

Over the Edge? Britain on the European sidelines

A Federal Trust Report



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Foreword

Over the past year, the Federal Trust and Global Policy Institute have been working in partnership with the Representation of the European Commission in London on a series of conferences to review the European policies of the Coalition government during its third year in office. This pamphlet offers a report on these conferences, and draws some conclusions from them. The report stresses the overriding importance of developments in the Eurozone both for the future of the European Union as a whole, and for the United Kingdom's position within it.

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Brendan Donnelly
Director, The Federal Trust
May 2013

Europe in the World: CFSP and the European External Action Service

9th October 2012

Summary

In the first seminar of the series, four speakers outlined differing approaches to the topics of the Common Foreign and Security Policy (CFSP) and the European External Action Service (EEAS). Introducing the conference was David Spence, a former European Commission official, who spoke on the conflicting interests between EU member states and how they thought the EEAS should function in the light of these conflicting interests. This conflict of interest was greatest between smaller and larger states, but David Spence believed that the EEAS could help all the member states to pursue their own national interests. The second speaker, Dr Alistair Shepherd of Aberystwyth University, was concerned about the UK's current indecisive position, uncertain whether to follow American foreign and defence policy or whether to deepen Britain's defence and security ties with Europe. Dr Shepherd believed that the shift in the global balance of power, the age of austerity and the ongoing economic crisis in Europe had diminished the capabilities of EU member states to act alone, thus making co-operation and deeper integration in their defence and foreign policies an unavoidable necessity. The third speaker, Professor Richard Whitman of Kent University, raised the question whether Europe was slipping into irrelevance. Professor Whitman argued that the EEAS had enabled decision-makers and member states to sidestep decision-making on vital issues. He also believed that the Eurozone crisis had had a significant impact on the EU's political credibility at a global level. The final speaker, Professor Stephen Haseler, Director of the Global Policy Institute, also addressed the issue of the current economic crisis and its consequent implications for foreign policy. Professor Haseler argued for a comprehensive European federal system, something which would only be possible if a wide-ranging fiscal pact were adopted between all member states of the Eurozone. If this were achieved, then both internal and external political solidarity within the European Union

would be greatly enhanced. The alternative to such enhanced solidarity would be a continuation of the present unsatisfactory situation or perhaps even disintegration. For Professor Haseler, a major hindrance to the development of the European Union was Britain's uncertain role in the Union, exemplified by Mr Cameron's apparent desire for a European referendum in the United Kingdom.

The Union and the European External Action Service

The former European Commission official and now LSE Research Fellow, David Spence, began his presentation with a brief personal narrative. After joining the Commission in 1990, he had worked on German reunification and was involved in training for the Commission's external relations delegation. In 1994, the various departments of the Commission dealing with foreign relations became the Unified External Relations Department (UERD). The UERD was widely seen at the time as a precursor to a European diplomatic service, which would develop and implement the foreign policy of the European Union. More recently, David Spence had in the last eight years of his career worked as part of the EU delegation to the UN in Geneva.

Turning to the fundamental question of the conference, the role of the EEAS, Spence argued that the overarching consideration behind the establishment of the EEAS was that of raising the profile of the EU. Before the Lisbon Treaty (2009), which created the EEAS, it was widely considered that the EU "was punching below its weight on the international stage." The global economic power of the European Union made it essential that the 27-member bloc should create a robust external diplomatic service representing its overseas interests. Establishing the EEAS had however been no easy task. Two obstacles were particularly difficult to overcome, the patchiness of political will in the member states to support the EEAS and the continuing 'turf wars' between the Commission and the EEAS.

Only weeks before this conference, a report had been released (18th September) in the wake of the 'Future of Europe' meeting in Warsaw. In this report, eleven EU foreign ministers called for a 'stronger' European Union, not least in the field of external policy. The report was however intended to be representative not of national governmental views on foreign policy but rather of the personal thoughts of foreign ministers from some of the EU's most influential countries – including Spain, Poland, Germany, Italy, France,

but (significantly) not the United Kingdom. Only nine out of the seventeen Eurozone states took part and ten of the fifteen countries who were in the EU before the 2004 enlargement took place. Spence noted that, apart from Poland, none of the smaller countries which entered the EU in 2004 were included in the meeting. Spence considered it an 'interesting' and illuminating fact that the report was based on personal views rather than the official views of member state governments. There did not seem to be a governmental consensus in the European Union on the future course of CFSP and the role of the EEAS. The most important and obvious division was that between large and small member states.

Smaller member states would naturally have an interest in developing the specifically diplomatic aspect of the EEAS, which would allow them greater influence in European decision-making, not least by giving them greater access to useful information and intelligence-gathering (in the widest sense) than they would obtain acting independently. Spence reminded the audience that the majority of small states in the Union have only a very limited number of embassies outside Europe. These small states could perhaps come to bilateral agreements with EU Embassies outside Europe whereby national diplomats would be attached to the relevant EU Embassy to offer consular services locally and reporting to national capitals on matters of specific interest to those national capitals. In general, smaller states would see the EEAS as a means of balancing what would otherwise be the tendency of larger member states to conduct European external policy in their own national interests. The smaller states of the Union had been deprived of an opportunity to influence European external policy by the reduction in the powers of the rotating Presidency of the Council of Ministers. They would wish to be compensated for this loss by their permanent and full involvement in a functioning European diplomatic system.

The larger states of the Union, however, did not share this approach. Among them, there was, according to David Spence, a widely-held view that the Action Service should never replace national delegations in third countries. EU Embassies were typically seen by larger states as a sometimes useful, but equally sometimes inconvenient 'complementary' force to national political objectives. This analysis led some member states to favour for the Action Service a predominantly administrative rather than strategic role in external policy. This preference for an administrative rather than strategic EEAS did not, ironically, prevent the same member states from criticising the Action Service for its supposed lack of strategic thinking and political leadership.

In general, David Spence thought that a number of technical and competence-related questions needed to be resolved before the Action Service could reach its full efficiency. The High Representative had too many overlapping functions for one individual to be able to carry them all out. Political deputies for the Representatives were clearly needed and the European Council should urgently consider this issue. The precise role of the Action Service in relation to the execution of development policy and consular support at times of natural catastrophe were also topics that needed to be further examined. These questions tended to be resolved currently on an ad hoc and improvised basis. Clearer principles to guide future action were urgently necessary.

In conclusion, David Spence expressed the fear that the work of the CFSP and of the EEAS would always be hampered as long as decision-making in this area took place overwhelmingly by unanimity and consensus in the Council of Ministers. There seemed however no immediate prospect of change in this practice. External policy was an area of the European Union's activities in which the principle of national governmental sovereignty was likely to hold sway for a number of years to come.

Britain and the EU: an uncommon foreign, security and defence policy

Dr Alistair Shepherd, Lecturer in European Security at Aberystwyth University, began his talk by quoting Winston Churchill on Britain's role in Europe: "We are with Europe, but not of it, we are linked but not compromised. We are interested and associated but not absorbed." According to Dr Shepherd, a number of significant shifts in recent years suggest that the relationship between the UK and Europe might need to be "reassessed on both sides of the Channel." This need for reassessment was dictated, in Dr Shepherd's view, in part by the ongoing financial crisis and in part by the looming 'age of austerity', that was likely to affect almost all EU member states in one form or another. This period of austerity was likely to last much longer than many commentators anticipated. It will have consequences for the formation of EU foreign policy and for external perceptions of Europe's global role. It no longer made sense to pretend that European states could individually protect their national interests. Libya, Mali and the Gulf of Aden were all recent examples of collaborative projects to pursue shared national interests. The Defence and Security Co-operation Treaty between

France and the UK was a striking response to pressures on national military budgets and resources in Europe, pressures that might well seem more urgent in the light of the declared intention of the United States to rebalance its military deployment away from Eurasia and towards the Pacific region. Dr Shepherd still discerned in some British policy-making circles the desire to be regarded as a global security actor, acting particularly in close collaboration with the United States. His view however was clear. "Latching on" to Washington's foreign policy "will not keep Britain a major power but instead co-operation with the EU would be more in Britain's interest."

Dr Shepherd did not underestimate the difficulties inherent in such co-operation. David Spence had underlined these difficulties in his presentation. There had been successes among the twenty-seven external deployments conducted under the CFSP, but they have not matched the original rhetoric and expectations. Libya was a recent example of European disunity, in which NATO took the lead after Germany blocked European military action. It should not however be assumed that NATO could provide in the long term a viable alternative to European responsibility for regional security. Dr Shepherd believed that NATO's withdrawal from Afghanistan would ignite a renewed interest in bilateral and multilateral arrangements such as the Franco-British Defence Treaty or a Nordic Military Pact. But it was important that these bilateral and multilateral arrangements should function in a co-ordinated manner to ensure regional security. "There is no point in all these bilateral small groupings all doing similar things." Potentially the EEAS could carry out a role as a co-ordinator between these regional arrangements.

For Dr Shepherd, the EEAS was the most important innovation of the Lisbon Treaty. For the reasons set out by David Spence, its impact was still however potential rather than actual. Dr Shepherd thought that a more politically prominent figure than Baroness Ashton would probably have ensured a more authoritative image for the EEAS in its early days. Big member states such as the United Kingdom found it easier to restrict the activities of the EEAS under her leadership than might have been the case under a better-known High Representative. National governments were divided in their expectations of the EEAS; at the same time, public opinion in most of the European Union was more concerned with domestic economic issues than with the external impact of the Union. Indeed the crisis of the Eurozone had undermined the salience of the Union as an international actor both domestically and externally.

Dr Shepherd concluded that in his view the current uncertain economic climate made co-ordination of external and defence policies within Europe more pressingly necessary than it ever had been. In the United Kingdom, there was a widespread fear throughout the major political parties of losing 'national sovereignty' by entering into binding arrangements with our European partners on external and defence policy. Economic austerity however was already depriving the United Kingdom of any such claims to sovereignty. The European Union, not the United States, provided a possible method of reclaiming a portion of that national sovereignty.

Is the EU still relevant?

Until recently, according to Professor Whitman, there existed a widespread consensus that the role of the European Union, at least in the realm of international relations, was twofold. Its first role was to provide a second western voice on global issues, an alternative to the US but still within the boundaries of the western world. It would provide a different perspective on international issues but not create challenges to US hegemony during the Cold War period. The second defining role of Europe was to act as a kind of global model of success. The European integration process had allowed the Union to become internationally a 'force for good' as a civilian power in the world, with the potential to act as a model for future regional developments elsewhere. Professor Whitman feared that both these roles were now more difficult for the European Union to maintain. Like the Venetian Republic, the European Union might be in danger of losing its global relevance and becoming simply "a destination for tourists". There was a crisis of confidence within the European Union and among its member states. This crisis found its expression in the current European preference for "muddling through" both domestically and externally, rather than cultivating robust internal and external policies.

In the post-Cold War era, the European Union had, in Professor Whitman's view, failed to redefine its relationship with the United States, at a time when the United States was re-evaluating its own position in the world. This re-evaluation was likely to revolve around American relative economic decline in the long term and diminishing American interest in projects tending towards global governance. More importantly, however, the European Union is struggling to articulate what its core objectives are and what in particular it wants to achieve from globalisation. This incoherence

is well illustrated by the topic of European security policy. In theory, this policy has existed for more than a decade, but no consensus exists as to its content. Ironically, the creation of the EEAS has made it easier for member states of the Union to sidestep difficult issues by claiming to await guidance from Brussels.

Unflatteringly, Professor Whitman likened the creation of the role of High Representative to a flatpack furniture package. "We've given her (Ashton) a load of flat pack stuff to create a foreign ministry but we haven't told her if it's a chair, a table or a book shelf In the same sense member states who say they want a pan-European diplomatic service have done so little in supporting her in her job." The EEAS was approximately the same size as the Dutch foreign ministry and in 2012 had the same resources as the Slovenian defence budget, namely 489 million euros. The fundamental question remained to be answered: As the European Union faces structural changes in international relations, what are the respective roles for European and national diplomacy? Professor Whitman warned that the NATO alliance will provide no answer to Europe's intractable questions about security policy. "Afghanistanprovided the organization some kind of reason to exist and that will soon be gone."

The global financial crisis has, in the view of Professor Whitman, greatly limited the capacity of the European Union to act as any sort of model for the outside world. This problem of credibility is greatly reinforced by the incapacity of the European Union to agree on robust external and security policies. Before 2008, the European Union could claim for itself important external policy successes, not least in enlargement. A striking contrast to the successes of that period was the deteriorating relationship of the European Union with Turkey, which was now turning away from Europe towards more attractive models, mainly in the transformative Middle East. The tectonic plates of international relations are shifting and the European Union needs to confront these new realities. It was not making currently a good job of doing so.

There is a future for Europe

Professor Stephen Haseler, Director of the Global Policy Institute, began his talk by reflecting briefly on Professor Whitman's speech. Professor Haseler found Professor Whitman's talk "very emotional and in a sense quite rightly

so because many of the arguments he put forward do address what is a very dangerous time for the EU." He noted that populist nationalism was on the rise across the member states and that the political class seemed incapable of leading or acting like statesmen in this turbulent era of EU history. In light of this, the character of Europe's politicians is an issue, Professor Haseler said.

Moving his focus to Germany, Professor Haseler thought the way Angela Merkel was handling the German crisis "is symptomatic of a general European approach that doesn't seem to be up to the level of events we are currently facing." For Professor Haseler the political class's obsession with focus groups and latest electoral trends is understandable, as democratic politicians have been operating in a fundamentally hostile environment for the last twenty or thirty years. Public discontent with their political leaders, Professor Haseler believed, came into being during the 'Regan Thatcher revolution' as decision-making moved away from politics and into the business world. With this in mind, "I don't think we should be too down on the present politicians."

As Europe grapples with its worst crisis in living memory, Professor Haseler put forward the belief that the political elite would eventually overcome this period of instability as "they are dealing with an unusual situation but it will take time". For Professor Haseler, the success of the old European model mentioned by Professor Whitman had indeed been negatively affected by the global financial crisis which had caused the established financial system to collapse. He recalled that when the global financial crisis began in 2008 "the US government kept the banks going, stimulated the economy and thus put a patchwork on the system for a few years." Europe followed a different path. Professor Haseler attributed this failure to follow the American model to a lack of unity in the European system. "We failed because we hadn't established the United States of Europe (USE) which in my view is utterly necessary for dealing with the crisis. In order to get out of the current situation, Europe needs more unity and to act as a super-state rather than a collection of entities." To achieve this, Professor Haseler argued, a genuine Fiscal Pact for the Eurozone must be the first step. Without a Fiscal Treaty, the foundations of a super-state cannot be reached. Within this political structure, the European neo-liberals "can fight it out with the social democrats about what the policy of that super-state should be." For him, either Europe will move towards a strong and integrated fiscal system to complement its monetary system, or the European

banks will go bankrupt and the financial crisis continue to worsen with all the current social and political tensions increasing. He summed up this point by saying that “the global financial crisis may have destroyed the old system which was internationally admired, but it has not destroyed the potential of the EU to deal with this crisis.” If Europe achieves a real fiscal union and thus the creation of a USE, Professor Haseler believes that other policies such as foreign policy and defence will follow suit. The EU has never been closer to a federal super-state than it is today.

For Professor Haseler, the role of Britain presents a special problem in this context. The UK has made a huge number of “foreign policy errors going back sixty years starting with the Suez Canal Crisis and excluding ourselves from the Franco-German deal for the common market.” At the same time, since 2003 and the invasion of Iraq, the UK has become overstretched militarily both in Iraq and Afghanistan, together with becoming overstretched financially. After the Second World War and during the decolonisation era, the war-ravaged UK maintained its global role by giving up what was left of its global power to the US. In the 1990s, the US emerged as the dominant global power, but two decades later, the American superpower is now being challenged by the emergence of new global players.

As Europe begins to cohere, “we the British have to decide where we stand. In the past years there are certain signs that we understand this need to work on defence issues with Europe.” Professor Haseler gave the example of the developing military relationship with France. He however warned, “from a French perspective, I can imagine that they are extremely worried at the moment about whether Britain is going to remain in the EU and if we’re going to leave CFSP altogether. The French only have to look at the Conservative Party Conference with so many Conservatives in favour of a British EU exit.”

In his concluding remarks Professor Haseler said that “for the EU the Eurozone crisis is the opportunity to integrate the EU and I believe that will happen.” In regard to Britain, Professor Haseler thought that in any European referendum there would be a clear vote either to remain in the European Union or to exit entirely. “If the pro-Europe side win then I don’t think there is much that can hold us back after that”, he added. On finishing his talk, Professor Haseler remarked: “Britain cut off from a successful integrated EU is something that I do not want to contemplate.”

Comments and conclusions from the Chairman

In his concluding remarks, Brendan Donnelly, Director of the Federal Trust and chairman of the conference, said "that it was clear that in some ways a rather negative balance has been drawn of the EU in its external policies." This was not for Mr Donnelly a surprising outcome, since under the Lisbon Treaty national governments "were not prepared to take the decisions that would enable the EU to have a coherent foreign policy." He concluded that "the very last element of any federal jigsaw will be the creation of a coherent external policy, particularly defence policy, because this is a matter, not of national sovereignty, but of governmental sovereignty. Governments are very reluctant to share their sovereignty." Professor Haseler was probably right in believing that a resolution of the problems relating to the governance of the euro would provide a favourable background for progress towards more integrated external action by the Union. Certainly the absence of such progress would act as an insuperable barrier towards this desirable goal.

Reconnecting the Public with the EU - Not Just in Britain

12th December 2012

Summary

Four speakers addressed this conference. Dr Oliver Daddow of the University of Leicester began by reviewing New Labour's attempt to advocate the concept of deeper European integration to an unenthusiastic British electorate. He then considered Rupert Murdoch's general influence on New Labour and on its approach to the EU in particular. In conclusion he discussed the possible outcome of a European referendum in the United Kingdom. Mark English, Head of Media in the European Commission Representation in the UK, discussed how the EU presented itself in the United Kingdom and how the British popular press presented the EU. He explained that the Commission's media office had a challenging job in trying to make sure the British press reported EU issues objectively and did not mislead the public through deliberately or carelessly inaccurate reporting. While this is a difficult task, Mr English remained optimistic about the future of the European Union and the UK's role within it. The third speaker, Professor Simona Piattoni of the University of Trento, examined the possibilities for representative democracy in the European Union, the problems that exist for the very concept of 'democracy' in the Union and what Europe might start to do about solving them. The final speaker, Brendan Donnelly, Director of the Federal Trust, began with an analysis of popular and elite attitudes towards the European Union in the United Kingdom. He recalled that for many years the Conservative Party had been the main advocate in the United Kingdom of a full role for the United Kingdom within the European Union. Mr Donnelly then discussed the concept of an EU-wide demos. He did not claim that such a demos yet existed, but he argued that much might be done to further its development. Eurosceptics who denied the current existence of an EU demos were not wrong. They were however wrong in assuming that such a demos could never emerge.

The British debate on Europe - Still leading from the edge?

Dr Oliver Daddow began his presentation with the remark that a British exit from the European Union is now a “real and serious option”. He cited two recent events he had attended, one at the London-based think tank Chatham House and one in Brussels, in which the participants in both seminars came from backgrounds in policy-making, diplomacy and government. At both events, a large part of the discussions focussed on the increasing possibility that Britain could withdraw from the EU, perhaps after a referendum following the 2015 UK elections. Dr Daddow asked why the British have become increasingly sceptical towards the European Union.

One source of this scepticism probably lay in popular culture. As an example, Dr Daddow cited the Channel 4 reality television programme, ‘Coach Trip’. In the opening sequence of the programme there is a map of Europe, in which the British Isles are covered by a Union Jack flag, while the rest of the continent is covered in a unifying EU flag. For Dr Daddow, this is symbolic of British disconnection from continental Europe. “This is a telling image deeply ingrained in the British psyche and for the British the question of being European is a matter of choice rather than fact. The older but still popular comedy programme ‘Dad’s Army’ reflects similar attitudes in its opening sequence. Dr Daddow had recently seen an advert with the text ‘holidays at home are great...no passports, visas, jabs and no euros’. He noted that it would be unthinkable to put the words “no dollars” in the same advert. Dr Daddow believed that this insularity had now reached in British perceptions of the European Union such a degree of internalisation that it should often be regarded as “accidental or instinctive”, although conscious misrepresentation of the European Union was also a significant component of the European debate in this country.

In his review of New Labour’s European policy, Dr Daddow considered the often expressed claim of Tony Blair and others that his government had managed to normalise Britain’s diplomatic relations with the EU after the turmoil of the John Major years and the uncertainty surrounding the ratification of the Maastricht Treaty. For Dr Daddow, there is some substance to that claim. Mr Blair was eager to have a comfortable working relationship with Britain’s European neighbours, a fact illustrated in specific areas of EU policy such as the Common Foreign and Security Policy (CFSP), environmental issues, enlargement and defence co-operation, particularly

with France. But the achievements of New Labour in their European policy should not be exaggerated. New Labour was always inclined to see foreign policy, and particularly European policy through a domestic policy prism. If one judges New Labour's European policy by the benchmarks it set itself in 1997, the balance is not an entirely favourable one. In an interview with Dr Daddow, Jonathan Powell, Tony Blair's first chief of staff, had admitted that New Labour "failed to change British public opinion towards Europe." Dr Daddow thought a major explanation for this failure was that New Labour had no real European agenda. This vacuum allowed Eurosceptic politicians and more particularly their allies in the mass media to set the almost entirely negative terms of the British debate on Europe.

At the time of the referendum held in Britain on EU membership in 1975, there were high levels of media support for continued British membership, including from The Sun newspaper. Forty years later, the picture has changed completely, with papers such as The Sun, the Daily Mail and The Telegraph pursuing an agenda clearly designed to present the European Union in the most unfavourable light at every opportunity. A leading role in this shift has been played by the newspaper owner Rupert Murdoch, whom Lance Price, a former member of Alistair Campbell's press team, described in his memoirs as the "21st member" of Mr Blair's cabinet. Lance Price also claimed that "we promised News International we weren't going to make any changes to our Europe policy without informing them." Former Prime Minister Sir John Major's testimony at the Leveson enquiry gave a further insight to the pressure applied to politicians who did not comply with Mr Murdoch's wishes. Sir John testified that "Mr Murdoch said he wished we (the Conservative Party) would change our European policies. If we could not change our EU policies then his newspapers would not and could not support the Conservative government in the run-up to the 1997 election."

In Dr Daddow's view, Mr Murdoch's attitudes have played an important part in creating a gathering consensus within the United Kingdom favourable to unregulated markets and hostile to the supposedly corporatist philosophy of the European Union. Mr Murdoch's personal intervention in the production of his newspapers is well attested. When, in 2004, Mr Blair decided not to hold a referendum on a proposed European Constitutional Treaty, Mr Murdoch personally ensured that the word "traitor" figured in the reporting of the issue in his newspapers.

In conclusion, Dr Daddow considered whether Britain is edging towards leaving the European Union. He regarded Mr Cameron's attitude as being

difficult to decipher, but thought Mr Cameron was subject to a number of contradictory pressures, both from within his own party and from other parties, notably UKIP and his coalition partners the Liberal Democrats. It was not easy to predict the outcome of a European referendum in, say, five years time. In other countries it has proved difficult to win a referendum where the government was advocating massive constitutional change. A vote for the UK to leave the European Union might be a step too far even for those who are critical of the EU. On the other hand, hostility to the European Union, not always based on accurate information, is now widespread within the United Kingdom. The outcome of any referendum might well depend crucially on the attitude of British business leaders. Their support had been important in 1975. It might well be decisive again in 2015 or 2016.

A view from the front line

Mark English, Head of Media for the European Commission Representation in the UK, opened his talk by comparing a press release of the Commission about a recent summit to discuss the Medium Term Financial Perspective with coverage of the same summit in The Sun. For Mr English, the Commission's press release was clear, coherent and reasonably well structured. In contrast, The Sun ran the headline: "EU want some? Summit will be bruising bust-up". The Sun added that the November 2012 meeting "will be the mother, father and all five children of a bust-up." There seemed little desire on the part of The Sun to provide its readers with information or analysis to enable them to understand European decision-making. On the day before the conference, European Commission President Jose Manuel Barroso was pictured by The Sun with the title "UK's free to quit us". English read out a number of comments left by readers on the newspaper's website. One such comment stated that "This Spanish turncoat (Barroso) should be more concerned about his own country than shouting European propaganda". Mr English reminded his audience that President Barroso is in fact Portuguese and not Spanish.

The two instances cited by Mr English summarised the challenges faced by the Commission Representation in trying to introduce more factual objectivity into the European debate in the United Kingdom. At a time of economic, political and social crisis throughout Europe, all governments were under pressure from public opinion, and the European Union could

not expect to be exempt from public scepticism. In terms of combating falsified stories about the EU in the press, Mr English said “the EC has to be robust when we think the facts are wrong.” The EC needs to use modern tools and the importance of social media channels, such as Twitter, for UK policy-making is now immense. Mr English gave an example of the power and importance of social media from his own experience. “If an EU official comes to London, we at the press office need to be ready as politicians will be tweeting what they think the official has said.” The EC media team needs to be able to respond on the same fora – the social media platforms – to ensure the correct message is conveyed rather than to allow misinterpretations to dominate the online debate. It is of course not the task of the Commission to “tell people what to think.” If Britain wants to disengage from the EU, then that is a matter for the UK public to decide.

The Representation currently has four press officers and therefore cannot compete with “multibillion pound media operations”. Echoing Dr Daddow’s earlier talk, Mr English praised the role of UK business leaders who generally “stand up and argue proactively for Europe”. Moreover no senior politician in any major party has ever called for the UK’s withdrawal from the EU and nor has any British newspaper, except the Daily Express. Admittedly, the UK has a particular starting-point for its debate on Europe, given its historical context of seeing the EU ‘as somewhere else’. ‘Standing up’ to a supra-national institution such as the EU always sounds more attractive than co-operating with others to make international governance work. The British press tends to be attracted to sensationalist narratives over EU issues or events and is especially keen to stress all forms of conflict within the EU. Recent reporting of moves towards a banking union had entirely corresponded to this pattern. This was not to say that all Eurosceptic British politicians endorsed misreporting of European issues in the British press. Some at least of them were eager for informed debate on European matters.

Mr English insisted that the Representation would not “whinge that we are in the firing line of the media”. The British media had many other favoured targets, including the Prime Minister, the government, the BBC, the liberal wing of the Church of England, trade unions, social workers, teachers, civil servants and countless celebrities. Nor should the influence of the tabloid press be exaggerated. “Two thirds of adults do not read the tabloid press.” At the same time the tabloid press is widely distrusted. One major tabloid, The News of the World, had been shut down and there was the real prospect of imprisonment for disgraced former editors. According to a

recent poll only nine percent of the public trusted The Sun and 17 percent the Daily Mail. The popularity of the Daily Mail is not so much a result of its political stance or quality of its political journalism, as of its celebrity gossip content. In general, the tabloid papers are losing ground to social media and the internet. The Representation awaited with interest the outcome of the Leveson enquiry.

Mr English was encouraged by the wave of international comment urging Britain not to leave the European Union which had been provoked by the Prime Minister's call for a referendum on the subject. This was helpful to the Representation and its media team "is in contact with all the political editors we are using every opportunity we have to get the message across that the EU brings benefits to the UK." The Representation tries to tackle every untrue or misleading story in the British media. It maintains a watchful eye on all the newspapers and their numerous blog sites. If an incorrect story is discovered, the Commission then points the media outlet to the correct facts. Even so, the Representation is looking to increase its outreach, not just by focusing on the UK and specific policy choices but rather on popular areas of European activity such as energy policy, the environment, climate change, crime fighting and research innovation. Figures from the British government show that every year the European single market creates between £30bn and £90bn of extra wealth for the UK economy, compared with the UK net contribution to the EU budget of £6bn. This was a statistic very helpful to the Representation.

In conclusion, Mr English said the European Commission and the Union in general were now much better at communicating with the media than they were when he first joined the Commission fifteen years ago. There was always room for improvement and the possibility of a European referendum in the United Kingdom would no doubt sharpen the performance of the Representation in coming months and years. Mr English rather doubted however that the British media would decide the outcome of that debate. It would be the British public who would decide, and that was as it should be.

Rethinking representative democracy in the EU

Professor Simona Piattoni, from the University of Trento, began with two general reflections. First, the European Union has traditionally focussed on economic sustainability, but the major challenge it faces today is that of

democratic sustainability. Unless citizens of Europe better understand what the EU does for them and how it does it “then the EU is not going to go very far”. Second, the concept of representative democracy is currently undergoing a major transformation, not just in Europe but globally. “We are a globalised world and our national leaders think, speak and argue as if they can control and deliver when in fact I don’t think that they can.”

According to Professor Piattoni, the EU is not yet a democratic entity because it is not a state and does not have the usual democratic apparatus and mechanisms one would expect from a nation state. At the same time it is perceived as undermining the national parliaments and democracies of its member states. Quite apart from the problems arising from “being told what to do or having technocrats or experts rule during periods of crisis”, as was the case in Greece and Italy, the question needed to be urgently considered: In order to create a new EU wide parliamentary democracy, do we have to accept a European super-state and are we ready for this? And what sort of a democracy should it be, given the differing national models, models which in their turn are evolving? Differing national models of democracy imply different relationships between such key concepts as legitimacy, accountability and participation. Associational and majoritarian democracies for instance are very different political structures and it is not easy to see how elements of the two can be combined in a European democracy. Some commentators believed that European trade associations, consultative groups, sectoral working parties and other representatives of civil society meeting in Brussels would act as important legitimising agents for European democracy, forging a link between the citizen and the European decision-makers. Professor Piattoni feared that such a system was too remote and confusing to be a democratic reassurance for the average citizen.

The Lisbon Treaty established that the EU is based on representative democracy. It sketched out that the European Parliament represents EU citizens and the Council represents the member states. At the same time, the Treaty attempted to weave into the Union’s political structure elements of participatory democracy, such as the Citizens’ Initiative. Professor Piattoni was not convinced that this new mixture of democratic elements was likely to be any more satisfactory than what it replaced. There were acceptable arrangements at the national level for controversies to be democratically resolved between competing interest groups. Such arrangements did not yet exist at the European level. For them to come into being, more consensus would be needed about the nature of the representative democracy to which the European Union aspired.

According to Professor Piattoni, even the concept of “representative democracy” was one capable of differing interpretations. One interpretation laid particular stress upon the duty of the elected representative to act in the interests of those represented, essentially accepting the definition of these interests adopted by the voters. In this kind of representative democracy, it could only be a transitional and atypical phenomenon that a different perception of the voters’ interests existed between the voters and their representatives. An alternative approach to representative democracy however stressed the responsibility of democratic representatives to ‘uplift’ the perception of their interests on the part of the voters. At the moment, the democratic structures of the European Union corresponded to neither of these models.

In conclusion, Professor Piattoni argued that “we should not seek to replicate at the EU level a parliamentary form of representative democracy unless we are ready to accept a federalised Europe.” Such a representative democracy should be grounded in dialogue between the represented and the representative at all levels, to establish correspondence between the interests of the represented and the perception of these interests by the representatives. It was a failure of the current system that MEPs were so little known to their national voters. MEPs should report more to their constituencies about “what they did in Brussels” and certainly engage in more dialogue with their constituents. In her view, “no dialogue is equal to no representation.”

European political parties

Brendan Donnelly, Director of the Federal Trust, began his talk by considering the issue of leadership, or lack of it, for pro-Europeanism in the UK. “What it comes down to is a lack of leadership from those who regard themselves as pro-European over the past fifteen years in the British political system.” He agreed with Dr Daddow that Mr Blair and his New Labour government had been too passive, waiting for others to take the lead in preaching a pro-European message. Mr Donnelly, a former Conservative MEP, found it unsurprising that New Labour had been reluctant to take the role of leadership on the EU question “because in my analysis the principal role of constructive leadership within the British debate on the EU has been taken traditionally by the Conservative Party.” When the Conservative Party not merely renounced this role of leadership, but on the contrary became increasingly hostile to

the European Union, it became ever more difficult for a rational debate on European issues to take place in the United Kingdom.

Mr Donnelly very much doubted whether any European referendum held in the United Kingdom would provoke any informed debate on the European issue. It was much more likely to be an exchange of slogans between those who wanted Britain “really out” of the Union and those who wanted it “nearly out.” Unless, which Mr Donnelly thought unlikely, the Eurozone imploded entirely, the increased integration between the Eurozone members would anyway radically marginalise the United Kingdom within the European Union. British politicians seemed reluctant to face up to the implications of this likely development for the United Kingdom. Mr Donnelly did not believe that this crucial issue would be properly discussed in any referendum campaign. By remaining indefinitely outside the euro, the United Kingdom would ironically be reinforcing the claim of the United Kingdom Independence Party’s (UKIP) claim that it is “simply not worth being in the European Union.”

Mr Donnelly accepted that certain elements of the Eurosceptic consensus, which shaped the European debate in this country, could increasingly be found in other member states of the Union. But these elements were not remotely as dominant in Germany, Italy or even in Greece as in the United Kingdom. He wondered however whether discussion of the topic of a potential ‘European super-state’ really illuminated the choices now confronting the European Union. If the euro was to survive, it would need “a much better European democratic underpinning than it has at the moment. This underpinning cannot be simply an aggregation of national democratic legitimacies.” Echoing Professor Piattini, Brendan Donnelly stressed that “we have different forms of representative democracy throughout the EU”. But, however different they are, they all have a common and defining characteristic, which is they all have elections that play a pivotal role in the functioning of those systems. Voters expect that after democratic elections the political landscape will change. Unfortunately, that is not the case for European Elections as currently conducted. If there were a demonstrable political outcome from the European Elections, say in the identity of the European Commission President, then that would be an enormous democratic advance for the European Union, not least because it would favour the emergence of a ‘demos’ for the European Union. Historically, political institutions were the creators of national ‘demoi’ and not the other way round.

For Brendan Donnelly, European political parties were a crucial component of European democracy. Only political parties could offer differing choices to the electorate and give them the opportunity to confirm or reverse these choices at a later date. Mr Donnelly did not however believe that every detail of the future European democratic system had now to be decided. He preferred to proceed gradually, allowing the system to develop step by step, as had the British political system. Not the least of the paradoxes surrounding the British political debate on Europe was its highly ideological tone. This highly ideological tone was entirely at variance with the way in which traditionally the British had conducted their most important political debates.

The UK and the Eurozone

15th January 2013

Summary

During this conference held in mid-January, four speakers offered different perspectives on the subject of the UK and the Eurozone. All agreed that deeper financial integration is needed in Europe, together with a democratic union for the Eurozone, something which is currently not in place and raises issues concerning the legitimacy of the EU. Martin Larch, Head of Unit for Ireland, Lithuania and Poland, in the Directorate-General for Economic and Financial Affairs of the European Commission (EC) explained that the EC had devised a 'Blueprint for a deep and genuine EMU', which would require further action in the medium and long term. In the long term the EU should move towards a full banking union, a full fiscal union, and a full economic union, all of which would require appropriate democratic legitimacy and accountability of decision-making. The second speaker, Professor Stefan Collignon, Professor of Political Economy at the Sant'Anna School of Advanced Studies, Pisa, and International Chief Economist of the Centro Europa Ricerche in Rome, argued that the current economic imbalances within the Euro area should not necessarily be seen as unhealthy. He believed that the current programmes of austerity being implemented across numerous Eurozone states were counterproductive. The third speaker, Dr Waltraud Schelkle, Senior Lecturer in Political Economy at the London School of Economics, described the difference between the banking sectors of the Eurozone countries and of the UK. She noted that the UK had control of its own exchange rate and a Central Bank that is able to buy bonds directly from the Treasury, but the United Kingdom is still making the same macroeconomic choices as is the Eurozone. Professor Stephen Haseler, Director of the Global Policy Institute, concluded that Europe needs to be federalised into a democratic organisation or system "just like the USA".

The future of the Eurozone

Martin Larch began with a 'Blueprint for a Deep and Genuine European Monetary Union (EMU)' put forward by the Commission on 28th November 2012. The blueprint is the Commission's contribution to the report of the 'four Presidents' on the next steps for an economic and monetary union within the EU. It was discussed by the European Council on 13th -14th December 2012.

Since November, Mr Larch explained, all policy efforts have been geared towards breaking the negative interaction between banks and sovereigns in the Eurozone. The Commission has devised a five-point policy strategy to break this interaction:

1. To provide decisive responses to challenges related to vulnerable countries;
2. To strengthen the banking system;
3. To enhance growth through structural reforms;
4. To enhance Euro Area and EU firewalls;
5. To provide robust and integrated economic governance.

According to Mr Larch, "the five-point policy strategy provides us with a roadmap towards financial stability and growth." The most immediate challenge was to set out on the path of a genuine Economic and Monetary Union by establishing common supervision for EU banks. In parallel, growth would be boosted through the new Multi-annual Financial Framework between 2014 and 2020. Support was also needed to stabilise the Eurozone countries facing the worse crises, namely Greece, Portugal, Ireland, Spain, Italy, Cyprus and potentially Slovenia, using the European Financial Stability Facility (EFSF) and European Stability Mechanism (ESM). Finally, the European Central Bank's programme of Open Market Transactions is designed to safeguard the monetary policy transmission mechanism in all countries of the Eurozone and to reduce severe distortions in government bond markets. Europe needs however to move from temporary solutions to a stable architecture capable of responding to all eventualities and to lay the foundations for a "deep and genuine EMU architecture".

It should not be forgotten, argued Mr Larch, that Europe is currently undergoing a difficult, but necessary, economic adjustment. Countries that had been running current account deficits for long periods of time needed to bring their external debt down. This requires improvements in competitiveness, private sector deleveraging and fiscal consolidation. Surplus countries can contribute to European economic rebalancing by removing unnecessary regulatory constraints on domestic demand, non-tradable activities and investment. Mr Larch believed that much had been achieved. "Our crisis resolution mechanisms, frameworks for macro prudential supervision, stability and growth pact, macro-economic imbalances regulation, fiscal compact and Europe 2020 strategy form a complex whole helping to achieve sound fiscal policy and balanced growth". But the Commission wanted to go further.

In its blueprint of 28th November last year, the Commission had listed the tools (including identifying possible needs for treaty changes) to achieve the ambition of moving towards a deep and genuine EMU. This blueprint not only covered all four pillars of the report of the four Presidents (Financial Union, Fiscal Union, Economic Union and Political Union), but it did so by setting out the various economic, legal and institutional aspects related to such a process. The blueprint "clearly takes a gradual approach, with actions in the short-, medium- and long term building on each other, slowly moving ever more closely towards a genuine EMU." It carefully balanced increased responsibility and increased solidarity within the Euro area, and European and national responsibilities. It also proposed steps to ensure democratic legitimacy and accountability along the way. The blueprint built firmly on the 'Community method'. Possible treaty changes should only be envisaged when indispensable.

In the short term, the Commission was giving priority to the full deployment of new economic governance tools brought forward by the legislative 'six-pack' as well as rapid adoption of current Commission proposals such as the 'two-pack' and the Single Supervisory Mechanism (SSM). An effective banking union required not only a SSM, ensuring high quality supervision across member states, but also a Single Resolution Mechanism (SRM) to deal with banks in crisis. The Commission will make a proposal for a SRM, which will be in charge of the restructuring and resolution of banks within the member states participating in the Banking Union. The Commission considers that the creation of a SRM can be realised by secondary law.

Mr Larch said that in a forthcoming proposal the Commission will propose

a framework for the ex-ante co-ordination between member states of major structural reforms in the context of the European Semester. Ex-ante discussion and co-ordination of major reform plans, as envisaged in Article 11 of the Treaty on Stability Co-ordination and Governance (TSCG), would allow the Commission and member states to assess the potential spill-over effects of national action and to comment on the plans before final decisions are taken at a national level. The Commission will explore further ways to accommodate national investment programmes in the assessment of Stability and Convergence Programmes. Specifically, under certain conditions non-recurrent, public investment programmes with a proven beneficial impact on sustainability of public finances could qualify for a temporary deviation from the medium-term budgetary objective or the adjustment path towards it. This could apply, for example, for government investment projects co-financed with the EU, within the framework of macro-conditionality.

Mr Larch explained that the Commission's blueprint proposes to create a 'Convergence and Competitiveness Instrument' to provide support for the timely implementation of structural reforms. The CCI would encompass contractual arrangements agreed between member states and the Commission in dialogue, a dialogue which would increase national ownership of reform. Member states would need to reinforce ownership on the national level of the contracts by involving national parliaments. This new system would build on the existing EU surveillance framework, namely the Macroeconomic Imbalances Procedure (MIP).

In the medium term, the Commission envisaged the establishment of further budgetary co-ordination within the Eurozone (including the possibility to require amendments to national budgets or to veto them), deeper economic policy co-ordination and the creation of an autonomous fiscal capacity for the EMU to support the implementation of policy choices resulting from deeper co-ordination. Some of these elements would require amendment of the Treaties. The Commission also favoured the setting up in the longer term of a redemption fund which could foster the integration of Euro area financial markets, and in particular stabilise volatile government debt markets through the common issuance by Euro area member states of short-term government debt. This project would be designed to lower the overall financing costs of some governments in difficulty in exchange for additional commitments by them to responsible fiscal governance.

Building on the progressive pooling of national sovereignty, the Eurozone should in time be able to establish an autonomous budget for the Eurozone,

providing for a fiscal capacity to support member states in the absorption of shocks. A deeply integrated economic and fiscal governance framework could facilitate a common issuance of public debt, which in its turn would enhance the functioning of markets and the conduct of monetary policy. These were goals for the long term, but Mr Larch stressed in conclusion that attaining a “deep and genuine EMU involves incremental measures” introducing further integration on a step-by-step, policy-by-policy basis. Which of these measures will need amendment of the Treaties cannot now be predicted with certainty.

The Eurozone and European integration

Professor Collignon began his speech by recalling why the European single currency had been created in the first place. In his view, the euro was an inevitable and necessary complement to the single market which is at the core of EU integration. It was impossible to enjoy simultaneously a single market for goods and services and variable exchange rates. Exchange rate variations would in a genuine single market continuously disturb the relative prices for goods and services so that competition would not be about quality of goods or prices, or the efficiency of production, but rather it would be a plaything of financial markets. Therefore, for Professor Collignon, the only way to solve this contradiction “was to give up national sovereignty over monetary policy to unify the single market.” Professor Collignon said he did not believe in the concept of an ‘optimum currency area’. “To take this argument all the way down to the very bottom line you find that your optimum currency area means that for every good you need your own currency which means that effectively you no longer have currency.”

Professor Collignon recalled that he had argued repeatedly that the creation of the single market and the single currency has led to a quantitative change in the dynamic of EU integration. In the early years of European integration, emphasis had been placed on creating synergies in Europe, with the aim of creating production markets and improving economic welfare across the spectrum. This model was however no longer valid. Distributional conflicts had emerged and these distributional conflicts altered the dynamic by which governments, citizens, and actors in the markets take their decisions. Public goods within the European Union and in particular within the Eurozone needed to be considered in terms of gainers and losers

rather than universal gains. "You need a different form of management, a different form of government for the Eurozone." Before the financial crisis of 2008, the winners of the monetary union were the European south and the losers were the European north. Since the crisis the north-south pole had been reversed.

Professor Collignon considered two explanations commonly put forward for the present crisis of the Eurozone. The explanation most widely accepted in Germany is that the current crisis stems from public debt and insufficient respect for the Stability and Growth Pact. Professor Collignon is unconvinced by this argument because public debt ratios actually fell in countries such as Italy, Spain and Ireland and Greece prior to 2008. Another claim is that macroeconomic imbalances between member states are the main cause of the Eurozone crisis. But Professor Collignon pointed to the striking economic imbalances within the United Kingdom. For Professor Collignon, the disparity of wealth within the UK is a politically controversial issue, but it in no way threatens the monetary union of Britain any more than economic disparity threatens the monetary union of the EU. For Professor Collignon, any such analysis is "just intellectual laziness and any evaluation should be on a state by state basis." Imbalances are in fact a sign that markets are operating efficiently in the single market, because countries, companies and consumers are allocating their income and purchasing power in accordance with relative cost and value. The functioning of the single market depends upon imbalances. An obsession by policy-makers with balancing current accounts had led them to worsen the present crisis through reinforcing austerity. The remedies that have been imposed by the troika - European Central Bank, European Commission and International Monetary Fund (IMF) - in countries like Greece have had disastrous consequences, "a vicious spiral of less growth, certainly more debt, more austerity and again less growth and more debt". For Professor Collignon "the only effective institution has been the ECB which has taken on the handling of the banking crisis by providing liquidity." Without the ECB, deleveraging would have led to the destruction of the single European currency. The Eurozone faced two related challenges, the need for some gains accruing to its winners to be shared with its losers, as a matter of social justice; and the need to combine its efficient functioning with democratic legitimacy.

At present, argued Professor Collignon, legitimacy only resides with the member states, but this was an inefficient arrangement incapable of representing the common interest. "As long as the legitimacy process comes

out of the national governments we have a gridlock” and “the smallest common denominator of each and every policy”. In the modern world, the ‘sovereign’ should not be national governments, but citizens, a reality lost in the current European debate. Citizens are ruled and gagged by their governments and “these governments only represent partial interests. We have a diminutive democracy. We don’t have a genuine democracy”. This unsatisfactory situation sometimes leads to calls for a return of the nation state where citizens supposedly have more control of their affairs. But such domestic control is illusory. Domestic and apparently external affairs are now inextricably linked. Political parties such as the UK Independence Party are wrong to imagine they can offer a reconstituted national sovereignty to the voters.

The more realistic alternative to nationalist illusions is, argued Professor Collignon, to set up, at the EU level, a political and democratic system which will give citizens the ultimate choice over what kind of policies they want to see implemented, particularly what policies should be applied in terms of austerity and public borrowing. Professor Collignon saw this as “the real issue for the future and this is not currently being addressed by governments or by the European Commission.” A European Monetary Union will only be sustainable in the long term if fundamental issues surrounding the governance of modern Europe and the legitimacy of power have been tackled. The EU must be given efficient policy tools that can be applied according to the democratic choices of citizens, choices made in response to different options made available to them. “Unless this happens I’m afraid I see a rather dark future for the EU.”

The Eurozone – Has the corner been turned?

Dr Waltraud Schelkle, Senior Lecturer in Political Economy at the London School of Economics, began her talk by reflecting on the continuing difficulties of the current economic crisis engulfing numerous EU member states. She conceded that some encouraging signs are beginning to emerge, but she remained generally hesitant about the positive indications deriving from the markets. For Dr Schelkle, it was at least premature to say that “the Eurozone had turned a corner.” All that had happened was that central banks had thrown “massive amounts of liquidity” into the market, doubling or tripling their balance sheets, while ordinary European citizens still felt an acute shortage of credit within the real economy. Banks were,

feared Dr Schelkle, simply trying to look creditworthy to their peers, but thereby creating a liquidity trap. There was debate among economists about the effectiveness of monetary policy in present circumstances and a debate among policy-makers, mirrored in the exchanges between Professor Collignon and Mr Larch, about fiscal consolidation and whether policies of austerity do more harm than good. Dr Schelkle feared however that the room for manoeuvre for many European governments was objectively more limited than they might hope. The examples of Ireland and Greece were hardly encouraging, but it was not clear either that other policies applied in these countries would or could have been less painful.

Dr Schelkle praised the performance of the European Central Bank over the past six months in reducing bond yields and the spreads of credit default swaps. She quoted Mario Draghi's recent remark that "we shouldn't only talk of contagion as a negative thing, we should also talk about contagion when it's positive." Nevertheless, Dr Schelkle said she had reservations about the solidity of the present situation. In preceding years, financial markets had tended to be optimistic in the spring and then fall back in summer. In effect, the European Central Bank had become over the past six months a lender of last resort for sovereign borrowers. This had reassured markets, but it was questionable whether the Bank would be able indefinitely to maintain such a posture. The constraints imposed upon the European Central Bank by such national institutions as the Bundesbank might well reduce the Bank's room for manoeuvre. The Bank of England was freer in this respect than the ECB. Mario Draghi and his Bank currently inspired confidence in the markets, but that confidence was dependent upon the fact that their announced policies had not yet been put to the ultimate test. The Bank had perhaps saved the Eurozone from immediate crisis, but its reinforcement of the liquidity trap was storing up problems for the future. It was understandable that many national governments supported Mr Draghi's policies, but they were doing long term damage to their own financial credibility.

Dr Schelkle then focussed her talk on the Greek crisis. She acknowledged that Greece had done a great deal to meet the demands of the troika. But she believed that even now Greece was still paying for mistakes the Greek and other European governments had made when Greece entered the single European currency. Many of the problems of Greek membership of the euro had been clear from the beginning, but Greece's partners had preferred to ignore them and simply encourage the Greek government to

“modernise and become part of the European family”. Even so, Dr Schelkle believed that without EU support they would today be much worse off. “What you see today would be even more brutal without EU support.” The case of Greece was not identical with that of Spain or Ireland, where much more choice was open to the governments in how far they wished to accept the terms of the troika.

In her consideration of British governmental economic policy, Dr Schelkle praised the ability of the British state to “play the financial markets”. George Osborne’s reputation was an important part of this ability and must continue to appear an ‘iron chancellor’, implementing painful austerity measures. But Dr Schelkle also noted Mr Osborne “has revised the timetable a little bit and I think we will see more revisions still.” One reservation Dr Schelkle did have about the policies of the current British government was its approach to welfare benefits, which were to be raised by less than inflation. Maintaining the level of welfare benefits was a much more efficient way of maintaining national consumer expenditure than tax cuts, since those on welfare benefits were more likely to spend all their money relatively quickly, given their limited personal budgets.

For Dr Schelkle, in conclusion, an interesting contrast existed between the financial system of the United Kingdom and those of the Eurozone. At one level, more restructuring of banks had taken place in the United Kingdom than in the Eurozone: nationalisation had been the preferred and largely successful policy of the British government. But the higher degree of leveraging in the British financial system probably meant that such restructuring was more urgent in the United Kingdom than in the Eurozone. Dr Schelkle knew that traditionally British regulators favoured higher capital requirements and lower levels of day to day regulation than did their Eurozone equivalents. These preferences reflected different underlying financial systems. What was striking was that the supposed freedom of the British financial system and the British government to make choices independent of the Eurozone had led to their making very similar choices to those prevalent in the Eurozone. The ‘free’ choices of a well-established system of economic governance in the United Kingdom had, paradoxically, led to almost indistinguishable policies to those emerging from the new, evolving and poorly-constructed governance of the Eurozone. This was a result that should give at least some British Eurosceptics pause for thought. On the other hand, the problems of the Eurozone were far from yet being resolved.

Conclusion

Professor Stephen Haseler began his concluding remarks by observing that democracy is a central issue in the debate about the UK's relationship with the Eurozone. Professor Haseler recognised the force of the argument which claimed that national decision-making is based on democracy but European decision-making is purely technocratic. The only response to this argument in the long term was that Europe should be federalised into a democratic organisation or system "just like the USA". America is a very good example of how a large federal state can have a democratic government in a federal system, that runs a society efficiently with boundless freedoms and plenty of economic growth.

Professor Haseler said it seemed to him almost beyond discussion that in Europe there are going to be substantial moves towards federalisation as a result of the global financial crisis. "If we don't do that there may be an implosion which will affect not just Europe but the whole global financial system." Ironically, given the close links between some British Eurosceptics and the United States, pressure was now coming from Washington for Europe to move in this direction, in both American and global interests. Britain needed to ask itself what its relationship would be with a more federalised European Union and particularly with a more federalised Eurozone.

The first reaction of the British government has been the suggestion that the terms of British membership within the European Union should be renegotiated. According to Professor Haseler, this tactic seemed unlikely to succeed. He would much prefer the United Kingdom to pay a constructive role in trying to resolve the crisis of the Eurozone. The United Kingdom risked falling between two stools, that of Brussels and that of Washington, on difficult terms with both these major partners. It was time for Britain to make a fundamental choice. "Britain can no longer have a halfway house. We are coming up to the crunch. We have to take a decision and it's not before time."

The UK and the EU Budget

20th February 2013

Summary

In this event on the UK and the EU budget, Vasco Cal, Economic Adviser in the Bureau of Economic Policy Advisers, provided an overview of the current situation, reminding the audience that although the European Council had just agreed a new Financial Perspective for the Union, this political agreement must now be ratified by the European Parliament, which was by no means a foregone conclusion. Vasco Cal drew attention to the Connecting Europe Facility, which, even if cut to thirty billion euros from the amount proposed by the Commission of fifty billion euros, would introduce a new way of managing the European budget in future. Dr Giacomo Benedetto, Lecturer in Politics at Royal Holloway College, University of London, argued that the UK's pressure to cut the European budget might not bring the imagined rewards for the British Treasury and could even be counterproductive. British attitudes to the European budget were sometimes led into confusion by inappropriate comparisons. Given that the Commission's original proposal for the seven year Perspective had been for a freeze in GDP terms for the European Union, it was inappropriate to regard that proposal as inflationary, as many had in the United Kingdom. Dr Alan Greer argued that the proportion of the European budget devoted to agriculture would continue to be greater than was generally realised. As a result of the agreement in the European Council, however, it might in future be more difficult to find satisfactory ways of balancing the disparate elements of European budgetary expenditure on agriculture.

What future for the next Financial Perspective?

Vasco Cal opened by saying that when he came to London almost two years ago to talk about the proposals of the Commission for this Financial Perspective, he was asked "Are these proposals ambitious enough?" and "Why didn't the Commission propose more radical reforms?". The difficulty of obtaining agreement on the Perspective had justified the caution of the Commission. The recent agreement on the Perspective hammered out in the European Council would now go to the European Parliament, whose budgetary powers had been increased by the Lisbon Treaty. It was not certain that the Parliament would endorse the European Council's compromise. The compromise should properly be compared with the contents of the present Financial Perspective rather than the original proposals put forward by the Commission two years ago. The new Perspective was an improvement on what it replaced. It was the result of political negotiations which had only recently matured to a settlement, but its contents were nevertheless "intriguing".

Mr Cal argued that the new Perspective in fact amounted to 997 billion euros, not the 960 billion widely reported. Some expenditure that the Commission wanted formally to bring within the Union's budget had remained outside the Perspective, but they remained expenditures the Union would be undertaking over the next seven years. Nor was it correct to claim that the structure of the next Perspective was identical with that of its predecessor. More would be spent on research and development and less on agriculture. The European Parliament should welcome the greater spending on research and development, which would contribute to making the European economy more competitive and flexible, a traditional priority for the European Parliament.

The Parliament, according to Mr Cal, should also welcome the provisions of the new Perspective guaranteeing flexibility between years of the European budget and between its headings. This should ensure better management and greater predictability. It should also remove the current perverse incentive for the Council to create the impression of cutting expenditure in current programmes by adding to its commitments in future years. The current Perspective had become unbalanced in precisely this way. Flexibility between budgetary headings was also a desirable innovation, although Mr Cal was under no illusions about the reluctance of member states to renounce access to anticipated European funding, even if they proved unable to make good use of the resources in question.

Mr Cal welcomed particularly the Connecting Europe Facility in the new Perspective, even if it had been reduced to 30 billion euros from the 50 billion proposed by the Commission. The Facility is designed to finance investment on transport, energy and telecommunications. In its operation, it will represent a new approach to European funding, acting mainly through loans and guarantees to encourage parallel public and private funding. This is likely to be a more effective approach than the simple disbursement of relatively small grants by the Commission, which cannot possibly meet the scale of the funding required for major infrastructure projects. The financial markets were looking for long-term projects to support and the Facility, together with project bonds and the work of the European Investment Bank, should help to fill this requirement. The workings of the Facility will be decentralised and tailored to local requirements. Mr Cal believed that all future versions of the Union's Financial Perspective would see ever greater replacement of European grants by European guarantees and loans.

Mr Cal also said that he had been pleasantly surprised that the European Council had accepted new rules for the implementation of European programmes in the individual member states. The Commission would in future have more powers to monitor expenditure and ensure that resources were being properly and effectively used. It would also be incumbent upon member states to show that the European money they received was properly integrated within other local and national policies. More problematic, however, was the decision that over the whole European budget 20 percent of its resources should be dedicated to projects related to climate change. This would create enormous problems of definition and co-ordination for such policy areas as agriculture, research, education and external relations.

In his closing remarks, Mr Cal admitted that it had been impossible to achieve any significant change on the revenue side of the European budget, despite the Commission's proposals. He thought it likely, however, that there would be changes at the time of the next Financial Perspective. For the next seven years, the existing, unsatisfactory situation would continue, with the national income contribution being the dominant factor for each member state, leading in its turn to pressure for ever more complicated budgetary adjustments by way of rebates and abatements. It might well be that the European Parliament would make its agreement to the new Perspective dependent upon undertakings of changes in how the Union raises its revenue in the next Perspective.

Negotiating the Financial Perspective

Dr Giacomo Benedetto started by observing that rational discussion of the European budget was only possible if those discussing it had a clear idea of whether European spending was desirable or not. If they thought it was desirable, then cuts in the budget were on the face of it to be avoided if possible. If the European budget was already too small, then this problem would only be exacerbated by further cuts in European programmes. In a number of member states, including the United Kingdom, the political discussion of the budget was unfortunately entirely adversarial in character, with cuts in the budget being pursued for their own sake. Ironically, countries like the United Kingdom with abatements of their contributions to the European budget would find the benefit they derived from such cuts reduced by the parallel reduction of their abatement. It might even be that the final agreement in the European Council was one that would harm British interests through its reduction of funding for competitiveness, research and technology.

Dr Benedetto discerned two confusions in much of British discussion of the European budget, on the one hand a failure to conceive of the European budget as a percentage of the Union's GDP; and on the other a failure to distinguish between 'commitments' and actual payments. In recent years, the European budget has remained as a constant percentage of European GDP. So if economic growth is higher than inflation the budget will grow, but if economic growth is negative, the budget gross amount spent will decrease. To describe such a system as inflationary is misleading. Much misunderstanding is also caused in the United Kingdom by the fundamental distinction in European budgeting between 'commitments' and 'payments'. Given that many European programmes extend over a number of years, it is important for the Commission to be sure that money will be available to meet commitments in the later years of these programmes. Some national officials and governments seem however to believe that money not spent on a programme in a particular financial year should be returned to the member states, without recognising that this money is already 'committed' to an existing programme. When the Commission ask in the later years for this money to be paid, it is wrongly seen as a new demand by the Commission, reflecting badly on the Commission's financial management.

Dr Benedetto presented interesting figures relating to the revenue and expenditure of the Union, viewed particularly from a national perspective.

In 2011, the United Kingdom had paid some 13.8 billion euros to the European Union, some ten percent of the Union's revenue. The size of the UK's GDP in 2011 compared to the EU's collective GDP was 13.9 percent. The UK contribution to the EU's revenue of 13.8 billion is equivalent to 0.79 percent of UK GDP and the lowest contribution in terms of percentage of GDP to the Union's revenue. So how much does Britain actually get back?

Dr Benedetto remarked that the calculation of net receipts to a particular member state is not straightforward. The best figure he could offer was 6.6 billion euros for the United Kingdom in 2011. That spending represented 0.3 percent of British GDP and left Britain with a large net contribution to the Union's funding both before and even after its budgetary rebate. Only the Netherlands receives from the Union a lower amount of European spending as a proportion of its economy than the United Kingdom. Dr Benedetto emphasised that he regarded percentages of GDP as being the most illuminating way of regarding European budgetary calculations. On that basis the newly agreed Financial Perspective was not the first or even most significant cut in the European budget. In the Perspective of 2007, the percentage was cut to 1 percent of the Union's GDP, having been 1.07 percent before. For the Perspective agreed in 2013, the Commission had by contrast proposed the maintenance of the 1 percent level, which was then cut back to 0.95 percent.

Dr Benedetto argued that two main spending areas of the European budget, agriculture and fisheries and cohesion funding, had come off comparatively lightly from the final negotiations in the European Council. The share of the budget allocated to both areas had been marginally increased by the Council, compared with the proposals of the Commission. This reflected aggressive lobbying by governments benefitting from payments under these policies. The policies which had been most significantly reduced in the final Council agreement had been those to encourage growth and competitiveness. The Commission had proposed expenditure of 155 billion euros in the new Perspective. This was reduced to 126 billion, a 19 percent cut, despite the rhetorical commitment of the Council to favour precisely these areas at the expense of agricultural expenditure. These cuts would be disproportionately to the disadvantage of the more economically developed member states such as the United Kingdom. These states tended to be the net contributors to the budget, and were probably more eager to reduce overall levels of European expenditure than to scrutinise all aspects

of the expenditure's composition. It was true that over time the composition of the European budget was changing towards growth and competitiveness, and away from agriculture and cohesion, but the process was noticeably slower than was sometimes assumed, and slower than the Commission had originally proposed that it should be.

In conclusion, Dr Benedetto wondered whether a radical new approach to European financing was not necessary if the proper balance was to be struck between the redistributive element of the European budget and its function as a provider of 'public goods'. Current decision-making procedures encouraged those who already received European funding to press their national governments for the maintenance of the status quo. It was easier to bow to this pressure than to make investments in the new economy. It might be that the Eurozone, or some alternative grouping, would be the vehicle for such change. This suggestion had been made in a book recently edited by Dr Benedetto. It was a proposal that deserved serious consideration.

Policies, peoples and the Perspective

Dr Alan Greer began by remarking that he is a specialist in agriculture rather than in the Common Agricultural Policy (CAP), the 'common' nature of which he rather doubts. His major interest is rather in the underlying agricultural policies of the European Union than in budgetary statistics. Even so, negotiations on the Financial Perspective were primarily driven by politics, with different groups seeking to divide the cake (or ham) of the European budget in ways advantageous to them. In the past there had been much debate about the possibility of increasing the size of the cake to be divided, but now the budgetary constraints were much more pressing. Dr Greer said he was surprised that the European Council had arrived at a compromise, which "gives everybody a little bit of what they want, which is the key requirement behind any negotiations and certainly in the European Union." He regretted that more had not been done in the compromise to help investment for the future. This was because the contributor countries, notably the United Kingdom, had as their overwhelming priority the reduction of the headline figures for overall European expenditure. These attitudes were reinforced by the present generalised programmes of 'austerity' at the national and European level.

In Dr Greer's assessment, 37.8 percent of the next Financial Perspective would be spent on agriculture and fisheries. This was a larger percentage than was recognised by some commentators, who concentrated only on 'Pillar 1' payments, the direct payments to farmers. In Dr Greer's view, 'Pillar 2' payments, devoted to rural development, should also be taken into account, not least because the vast majority of this money went to farmers. Dr Greer's figure of 37.8 percent was admittedly somewhat less than the equivalent figure of twenty years ago, but the difference was less than was often assumed.

Dr Greer reviewed in greater detail the payments envisaged by the new Perspective under the two 'Pillars'. The European Council had cut Pillar 1 payments by 2 percent compared with the Commission's proposals, and those of Pillar 2 by 8 percent. Political leaders often proclaimed themselves favourable to the promotion of rural development, but equally often found it easier to cut spending in this area than to reduce direct payments. The United Kingdom would be particularly adversely affected by these cuts to Pillar 2, an unwelcome outcome for the British government, given its stated desire over time to run down Pillar 1 and to increase Pillar 2 payments. Moreover, a number of other countries had been more successful than the United Kingdom in protecting their own access to Pillar 2 payments. A further delicate choice with which the British and other governments will be confronted is how to use their now enhanced flexibility in transferring funds between Pillars 1 and 2. British farmers are already concerned that other governments may be more willing to help their farmers by such transfers than will their government.

Dr Greer reported on the first reactions to the European Council's settlement that he had received from the British National Farmers Union. The NFU had consistently stated that it would be unrealistic to expect the CAP to be exempt from cuts when public expenditure across Europe is under pressure. Its key objective was to ensure that British farmers are not treated in any way more disadvantageously than farmers in other countries. The NFU was happy to note that the new agreement will not require land to be taken out of production and that any capping of payments to individual beneficiaries would be voluntary. The Union was however concerned about arrangements concerning Pillar 1 and Pillar 2 payments, which might work to the disadvantage of British farmers. Dr Greer pointed out by way of commentary on the NFU's concerns that transfers between Pillar 1 and Pillar 2 would not necessarily take place uniformly between the

regions of the United Kingdom. Even within the United Kingdom there are substantial differences in the implementation of the supposedly Common Agricultural Policy.

As a counterpoint to the reaction of the NFU, Dr Greer quoted Birdlife Europe, "Europe is offered a budget that scales back investment in the environment and caters for the usual fat cats that have been milking the system until now." A spokesman from the RSPB commented: "Wildlife across Europe will pay a heavy price for this terribly regressive deal."

Dr Greer concluded by saying that a case could be made for arguing that the new Perspective has made the implementation of agricultural policy much more difficult in the United Kingdom because it upsets the existing balance between Pillars 1 and 2. Even so, he recognised that politicians such as Mr Cameron, with their own set of priorities, might have good reason to be satisfied with the outcome of the European Council. In the European Parliament's debate in early February 2013 all of the four major party blocs had voiced opposition to the agreement. Interestingly, the NFU, despite its own concerns, has argued in public "a deal is a deal and shouldn't be unpicked." He, Dr Greer, continued to find fascinating the politics and economics of agriculture.

Chairman's conclusions

The Director of the Federal Trust, Brendan Donnelly, concluded the conference by recalling what a limited number of policy areas were covered by the European budget. National politicians had preferred to retain for themselves decision-making over most national financial resources. This had the paradoxical effect that the European Union was sometimes criticised for devoting a third or more of its budget to agriculture, when this proportion was simply a mathematical consequence of the fact that the European Union was only responsible for major expenditure in a very limited number of areas, of which agriculture was one. The model of European integration whereby the Union came to take on more and more policy areas, with more and more financial decision-making falling to the Union, was one which had been abandoned in the 1990s.

According to Mr Donnelly, all the contributions had shown the difficulty of agreeing on objective statistical statements about the European budget. It

was important to agree beforehand on terms of comparison and the basis of calculation. Mr Cameron and Mrs Merkel had achieved from their point of view a political success in reducing the amount available in the new Financial Perspective below that of the preceding Perspective. But it should not be supposed that the political motivations of the two were identical. For Mrs Merkel the European budget is a 'sideshow' compared with the vital question of the euro. For Mr Cameron it was a matter of great political import in the management of his restless Conservative Party. Mr Donnelly expected that in the longer term Mrs Merkel would be more successful in her European policy than would Mr Cameron. Even if she was widely criticised in Germany for indecision, she was often able to take right and necessary decisions at the last moment. Ironically, Mr Cameron had been widely criticised in continental Europe for his uncompromising stance on the European budget, while Mrs Merkel had largely escaped censure.

According to Mr Donnelly, the peripheral nature of the European budget's spending on most policies and for most member states reinforces the central nature of the single European currency in the future development of the European Union. The sums involved in the stabilisation and future consolidation of the euro dwarf the amounts at issue in the European budgetary negotiations. This is probably why many members of the European Council are happy to use the budgetary negotiations as a forum for political posturing rather than serious economic analysis. It was far from clear that a smaller European budget was necessarily a more economically rational one. Indeed, a number of contributions to the preceding conference had suggested the precise opposite.

Comments and Conclusions

The four sectoral conferences of this project have provided a series of insights into the current state of the European Union and Britain's position within it. Individually, these insights can appear to point in different, or even contradictory directions. Taken together, they provide clearer answers than has yet been possible to the questions about British European policy which arose at the birth of the Coalition government in 2010 and have continued to be relevant throughout the three years of the Coalition's existence.

External policy

It seems extremely unlikely that for a number of years to come the external policies of the European Union will act as a major motivating force for European integration. All speakers at our conference, while recognising the need for time to be given for the reforms of the Lisbon Treaty to reach full effectiveness, were disappointed by the early performance of the European External Action Service and more generally unconvinced of the Union's ability to play in current circumstances a leading global role. Partly, the disappointment of the speakers was personal and administrative. A number of references were made to 'turf wars' between the constituent elements of the Service and questions were raised about the choice of Baroness Ashton as the first High Representative to replace the originally leading candidate David Miliband. Some speakers however saw the Common Foreign and Security Policy's problems as being more deep-rooted. They complained that the Lisbon Treaty had given no clear remit of responsibility to the Action Service, a failing all the more damaging at a time when the external prestige of the Union had been undermined by the crisis of the Eurozone, Europe's poor economic performance in recent years and its clear divisions on such questions as Libya, the Arab Spring and Mali. In these circumstances it was hardly surprising that Baroness Ashton and the Action Service should have struggled to make a success of their new functions.

In retrospect, it seems highly ironic that some of the Lisbon Treaty's most vehement critics claimed to discern in its text an existential threat to national autonomy in the formation of external policy. Several speakers in the conference made critical comments on the incapacitating effect of the traditional practice of seeking unanimity for decision-making under the CFSP, a practice reaffirmed by the Lisbon Treaty. Almost certainly, however, it would have been impossible to attain any agreement on CFSP in the

Treaty without this maintenance of the principle of unanimity for all but the most trivial decisions. Larger member states in particular seem to remain as reluctant as ever to share their governmental sovereignty in this area. The constraints and uncertainties on the role of the Action Service and indeed the High Representative for which it works are an inevitable consequence of this reluctance of member state governments to share decision-making in the sphere of CFSP on the same integrative basis as they have in other policy areas such as the internal market, and more recently (for most member states) internal security.

Given this background, it was probably always unrealistic to assume that the modest innovations of the Lisbon Treaty would transform the making of external policy for the European Union. This is not to say that the innovations are useless or incapable of making a difference in the long term. It does however mean that for a number of years to come, the CFSP cannot be the major area of rapid development in the Union's activities that some of the Lisbon Treaty's advocates hoped (and some of its critics feared) it might become. It seems much more likely that if there is such an area of rapid development it will be that of the political and economic integration promoted by reform of the Eurozone. The nature, speed and extent of the Eurozone's integration are likely in their turn to determine, or at least significantly to influence any revitalisation of the development of the CFSP.

If and when any such revitalisation of the CFSP occurs, it will no doubt confront the British government of the day with the choice of participation or resistance. It may well be that by that date other factors will be at play to colour the British choice. For the coming years however the CFSP is not an area likely to challenge the traditionally anti-integrationist approach of successive British governments to the development of the European Union. It is by no means the only member state eager to restrict the compass of the Action Service's activities; and European divisions over such issues as Libya can easily be seen as reinforcing British arguments about the need for national decision-making on matters of high politics and external strategy. Nor has the United Kingdom entirely set its face against the concept of European integration in even the sensitive area of defence. It has however preferred to practice this integration bilaterally with France rather than the rest of the European Union, as the Anglo-French Defence Treaty of 2010 makes clear. It is significant that in Mr Cameron's and his Party's recent debates about the hoped-for renegotiation of the terms of British membership in the European Union external policy has rarely been mentioned as an area in which British negotiators might demand repatriation of powers.

The European budget

Shortly before the conference in February, 2013, agreement was reached in the European Council on the next Medium Term Financial Perspective. This agreement surprised at least some commentators, who had expected that the deadlock on the issue at the Council of November 2012 would continue. In the event, an agreement was achieved which represented a small decrease in the money available to the Union over the years 2014 to 2020 compared with 2007 to 2013. As an enthusiastic advocate of such a reduction, Mr Cameron was prominent in welcoming this outcome, all the more congenial to him because he had been able to maintain the favourable arrangements for the British budgetary abatement agreed by his predecessor Tony Blair. While it only became clear at the final decision of the Council that the European budget was to be marginally cut rather than maintained or slightly increased, it had long been clear that the next Financial Perspective would not be greatly different in its size from that which preceded it.

Over the past ten years, a number of other 'net payers' into the European budget have come to share some of the British government's scepticism about the usefulness and efficiency of many programmes within the budget. The generalised adoption by the member states of domestic economic austerity has moreover provided a rationale for parsimony at the European level as well. The original proposals of the European Commission for the new Financial Perspective, widely seen as unadventurous, reflected this changed reality. The Commission defended its proposals on grounds of their likely acceptability to decision-makers in the European Council. The course of the budgetary negotiations over the past two years, during which the Commission's proposals have repeatedly been revised downwards, suggests that the Commission had assessed the political situation correctly.

It is striking proof of shifting national governmental perceptions of the European Union that in all the discussion concerning the future governance of the European single currency no serious proposal has been advanced radically to increase the financial resources of the European budget as a macroeconomic tool for the Eurozone. The unwillingness of most political leaders within the Eurozone to see the Eurozone's difficulties as an opportunity to broaden the remit of the European budget is a manifestation of their desire to maintain in their own national hands those economic levers that many critics of the Eurozone's governance structure believe should be operated at a supranational level. There are not many current members of

the European Council who see the European budget, as it was once seen, as an ever-growing underpinning for and expression of the underlying European integrative impulse.

In reality, many member states of the Union, particularly the net contributors, have come to share the late Baroness Thatcher's approach to the European budget, that of 'juste retour', whereby member states thought themselves entitled to expect some approximate balance between their payments into and their receipts from the European budget. For many years, this approach was rigorously disavowed by most member states, at least in public. The proliferation in recent years of 'special arrangements' within the budget designed to reduce the net contributions of a number of member states (not just the United Kingdom) is testament to changing attitudes on this issue. Partly in consequence, Mr Cameron found easier than he might have feared to defend the maintenance of the British budgetary abatement arrangement in these most recent negotiations. It was politically important for Mr Cameron to demonstrate to his party and others in the United Kingdom that he had ensured at least as favourable an arrangement on his country's net contribution to the budget under the next Framework as did Mr Blair in 2005.

In all the budgetary negotiations, Mr Cameron seems to have worked closely together with Mrs Merkel, who was eager to demonstrate to German tax-payers that she had restrained as far as possible Germany's net contribution to the European budget. Some commentators have seen in this collaboration a precursor of closer co-operation between the United Kingdom and Germany on other European issues, possibly at the expense of France, which was eager for at least the maintenance of and possibly an increase in the level of the European budget. Any such expectations need however to be treated with caution. For the reasons discussed above, the European budget is now a distinctly more marginal aspect of the Union's development than it seemed twenty years ago. Mrs Merkel did not want an argument about relatively small sums of money in the European budget to confuse discussion about a matter infinitely more important to her and the German electorate, namely the reform of the governance of the Eurozone. She may well have seen in an uncompromising stance on the budget some possible reassurance for German electors concerned about her handling of the Eurozone crisis. This conjunction of circumstances will not necessarily repeat itself on other occasions. The German government's recent decision, unhelpful to Mr Cameron, not to participate in the British Review of European Competences, is highly relevant in this context.

Previous budgetary negotiations in the European Council have suggested that radical reform of the European budget is extremely difficult to achieve, given the variety of interests that need to be conciliated. When the budget was growing, it was sometimes possible to bring about conciliation through the application of new funds to the benefit of losers from proposed changes. This option is now hardly available. It may well be that this most recent Financial Perspective will set the tone for future discussions on the European budget. Without dramatic new developments in the European Union's architecture, perhaps prompted by the development of the Eurozone, the European budget will become more and more simply an instrument for limited redistribution between the richer and poorer countries of the Union, and for even more limited redistribution between its richer and poorer regions. This might well be a useful, even a praiseworthy enterprise, but it is far from the aspirations reposed in the budget for many years by many politicians, officials and observers.

The Eurozone and its prospects

The conference on the Eurozone took place before the Cypriot financial crisis entered its most acute phase, and at a time when the European Central Bank's important declarations of the summer were seen by many political and financial commentators as having finally stabilised the Eurozone's structures. Perhaps in consequence, the general tone of the conference was one of guarded optimism as to the Eurozone's future, an optimism that might have been less pronounced had the conference taken place two months later. Nevertheless, all the participants in the conference struck important warning notes in their contributions, warnings that have become more pressing with the evolution of the Cypriot crisis.

It is now common ground within the Eurozone, and indeed within the European Union, that a 'banking union' is necessary to underpin the single European currency. Most of the Eurozone's problems in the past five years have stemmed from the banking sector and its interaction with public finances, whereby national governments have seen themselves as having no choice but to become guarantors for, and often major share-holders in their most important national financial institutions. Some progress is being made, as the conference heard, towards setting up a system of Eurozone surveillance, based on the European Central Bank, which will work with national authorities in monitoring the policies and practices of national financial institutions, particularly those which are 'systemically important'.

This monitoring, it is hoped, will prevent any recurrence of the self-reinforcing problems for the private and public financial sectors over recent years.

While welcoming progress towards the shared monitoring of financial institutions, all speakers drew attention at the same time to the necessity of supplementing this first step towards a Banking Union by a number of further measures that might well be politically and technically more challenging. The Eurozone needed not only to prevent future crises, but still had much to do to resolve its existing financial problems. It was not yet clear how far the members of the Eurozone would be willing to regard the solving of existing financial problems as being a matter of common concern. Equally, the Eurozone was a long way away from agreeing on mechanisms for the joint resolution of problems that might arise in the future even under an enhanced system of European monitoring for banks and related financial institutions. The Growth and Stability Pact had been conceived as a method of preventing the emergence of imbalances in the Eurozone's public finances, but gave no guidance as to the course to be followed if these imbalances nevertheless emerged. There was a danger that an imperfect Banking Union for the Eurozone might reproduce this lacuna.

Two related themes recurred strikingly in almost all the contributions to the conference, that of confidence and that of mutuality. Much of the optimism that underlay the discussion derived specifically from the intervention of the European Central Bank in the autumn of 2012, which had undeniably increased confidence in the governance of the single European currency. One speaker at least wondered if financial markets had not attached more importance to this intervention than it merited, given the unresolved other problems facing the single currency. The majority of speakers were inclined rather to stress the self-fulfilling nature of confidence in currencies traded on international markets. For them, the willingness of the European Central Bank to play an active role in ensuring the smooth functioning of the Eurozone was a definite gain for the single currency which was unlikely ever to be reversed. An assertive Central Bank was an essential building-block for a successful single currency. Its perceived absence in the Eurozone until 2012 had been a severe handicap from which the single currency had now definitely freed itself. (It should perhaps be noted that the relatively muted reaction of international markets to the Cypriot crisis gives some credibility to this latter view.)

Much more contentious however was the issue of mutuality, both in its political and financial aspects. Professor Collignon spoke with eloquence

and conviction about his vision of a 'European Republic', of which a single European currency was a symbol and component. Others echoed his underlying assumption that common decision-making, which must have at least some common financial expression, was the essential underpinning of the single European currency. Significant movement in that direction had undoubtedly taken place in the years since the Greek crisis began in early 2010. Those who claimed that the Eurozone was wholly incapable of adaptation in the direction of mutualisation were certainly wrong. It was a different question however whether the Eurozone was capable of pursuing this mutualising path far enough and quickly enough to ensure in, say, five years time a more stable and integrated system of governance for the Eurozone arising from greater financial mutualisation. A distinct pattern had already emerged over the past three years for decision-making in the Eurozone, whereby necessary measures were only adopted reluctantly and at the last moment in order to ward off impending disaster. The balance of opinion within the conference was that this unsatisfactory, but nevertheless eventually successful procedure would continue to be followed over the coming years in the Eurozone. Those who lived longest would know most.

Reconnecting the Union to the public

In the relevant conference, this topic was considered from three related viewpoints, that of the communications policies and practices adopted by the European institutions; that of the cultural and political context in which British European policy is formulated; and that of the general philosophical discussion about the nature and possibility of European democratic political structures. It was clear from the comprehensive presentation of the European Commission's Representation in London that its work of communication is now greatly changing as a result of new social media, which are providing to them new problems and possibilities; and that experience over the past years has refined and sharpened their techniques for dealing with the traditional written and broadcast media. But the Representation is certainly aware that the political context within which they pursue their task of communication is not one that they can themselves decisively influence. The specifically British political discourse on Europe is one largely shaped by domestic cultural and political considerations.

In his presentation, Dr Daddow recalled an illuminating comment of Jonathan Powell, the leading adviser of Mr Blair, that during its period in office New

Labour had failed to change British public opinion's attitudes towards the European Union. Dr Daddow is certainly right in attributing this failure at least partly to the fact that New Labour had no underlying vision for Britain's position within the Union. In Mr Blair's defence, it must be admitted that any coherent vision for Britain's role within the European Union for the long term articulated by New Labour would certainly have attracted criticism and hostility from its political opponents, both in Parliament and in the media. Unsurprisingly, Mr Blair and his colleagues preferred not to court such avoidable controversy, with major policy pronouncements on the European Union tending to be made outside the United Kingdom. In consequence, underlying British political and cultural attitudes towards Europe have interacted over the past twenty years with a lack of governmental direction on European policy in a way that now threatens British membership of the European Union, even in the attenuated form which this membership currently takes for the United Kingdom.

Since the conference of December 2012, Mr Cameron's speech on 23rd January 2013 has added a new element to the British European debate. This speech cannot be divorced from its domestic political context. Mr Cameron knew before his speech that the promise of a European referendum was the minimum necessary to stabilise his leadership of the party. It was also important for his management of the party that he should not give an unqualified commitment to campaign in a future referendum on the pro-European side. Renegotiation of Britain's terms of EU membership, after the General Election of 2015, followed by a referendum, was Mr Cameron's response to the internal political pressure in his party. Despite the party's generally positive response to his new ideas about Britain's position in Europe, there are aspects of his strategy to which opponents in the party will draw increasingly critical attention.

It is not certain that the Conservative Party will be in government after 2015 to carry out his European policy. In any case, it is unlikely that a significant renegotiation of the terms of British membership will be possible. This was well illustrated by a devastating article from the German Foreign Minister Guido Westerwelle in 'The Times' of London on 30th January, which made clear just how far from political reality is Mr Cameron's aspiration of a substantial renegotiation. Mr Westerwelle wrote: "There are no rights without duties. There can be no cherry-picking. Saying 'You either do what I want or I'll leave!' is not an attitude that works, either in personal relationships or in a community of nations... One thing is not negotiable

from Germany's point of view. For us the EU is far more than just a single market; it is a community united for peace and the shaping of our common destiny."

If Mr Cameron is Prime Minister after 2015, and holds a referendum in 2016 or 2017, he will probably have to make a choice between recommending 'yes' on the basis of a renegotiation that may well have been cosmetic, or 'no' on the basis that his renegotiation has failed. Whichever choice he makes, the outcome of a referendum is very difficult to predict. On 4th April, the Financial Times reported that the French and German governments, acting together, had decided not to make any contribution to the work of the British Coalition government's 'Review of Competences', a study set up as part of the Coalition agreement in 2010 to review the legislative competences of the European Union. Some other European governments have apparently been willing to make comments and suggestions to the Review, but the refusal of the French and German governments to be associated with it can only be a worrying omen for Mr Cameron's intended European policy over the coming years.

Whatever the specific form taken by the debate in the United Kingdom, the questions about the nature of European democracy raised by Professor Piattoni will remain for the rest of the European Union and particularly for the countries of the Eurozone. Professor Piattoni is certainly right that the very possibility of a democratic European Union is intimately bound up with the concept of federalism within the Union. Those in the United Kingdom who proclaim themselves advocates of the European Union, but deny or disavow its federalist elements, are implicitly accepting an important part of the British Eurosceptic case, namely that democracy is exclusively capable of being exercised at the level of the nation state. If important decisions, affecting the welfare of many individual citizens, are to be taken at the European level, then the denial of any possibility of democratic legitimacy to a supra-national body leads inevitably to the conclusion that such decisions are democratically illegitimate. It is only a federalist philosophy, proclaiming the possibility and desirability of democratic legitimacy at a supra-national level, that can solve this conundrum. There are already important existing elements in the European Union's structure of governance that are evidently 'federalist' in their conception, such as qualified majority voting, the supremacy of European law over national law, the decisive role of the European Court of Justice, the independence of the European Commission and the very existence of the European Parliament. It can

hardly be doubted that if the federalist and potentially democratising elements of the European Union are to be developed then the European Parliament will need to have a central role in this process. European political parties and more obvious political choices offered to the European electors at the time of European Elections are obvious possible contributors to such a development.

It may of course be that those who see democracy as being exclusively a national or sub-national phenomenon will turn out to be correct, and that the increasing need for democratic legitimacy at the European level is one that simply cannot be met, either because national governments are reluctant to make a reality of European democratic structures, or because national electorates reject any attempts of national governments to make progress in this direction. It cannot be denied that within the Eurozone at the moment, there are political as well as economic strains upon the governance of the European single currency: how to reconcile the democratic rights of the Cypriot people with those of the German people is not yet a question to which the structures of the Eurozone can give anything other than a very crude answer. But it is surely incumbent upon the governments of the European Union, and particularly incumbent upon those in the Eurozone, to work towards developing better structures of democratic legitimisation for European decision-making. It is far from certain, or even likely, that such attempts will fail. If the attempts are not undertaken, then increasing political and social tensions within the Eurozone seem an inevitable consequence.

On the edge?

On a purely quantitative analysis, it might be possible to cite the debates of the four conferences described in support of the proposition that Britain is a not untypical member of the European Union. As a large country, it shows more lip service than real commitment to the evolution of genuine and coherent external policies for the European Union; like a majority of the richer countries within the Union, it is sceptical about the workings of the European budget and has successfully worked with others recently to limit the budget's growth; and its citizens are certainly not the only Europeans lacking a sense of the political identification with the European Union necessary to legitimise increasingly significant decision-making at the European level. This denial of British atypicality within the Union would be for some commentators a reassuring analysis. It would also be an inadequate one.

As a result of its continuing crisis of governance over the past three years, the Eurozone is today in a process of attempted refoundation. If successful, this re-founded Eurozone will be the dominant factor within the European Union, with ever fewer member states remaining outside the single currency. The major party of the current British Coalition government, the Conservative Party, is committed never to join the single European currency in any circumstances; the Liberal Democrat and Labour Parties publicly describe the prospect of British membership of the Eurozone as an entirely remote one, both in time and in terms of political practicality. As a result, the process of refoundation for the Eurozone is taking place with at best a minimal British contribution to its evolution. Our partners cannot reasonably be expected to seek guidance on the matter from a member state which remains outside the single currency, and has every apparent intention of doing so indefinitely. A powerful reason why the United Kingdom signed the Treaty of Rome in 1972 was to ensure British participation in the taking of European decisions which would affect this country's interests. No such British participation can be discerned today in the most important reshaping of the Union's institutions since the 1950s. The British contribution to this process is limited to hoping vainly that a more tightly-knit Eurozone will be balanced within the Union by an 'outer core' of countries not in the Eurozone, perhaps led by Britain; to attempting to use the negotiating framework of refoundation as an opportunity to reduce the United Kingdom's existing level of participation in the Union's structures; and to seeking (implausible) reassurance that a more integrated Eurozone will guard as conscientiously the interests of the City of London as do British governments.

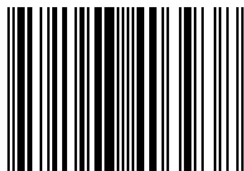
It is of course possible that current attempts to re-found the Eurozone are condemned to failure. If they are, many British commentators will have the doubtful satisfaction of seeing their worst predictions fulfilled, in a way disastrous for the economy of the whole European continent and not least for Britain. Britain's partners have observed with growing unease and irritation the increasingly negative and confrontational development of the Coalition's European policy, from the European Union Act to Mr Cameron's attempt to veto the Fiscal Pact, from Mrs May's announcement about British opt-outs from the Union's legislation on internal security to Mr Cameron's call for a renegotiation of the terms of British membership of the Union. It should not be assumed that these developments have left no mark on British prestige and influence within the European Union. If Mr Cameron and his party are reelected in 2015, it is highly unlikely that he would

be able to assemble the consensus of all his 27 partners in the Union necessary for any amendment to the European Treaties along the lines he will be seeking.

The excellence and effectiveness of British diplomacy managed for many years to reduce the impact on Britain's position within the European Union of its non-participation in the single currency, its non-participation in the Schengen arrangement and its ever-lengthening list of opt-outs. Recent years have however marked a definite caesura. The contrast between a Eurozone moving under the pressure of events towards greater integration and a British government moving through political choice towards a loosening of integrative ties within the Union can no longer be obscured by clever drafting or flexible coalition-building on individual European policies. There is undoubtedly still within the European Union a preponderant desire for Britain to remain part of the European Union, even with no immediate prospect of its joining the single European currency. But this desire is accompanied by an increasing sentiment on the part of Britain's partners that it is unreasonable for the United Kingdom to expect that it can dictate new terms for its membership, terms which are as presently constituted themselves the result of often difficult negotiations, freely entered into by the United Kingdom itself. This sentiment can only become more pronounced as the integrative effects of reform in the Eurozone make themselves felt. The timetable, scale and effectiveness of this reform of the Eurozone is incomparably the most important pending business not just of the Eurozone, but of the European Union itself. By its own decisions, the United Kingdom has decided to make itself a spectator of rather than participant in this process.

Over the past year, the Federal Trust and Global Policy Institute have been working in partnership with the Representation of the European Commission in London on a series of conferences to review the European policies of the Coalition government during its third year in office. This pamphlet offers a report on these conferences, and draws some conclusions from them. The report stresses the overriding importance of developments in the Eurozone both for the future of the European Union as a whole, and for the United Kingdom's position within it. If, in the medium term, the Eurozone is consolidated on a basis of considerably greater economic and political integration than is currently the case, the United Kingdom's continuing absence from the European single currency will inevitably affect its overall position within the European Union. It is difficult to believe that these effects can be other than deleterious to Britain's position within the Union.

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