

8 Last Thoughts: What is to be done?

In this chapter we consider this question in the context of the politics of our relationship with the EU. Some people say that the overriding reason for our membership of the EU is political: to ensure the unity of Europe and to prevent future wars. There is no doubt, given the ferocious history of our continent in the twentieth century, that this is a crucial aim. The expansion of the EU to include the ex-Soviet countries of eastern Europe is a major contributor to this aim. The EU is therefore plainly an important institution alongside others that govern inter-country relations in the twenty-first century including NATO, the UN, the WTO, the IMF and the World Bank.

However, the political aims of the EU as a community of nations do not need to be achieved by the exaction of huge economic costs from members of that community. We have argued in the preceding chapters that these costs are large also for other members of the EU. That is of course a matter for them; our focus has primarily been on the costs for the UK, which are of great size, as we have seen. Indeed, quite obviously the costs are unacceptably high by a large margin. Hence inevitably the UK is being forced to a reconsideration of its relationship with the EU in such a way that the political aims of peace and amity in Europe are not jeopardised. Nevertheless we must pause first to consider the wider issues for the whole of the EU.

8.1 THE LOGIC OF REFORM IN EUROPE

What is striking in what we have gone through is the huge costs for the citizens of continental Europe, as well as those for UK citizens. In fact of course we have been unable to measure the costs of the heavy taxation and regulation already in place in continental Europe; we measured the costs of protection but as far as these other costs went we merely measured the cost of imposing them on the UK. However, it is unlikely that their costs in continental Europe are much less than those of imposing them on the UK, that is, of the order of more than 10 per cent of GDP and more than 10 per cent unemployment. When one adds these costs to the measured costs of protection (some 3 per cent of GDP); it is plain that the citizens of Europe are suffering under an intolerable burden of inefficiency and waste.

Why is this? Plainly there is no space here to consider such a weighty issue in detail. However the broad answer is clear enough: the power of minorities to prevent, in their own narrow interests, improvement and growth for the majority. These minorities include unions (which work for the benefit of their senior members through the retention of restrictive practices and barriers to job entry), the churches (which conspire to prevent Sunday shopping and work to protect their attendance rolls), various single-issue groups (including environmental, religious and 'social' in various respects), large-scale industry that is no longer economic, and the political groups that represent them and are paid for by them. What nevertheless is puzzling is how the climate of opinion permits these groups to wield power with impunity. Here one is driven to consider the role of education in economic matters – or rather the lack of it. Thus most informed opinion has no idea of the costs of the restrictive practices conceded to these groups; their agendas are considered in an economic vacuum, even though it is the economics that is ruinous.

If one looks around the EU today, one is also struck by how different the situation is already in many of the smaller and also in the less developed continental countries. Thus Spain has made considerable strides in reform, as have Austria and the Netherlands, to take three examples. It is the three large economies at the centre of the continent geographically that not only show no sign of serious change and adamantly resist change at the European level,

but also do their best to export their backward approach up to the European level and outwards to the parts of the EU that do not follow them – most especially of course to the UK.

This monstrous conspiracy by a few in Germany, France and Italy in short to defraud not only their own citizens but also those of their neighbours is an astonishing thing to contemplate. In one major sense this book is an attempt to draw attention to this conspiracy among its victims, not just in the UK but across Europe. It can be read as a call to arms to these victims, to put Europe right and to dethrone these few conspirators.

For it is obvious that just as these costs are huge so by the same token the potential for improvement and greater prosperity are as large. The problem is also the opportunity. Given that politically the expansion and consolidation of Europe is an exciting project with great benefits for many peoples, why cannot the economics catch up? Why must economic structures remain shrouded in an economically-illiterate ‘social-democratic’ fog?

The main answer to the question posed in this book (viz. what is to be done about the huge economic costs created as a by-product of the ‘European Project’?) is therefore plain. It is that these costs are unnecessary, imposed by narrow interest groups on the wider public; and that they should be assaulted by a serious reform process. So far, reform in Europe has been essentially non-serious, a matter of what progress could be made by doing things that do not address the main tax and regulative restrictions at the heart of the problem. For example we have heard a lot about ALMs (active labour market measures), about subsidies to this and that (technology, small business and so on), about ‘empowerment’ of minority groups (women, young people, the elderly). Yet some of these are counter-productive (for example, subsidies raise taxes even further and the net effect is likely to be negative) and certainly they are all useless in the absence of measures to deregulate and open up markets (including the elimination of protection), to reduce the powers of anti-competitive agents like unions, and above all to lower marginal tax rates and business costs.

How likely is this? Lip-service has now been paid to these ideas for well over a decade – taking form in various ‘agendas’, Lisbon, Luxembourg, Cardiff and so forth – by the very people who never had any intention of carrying them out and indeed were responsible for the original problems; such men as Kohl, Schröder, Chirac,

Mitterrand and Prodi. Now we have seen the accession of several ex-Soviet states of eastern Europe, with more shortly to join – states that having experienced these regulative excesses in severe form have given their citizens a crash course in modern economics. Possibly the politicians from these states will help to swing the centre of gravity within the EU towards genuine reform. A new Commission has just been appointed under a Portuguese ex-prime minister, whose composition gives some hope that reform will be high on the agenda. However, in the face of the opposition from the three large countries' leaderships, one naturally wonders what hope it and its sympathisers among other governments really have.

At any rate, after so many years in an EU that has been unrelentingly hostile to its ideas of economic organisation and imposed such costs on it, it would be foolish of the UK to assume that reform will succeed. As matters stand the EU has in place a series of policies that appear well set to stay and that have the extremely damaging effects described above in the pages of this book. It is only prudent to plan for the worst. We now go on to consider what form that planning might take.

8.2 THE UK'S RELATIONSHIP WITH EUROPE ASSUMING EUROPE DOES NOT REFORM

The logic of this situation points to the UK doing one of two things. It can renegotiate a relationship within the Rome Treaty, a 'UK protocol' let us call it. Or it could leave the treaty altogether and achieve its political aims through other avenues – much as other friendly countries outside the EU, such as Norway or the US, do.

It may seem that the idea of renegotiation is a hopeless one, since why should other EU members agree to it? Yet in the present context where a dominant coalition of EU members is bent on creating a federal structure and the UK is largely isolated in its opposition to such a structure, the renegotiation offers an opportunity of universal progress. Under the terms of the Rome Treaty agreement on a new structure must be unanimous; thus the UK has the power of stalemate. This power has been greatly enhanced by this government's agreement to a UK referendum on the new draft EU constitution; it seems fairly likely that any structure remotely like

the draft constitution would get the UK popular assent in a referendum. However, by renegotiation the UK could agree to allow others who so wished to proceed to a new federal structure within the treaty.

Of course, such a renegotiation would no doubt cause other countries unhappy with aspects of the treaty to consider asking for renegotiation also. This would be a matter for them; many would in all probability rather settle to join the dominant coalition for a variety of reasons of national interest.

Thus it seems reasonably likely that this coalition of the EU majority would be happy to agree on a UK protocol as the price of using the treaty to forge a federal union. However, one cannot be sure; such inter-national bargaining is inherently unpredictable. Suppose they refused and did one of two things. First, they could accept a stalemate and rely on the forces of gradual pressure to achieve the same federalist objectives over a longer period of time. Or second they could decide to proceed en bloc to recreate the desired federal union outside the EU institutions, creating in effect a duplicate structure; though this would pose practical difficulties as well as difficulties in the process of obtaining a completely fresh agreement on all previously agreed areas, it is not to be ruled out.

What should the UK do in these two cases? In the second the UK would de facto have left the EU since the existing treaty would be without practical content. In the first, the UK could wait and see, meanwhile resisting the pressure from the federalist agenda. However, given the extensive and subtle powers conceded already to the EU's central bodies, this resistance would be likely to fail. It is likely that before long the same crisis that has currently arisen with the draft constitution would reappear. It would therefore be an attractive option in this stalemate case to leave, given the lack of desire for accommodation.

In all this it needs to be remembered that the other EU members could react to the genuine threat of UK departure by becoming more accommodating. This is possible precisely because these members see the EU primarily in political terms and the loss of the UK would diminish the political weight of the EU.

There is a further point: that the present policy arrangements of the EU damage the welfare of the other EU country citizens just as they do that of UK citizens. With the UK threatening to leave over these policies, there could be a strengthening of the

voices of those demanding change within the rest of the EU. The EU could reform in the direction of free trade, non-interventionism and competition, removing the arguments with the UK. However, we do not think anyone should hold their breath: this prospect looks remote.

Some people fear a different reaction: where either the EU as a whole or individual EU member states erecting discriminatory barriers against UK exports, whether special tariffs or other arrangements such as onerous customs requirements – all in retaliation against what they see as the UK's unreasonable departure or renegotiation. But such fears can be dismissed, for three main reasons. First of all, the changes the UK would ask for would not end a high degree of mutual cooperation in a variety of economic and political areas; any such retaliation would put such other areas of cooperation at risk and be against EU and individual EU members' interests. Second, the EU exports far more food and manufactured products to the UK than the UK does to the EU; the UK is a net importer of both and a war of trade retaliation would be damaging to the EU. Third, once the UK had opted for free trade in food and manufactures, such barriers would not affect the prices we paid for our imports or obtained for our exports, they would merely lead to a diversion of trade away from the EU. (The same applies to services where in any case the UK faces high barriers.) The only cost in this case would be temporary disruption as trade patterns were changed. But last and most important, such actions would be illegal under WTO trade law, and since the EU is a signatory to the WTO by implication under EU law. It is absurd to imagine that the EU, which relies so heavily on WTO law for large numbers of trade disputes, would put itself at risk by ignoring WTO law in its dealings with the UK, a state involved with it in friendly cooperation across so many areas, including the development of the single market in services.

What form finally therefore should a renegotiation of the UK's relationship take? We suggest here that it should be:

1. The UK should leave the EU's protective agreements altogether – the CAP, tariffs and anti-dumping and all else – and resume unilateral free trade. The agreement would place the UK outside the EU's protective arrangements; non-discrimination would be agreed, so that we would have the

same access to the EU market as any WTO non-EU member and EU members would have the same free access to the UK market as any WTO member.

2. If there were genuine concern about the EU pursuing discriminatory trade policies against the UK, then the UK could also join NAFTA to create countervailing power in the event of traded disputes. NAFTA allows each member to pursue its own trade agenda, provided it allows other NAFTA members free access in agreed trade areas. It would therefore be entirely consistent with the UK's free trade policy. However, as noted in our discussion above, there should be no concern on this score: joining NAFTA is unnecessary.
3. In the area of services, the UK already largely has free trade and free market entry. Here the Single Market could bring about competition within the EU through the discussions going on area by area. The UK has nothing to lose by participating in these discussions; and to the extent that residual UK barriers could be dismantled in particular areas, the UK would actually gain. Therefore, the UK should stay in the discussions on the Single Market for services, cooperating on a case-by-case basis to create new agreements. Existing competition agreements as for airlines would be kept to.
4. Freedom of movement of capital and labour has already been established and brought benefits. The UK should continue in these arrangements.
5. In other areas – such as competition policy, economic consultations, coordination of anti-terrorist policies – the UK would continue to participate but by specific and limited agreements in each area.
6. The 'social dimension' of the EU, including the Working Time Directive imposed for 'health and safety' reasons under the Single Market laws, would be abrogated in the UK.
7. Finally, EU law would no longer be binding on the UK. Instead, only those agreements explicitly made with the EU would be, as any treaty obligation, incorporated into UK law.

As already extensively discussed above, the UK would under these circumstances be outside the EU's customs union in food and manufacturing and would enjoy world prices. The EU could not reasonably be expected – nor would it be likely – to extend to the UK preferences in EU markets for our food and manufactured exports. Instead the UK would be treated like any other world trading country outside the customs union. It would have to pay any tariffs and anti-dumping duties and be subject to any other non-tariff barriers imposed on external suppliers. In whatever markets EU prices are kept up by the operation of an implicit cartel forcing potential low-price exporters to raise their EU prices – an arrangement we have suggested could be the most widespread of all the non-tariff mechanisms in EU use – then UK exporters too would be subject to this cartel. Ironically, this would benefit them considerably, just as it benefits other low-price participants in the cartel, provided they have a good market share. UK exporters are well established in the EU market and could well find that they continue to do well in it after UK exit to free trade. Since this situation would be costly to the EU and would draw wide attention to the existence of such cartel arrangements, the result could be greater pressure for EU competition, which would be beneficial to EU members. Such a development would bring about greater harmony in the long term in relations between the UK and the EU, making possible closer cooperation in trade policy, a key area from which the UK would have withdrawn.

Inside the UK either this new relationship, or total departure from the EU, would lower the prices received by farmers and by manufacturers previously protected by the EU customs union barriers. Transitional assistance should be given to them by the UK taxpayer (who of course will reap substantial gains from the new set-up). The whole issue of farm support and support of the rural environment will have to be visited afresh; in broad terms a long-lasting package that rewarded farmers for preserving the rural environment and freed them to carry out entrepreneurial development of their business and their assets (especially their land) could be devised, an arrangement such as this would make sense for both farmers and the taxpayer. For manufacturers however any assistance should only be transitional, since the UK's comparative advantage implies that resources should be shifted from this sector into the service sector.

8.3 CONCLUSIONS

In the course of this book we have examined the current functioning of EU economic policies and found them to be massively costly, to UK citizens in the first instance but in the second to EU peoples generally. Thus though the main focus of this book has been narrowly on the UK's interests it has inevitably taken in the much wider perspective of the EU as a whole. Additionally it should not be forgotten that other parties too lose out from the EU's policy failures in the trade area especially – these trade costs for others were also briefly reviewed above.

The only really satisfactory solution to this EU policy failure is for the EU itself to change its policies. This option, that of the 'reform agenda', has been pressed upon it from all sides (most recently again in reports from the IMF and the OECD), and has in principle been adopted by the EU in a series of summits – Lisbon, Luxembourg and so on. . . . However, one must be realistic; progress has been minimal, indeed in material respects matters have regressed. Most importantly the forces that support existing policies have gone on the rampage in recent months by adopting the draft constitution which is a document entrenching existing approaches and in many ways strengthening them.

Thus it seems only prudent to adopt the realistic view that these forces show no loss of power, no sign that they will permit meaningful reform and furthermore every sign that they will attempt to generalise their approach more effectively to recalcitrant elements in the EU such as the UK. Our argument in this book therefore amounts to this: the UK must protect itself against this situation as it threatens immense economic costs to the UK. Plainly at the very least the UK must resist new incursions into its economic policies – notably the draft constitution, the euro, new efforts at harmonisation and any demands for bail-out. However this essentially defensive posture would still leave the UK not only paying large existing costs but also vulnerable to opportunistic ambushes establishing elements of the above. Hence it is inadequate to safeguard the UK's interests. Our suggestion therefore is that of a 'UK protocol' under which the UK would withdraw from elements of these EU policies – essentially to unilateral free trade while maintaining the underlying freedoms of movement of labour and capital of the EU and also aspects of the Single Market, notably in services

as they come to be deregulated over time. It is hard to judge in the end whether other EU members would go along with this. Should there be no willingness to do so, then it would be in the UK's interests to leave the EU and unilaterally pursue liberal policies, including towards members of the EU. We have shown in these pages that on the assumption that the EU would impose on the UK all the external barriers it now levies on other non-members the UK would be considerably better-off by following this course.

In conclusion, the UK and the EU have had a seriously troubled relationship for some two decades. Those troubles have concerned not merely the obvious irritations of rising political interference by the EU in UK affairs, but also the major costs of the EU's use of its steadily-increasing powers in economic affairs; the latter are the focus of this book since they are of a technical nature and therefore not at all widely understood and appreciated. Since our analysis suggests that the EU generally is damaged by current policies, we must hope that these policies would change in a way that would progressively also reduce the UK's costs arising from the EU, making formal changes in the UK's treaty with the EU unnecessary. However in the event that this does not occur, as the tendencies of the last two decades suggest it will not, then such formal changes are inevitable. We have shown that they are possible and highly beneficial to the UK. We have also argued that they are likely to help the forces of change within the EU since they will highlight the problems there by the very fact that they will no longer be present here; institutional competition between countries is a potent force in world affairs. Thus in the long term it is in all EU members' interests that the UK puts an end to what we have shown are the intolerable economic costs of its relationship with the EU.