraw from the EU, the Conservative party manifesto for the 2015 election pre-committed the Cameron government to respect the result. The presumption therefore is the United Kingdom would immediately apply to exercise its right to withdraw from the EU under article 50 of the treaty on European Union. An irony in the situation would be that this voluntary procedure allowing withdrawal according to a member state's "own constitutional requirements" was introduced as a result of an amendment made in the 2009 treaty of Lisbon which the Conservative party opposed and indeed in opposition demanded that there be a referendum before its ratification.

Withdrawal however is not a straightforward process. The member state wishing to withdraw has to notify the European council formally of its intention. From that moment onwards the UK would play no part in the discussions or decisions surrounding our withdrawal among our former EU partners. Rather the European council would decide on a negotiating mandate for Britain's withdrawal: it would be up to the European council, without Britain present, to decide whether the option of the UK joining the European Economic Area should be offered to us. While this might be the general expectation, there would be no automatic right. Negotiations would then take place on the basis of the agreed European council mandate.

The eventual agreement would take into account “the framework for (the withdrawing state’s) future relationship with the union”. In concluding this agreement with the UK, the council of ministers would act by qualified majority and has to secure the prior agreement of the European parliament. The process of negotiation is clearly envisaged as complex and time consuming: two years is allowed for its completion by the treaty, though that time period can be extended by mutual agreement between Britain and the rest of the EU. If there is no such mutual agreement, withdrawal comes into effect at the end of the two years.

Any responsible British government would try to secure the best possible terms of withdrawal for the UK, but the task would not be easy:

- Because of Britain’s withdrawal from the common agriculture policy, the British government would have to introduce a new system of support for farmers and agree the terms of that with the rest of the EU for a necessary transitional period.
- The same would be true of European cooperative ventures in science and research, which in recent years have been an important source of funding for British universities.
- Britain would no longer be party to international agreements, many of them trade agreements, that the EU has signed on our behalf. This would put to an early test the Eurosceptic assertion that Britain with a market of some 60 million could negotiate the same or better degree of market access with our global competitors as the EU with a market power of some 450 million.
- There would be tense negotiations on British budgetary contributions because the EU budget has been settled for five years ahead on an assumption of certain UK net contributions that would no longer be available.
- An area of great legal complexity is how far citizens (and businesses) have acquired rights under the existing EU treaties which under international law it is their reasonable entitlement to retain even though the treaty that brought them into being has

ceased to exist. What is relevant, for example, to British citizens living in France and Spain is also relevant to say Poles and Italians living in the UK.

- The question would have to be resolved of how far EU laws and regulations, as well as rights derived through jurisprudence from the terms of EU treaties, would continue to be applicable in the UK. This would have relevance in many fields, not least environmental obligations and social rights.

For a significant period, there would undoubtedly be considerable uncertainty for business until the issues were clarified. Such an outcome cannot be positive for investment intentions and might be seriously negative for Britain's economic recovery. Once it became clear what the social impact of EU withdrawal would be on rights and obligations that people have for years taken for granted, the whole process might become domestically controversial. People would start saying 'you never told us this would happen if we voted to come out'. And the truth is that our relationship with the EU is so complex and interwoven in our national life that there is no way the facts about the consequences of withdrawal could easily have been set out in an understandable way. Some people would start arguing that we can reapply for EU membership to save all this trouble and uncertainty. Article 50 (5) of the treaty on European Union allows for that possibility. The question is whether domestic politics would make it realistic and whether pressure would build for a second referendum on the terms of exit.

One factor that might encourage demands for a second vote would be the consequences of withdrawal on the UK's own future. It is highly likely that a referendum vote in favour of withdrawal in England would not be matched in Scotland, Wales and Northern Ireland. This could have a transformative and unpredictable impact on the whole UK constitutional debate by galvanising the force of separatism. 'Little Englanders' would gain their wish in more ways than they ever imagined. The UK would be broken apart. Lingerings symbols of our 'great power' status, not least the UK's right to a

permanent representative on the UN security council, would be called in question.

But what if Britain votes to remain within the EU? Will this be the end of Britain's long and troubled relationship with the EU? Will there be a new dawn of mutual respect and constructive cooperation?

There will be an opportunity for a fresh start. The government will be at least temporarily released from the vulnerability it presently feels to Eurosceptic pressure. Where cooperation with our partners is the best pragmatic solution, there will be a greater readiness to reach for constructive agreement and a greater willingness for the UK to play an active role. On economic questions it is remarkable how much common ground is shared between Britain and the consensus position in Brussels and leading member states. But there are also opportunities for deeper cooperation in foreign policy and defence, on energy and climate change and even on migration and asylum.

However there will be clear limits to Britain's ability to play a leading role. The European Union Act 2011 requires a new referendum on any transfer of power to Brussels: while there are ways round this constraint, in practice it prevents the UK participating in any major integrative moves. Nor do the British Conservatives want that. They have resolved in their own minds to see Britain relegated to a European second division of 'euro-outs', while the eurozone integrates further; as long as there are adequate protections for UK interests, the present government will not complain. This is not how Harold Macmillan, Harold Wilson or Edward Heath saw the potential of British membership.

It would however be unsurprising if moves towards greater eurozone integration proved trouble free from a British perspective. The reality of the City of London's position as Europe's and the eurozone's financial centre makes some degree of tension inevitable, even if there is good will all round. At the moment there is very little British support for the alternative; closer engagement with the eurozone, holding open the possibility of eventual membership. Whether this mood lasts in the coming decades depends largely on the relative economic performance of Britain and the eurozone. We are

made only too conscious of the eurozone governance defects; less attention is focused on the underlying structural vulnerabilities of the British economy. How this will play out is uncertain, but a future opportunity to build a new British political project, around an analysis of relative decline and the hope of a strong European vocation, should not be ruled out.

Whether or not European integration causes Britain serious long-term problems, Eurosceptics will soon realise that there are strict limits to the 'new relationship' that David Cameron will claim he has negotiated. Because Britain will remain in the single market – the core 'building block' of European integration – the European commission, European court, European parliament and the whole panoply of EU regulations and directives will continue as a constant in the governance of Britain. Indeed, because increasing European integrations flows from the structural dynamics of increasing interdependence, the role of the EU in our national life is likely to grow. Just as the financial crisis of 2008 enhanced the role of EU law and regulation over the City and Treasury, it would be remarkable if the migration crisis of 2015 did not increase the EU role in its management of our borders and over the Home Office. The same could well be true of future energy, environmental, food safety and public health crises.

The role of Europe grows because it is needed. The 'facts of life' will continue to upset Eurosceptics. Yet it will be some time before they will be able to mount another credible push to leave. Pro-Europeans will not like the way Cameron presents his 'new settlement', but in reality a victory for the pro-European side would give British pro-Europeans a chance to regroup.

For the British Eurosceptic Conservatives who want genuinely to put Britain's relations with the EU on a permanently less fraught but 'looser' footing for the coming decades are searching for the wrong answers to the wrong questions, based on a false analysis of Europe's central problems.

The founding EU aim from the outset was always political integration and ever-closer union. At one level this integrationist dream

has come truer than anyone would have thought possible in 1975. A Europe, virtually 'whole and free', stretches from Ireland to Cyprus on one axis and from Malta to Finland on another. Enlargement has embraced the once fascist dictatorships of the south and the former communist tyrannies of the east. It has bound its 450 million people together in what is still the richest single market in the world. As the World Bank put it in its 2012 *Golden Growth* report on Europe's economy, the single market did once prove to be a remarkable convergence machine by which the wealth of more prosperous regions in northern Europe spread out to the poorer south, and then to the east.¹

While this convergence machine still appears to be in good order for Poland and its immediate neighbours, the 'double whammy' of the financial crisis and the euro crisis appears to have permanently damaged its engine.² The reality today is one of structural divergence which threatens to pull the continent apart. Europe is increasingly a continent of division between north and south: growth versus stagnation; rising real incomes versus falling real incomes; strong jobs growth versus markedly higher unemployment. In the wake of the crisis, Europe is increasingly seen as a continent divided between creditor countries who dictate, such as Germany, and debtor countries, such as the southern Mediterranean states, who are forced to obey. The depth of the faultline is clearly unsustainable and poses major questions about the future viability of the European project. What has gone wrong?

As a result of the single market, Europe has undergone its own mini-globalisation which has increased the structural tensions between 'winners' and 'losers', both within societies and between member states. Jacques Delors always recognised that single market integration would only secure lasting political support if it was accompanied by flanking measures of social, environmental and consumer regulation as well as transfers to the weaker regions through enlarged structural funds. His vision of a liberalised 'social market' was thwarted by business opposition, particularly vigorous in the UK to 'social Europe', and member-state reluctance, often in

defence of vested interests, to pool sovereignty on matters such as financial regulation, energy and business taxation.

Delors was also right in principle to press for the single currency as the logical extension of a borderless single market. He argued the exchange rate stability that he saw as vital to economic stability and open trade would become impossible to secure when national capital controls were abolished. But the euro as established in 1999 fell far short of the genuine economic and monetary union once envisaged by its 1970s advocates such as Robert Marjolin, Donald McDougall and Roy Jenkins. A flawed monetary union was set up without proper mechanisms of fiscal coordination or banking regulation, dependent for its viability on textbook theories of wage and price flexibility far removed from the institutional realities of many of the member states that had been allowed to join.

Today the economic and social reality is of huge and growing divergence – and that is the problem that should be front of mind for every committed European. This is fuelling a belief, particularly in the countries which founded the EU, that the nation-specific values and interests which drove European progress in the immediate aftermath of the second world war need to be pursued not by closer cooperation, as in the first four decades of the European integration, but now need be protected by increasing disintegration. This sentiment has been ruthlessly exploited, especially by rightwing populist parties which have grown in strength across northern Europe. There is little room in this worldview for European solidarity underpinning the free movement principles of the EU's founding treaties.

The emerging divide within Europe risks becoming a timebomb that threatens the stability of EU and its future political cohesion. It could provoke electorates to support policies that at best threaten the EU while, at worst, revive the continent's worst memories of political extremism and intolerance. The challenge is to defuse this timebomb with policies that promote broad-based, Europe-wide improvements in growth, incomes and jobs.

This is the wider context in which the question of Britain's membership and role in the EU needs to be resolved. Having made

a referendum pledge to appease Eurosceptic elements in his own party, Cameron is risking a Brexit with unpredictable and potentially grave consequences for the UK's future. If Brexit were to be Cameron's legacy, he would be set apart from every Conservative prime minister since Macmillan, who ultimately fought to put the national interest before the ideological prejudices of their own party.

In his 2013 Bloomberg speech, Cameron's most considered contribution on the European debate, the prime minister called for "a more flexible a more adaptable, and a more open Europe".³ In principle these are admirable goals and there is little doubt that with goodwill, a reform agenda can be agreed which curbs unnecessary bureaucracy and regulation and gives a greater say to national parliaments. But in practice, his language is code for a more free-market and liberalised Europe, without proper social underpinning and necessary regulation to ensure the public interest, which risks driving further economic and social divergence.

The reality is that David Cameron's case for remaining in the EU is quite different to the progressive case for why the UK should remain at Europe's core. Progressives have to fight for a Europe which ensures the continent can grow together, rather than apart. There has to be a positive centre-left agenda which accepts the need to deepen economic integration through further market liberalisation and common rulemaking, but at the same time seeks to expand Jean-Claude Juncker's €300bn investment plan, mandates minimum wages and protection against low-wage exploitation across Europe, reforms the EU budget to promote growth-enhancing policies for research and innovation, and a migration policy approach that strengthens Europe's common borders. Europe has to be seen as a bulwark against the insecurity and inequality unleashed by globalisation, rather than a further means of advancing globalisation at the expense of ordinary citizens.

There is no sense that Eurosceptic Britain understands this point, which is fundamental to whether the EU has a future. Yet if Brexit can be averted, those Britons who argue for a better, more integrated, more social and more united Europe can live to fight another day.

NOTES

1. Gill, Indermit. "Golden Growth: Restoring the Lustre of the European Economic Model", *World Bank*, http://siteresources.worldbank.org/ECAEXT/Resources/258598-1284061150155/7383639-1323888814015/8319788-1326139457715/fulltext_contents.pdf.
2. Diamond, Patrick, Radice, Giles, and Sage, Daniel. *The Social Reality of Europe After the Crisis* (London: Rowman & Littlefield, 2015).
3. Cameron, David. "EU speech at Bloomberg", *The Cabinet Office*, 23 January 2013, <https://www.gov.uk/government/speeches/eu-speech-at-bloomberg>.

