

CENTRE FOR POLICY STUDIES

Britain's Place in the World

Time to Decide

CRISPIN BLUNT MP





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INTRODUCTION

BRITAIN'S RELATIONSHIP WITH Europe since 1945 has been an agony of compromise. An active British involvement in a European political identity was being considered as early as 1947-8 by Ernest Bevin with his short-lived flirtation with the notion of Britain leading a global 'third force'. And, since 1961, successive governments have sought qualified involvement with 'the European project'.

Recent British policy in relation to Europe has had two objectives: to improve our economic performance and to sustain our role in the world. Until now, it has been the conclusion of all governments since Harold Macmillan's that these objectives can only be met through membership of the EEC/EC/EU. However, all British governments have also played down – and whenever possible tried to limit – the supranationality that has been an essential characteristic of European institutions.

Economic and Monetary Union will mean that Britain's attempts to restrain the move to ever-closer union will be redundant. To work effectively and with accountability, EMU requires a significant degree of political union. At the same time, as the implications of full EU membership are becoming clearer, an alternative strategy for the UK is emerging. Globalisation, our trade with the rest of the world, our unique relationship with the USA and the Commonwealth, mean that the UK has a choice between two positive visions: a committed role within a new European polity, embracing the concept of supranationality; or a

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traditional independent role balancing our interests in Europe, the USA, the Commonwealth and the wider world.

More important than the actual decision itself is that the nation now makes a clear choice. The United Kingdom is damaging its interests by putting this decision off. The two major political parties are both divided over the choice. They have equivocated and postponed the day of decision. The September 1998 ballot of the Conservative Party is another example of a decision not to decide, in this case, for another Parliament. The policy is a compromise based around the mantra that Britain 'wants to be in Europe, but not run by Europe'.

The Labour Government's position is similar as it also postpones the choice over EMU for political and party management reasons. However in its wider presentation of the issue it has been culpable of seeking to mislead the electorate as to the fundamental *political* nature of the decision which lies ahead.

Enough is known now to make a choice over EMU and the inextricably linked consequences for Britain's role in the world. It is therefore in Britain's interests to choose without unnecessary delay. Once the choice is made, one way or the other, any party will be able to govern more effectively in the national and global interest. Britain will have secured a relationship with its main partners that is in equilibrium not in flux. Britain owes it to its people, and its partners, to adopt a coherent international strategy based on a clear view of Britain's place in the world.

CHAPTER ONE

THE DEVELOPMENT OF UK FOREIGN POLICY SINCE 1945

AT THE END OF THE SECOND WORLD WAR, Britain was an exhausted great power. However, until the Suez crisis of 1956, Britain's understanding of its place in the world remained global and was best represented by Churchill's three interlocking circles: Britain was at the centre of relationships with the United States of America, the Commonwealth and Europe. Although it is an insufficient template to analyse comprehensively all Britain's subsequent foreign policy interests, these three relationships have remained central to the development of Britain's place in the world.

The UK and the USA: the 'Special Relationship'

Despite the Suez crisis exposing where power lay in the Anglo-American relationship, the management of our bilateral relationship with the USA has been a success for both parties. Over the last 40 years Britain provided valuable ideological and practical support to the USA in surviving, and then winning, the Cold War. Indeed, had British foreign policy been conducted through the 1970s and 1980s along the lines proposed in the 1983 Labour manifesto, it is questionable whether the USA would have sustained its commitment to Europe and as a result whether the Soviet system would have been pushed to the point of collapse.

The relationship has allowed the United Kingdom an effective nuclear deterrent at reasonable cost. The benefits of the nuclear, defence and intelligence relationships have also underwritten the justification for the UK retaining a seat as a permanent member

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of the United Nations Security Council (UNSC). This status has helped sustain Britain's role as a leading nation of the world's second rank powers. This asset has been of growing importance as the UN has become more prominent following the end of the Cold War. Membership of the UNSC has been used effectively in our global interest, not least in drafting and brokering UNSC Resolutions that have become more relevant over recent years. The importance of this contribution to our own interests and global stability, delivered by British diplomats, should not be underestimated.

The stability and strength of the Anglo-American relationship from 1957 onwards is explained by shared interests and British policy. It is firmly supported on four pillars of shared interests: defence and security; commitment to democracy and the rule of law; commitment to free trade and the liberal market economy; and a common cultural heritage.¹ This relationship remains central to the UK's interests and is not ignored in Washington and Ottawa. This is supported by the recent calls of Newt Gingrich, Conrad Black and others² who have called on the UK to consider the choices available other than European integration.

The relationship with the USA has been overwhelmingly beneficial despite the occasional disagreements (such as the invasion of Grenada in 1983 and the tensions surrounding policy towards the former Yugoslavia between 1992 -95). But these are minor difficulties compared to the enduring strength of the relationship; a relationship best encapsulated in the series of remarkable personal relationships between some of the leaders of the two nations, in particular between Kennedy and Macmillan, Thatcher and Reagan and Bush and Major.

¹ See Malcolm Rifkind's speech "The Atlantic Community", delivered to the Royal Institution for International Relations in Brussels, 30 January 1995.

² See Conrad Black's CPS lecture "Britain's Final Choice: Europe or America?", 9 July 1998.

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But the Special Relationship was not inevitable, particularly in the years following Suez. Britain could have followed the French path of turning towards Europe and away from the USA.

Every considered analysis of policy options by the UK from 1949 to 1957 rejected the concept of supranationality in a European partnership for Britain as unsuitable given our global politics and trading links. However, supranationality was a *sine qua non* for our continental partners primarily to address the re-emergence of Germany, but also pragmatically to help the new European institutions work effectively.

British policy makers have been trying to deal with the dilemma posed by the challenge of supranationality to the maintenance of an independent role in the world. The Special Relationship has been a key example of that independence. While seeking engagement in Europe since 1961, Britain has continued to put the maintenance of the US relationship at the centre of its foreign policy. However if Britain continues on the path of European integration, the value of the Special Relationship will be lessened for the USA. The future of this relationship is now in question.

The Commonwealth

The development of our relations with the Commonwealth has been remarkable. Viewed from today's perspective, the Commonwealth has developed from being an elegant camouflage for the end of Empire to a surprisingly effective, and unique, voluntary grouping of states. Its success to a degree lies upon the diversity of its members, and it has come of age in the post-Cold War world. Now the non-aligned movement has lost much of its relevance, the Commonwealth has become a useful institution for both its developed and its developing members. It is a vehicle for encouraging the development of good government through voluntary codes and disciplines, such as the Harare declaration. In addition, developing countries can call upon the unique relationship of the Commonwealth in order to gain and reinforce

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attention on their needs. This increased relevance is likely to continue with the process of globalisation. The voluntary nature of the Commonwealth is underpinned by a host of linguistic, financial and cultural links that serve to give its members a unique global network.

In 1970 placing the Commonwealth as relevant to Britain as Europe would have seemed quixotic. But since the end of the Cold War and with the process of globalisation the trend of relative importance has been reversed.

In the last Parliament the Foreign Affairs Committee produced a report on the future role of the Commonwealth. Its main conclusions were:

The old Commonwealth ties could become, for the United Kingdom, the new Commonwealth opportunities.

We have heard often in our inquiry, and we do not tire of repeating in our report, that Britain's Commonwealth connections, and the integration in a global network of communications and friendship which go with them, are the envy of our trading competitors. Surprise is expressed that this country has not utilised them to greater advantage.

Perhaps it was understandable for a few decades after the end of Empire that the Commonwealth was seen in the United Kingdom as a relic of an imperial past – a political albatross around the country's neck. Trauma and uncomfortable adjustment were inevitable, although it should never be forgotten that the unwinding of that was achieved, for the most part, in a relatively peaceful and constructive way.

But that era is over, and so is its successor phase of 'decolonisation'. A new global pattern opens out in which the competition to maintain, let alone advance, living standards will be more intense than ever. In this new situation the United Kingdom has both friends and opportunities. They should be recognised and seized.³

³ Paras. 9, 214, 215, 216 of the Foreign Affairs Committee's First Report 1995-96 Session, *The Future Role of the Commonwealth*.

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The Commonwealth is part of Britain's global outlook. Britain is comfortably the second biggest overseas investor in the world after the USA in absolute terms, including in countries such as Mexico that have had limited historic connection to the UK. If the rest of the world is added to the "Commonwealth" circle,⁴ the triangle of relationships is now more balanced than at any time since 1961.

Europe

Since the Suez crisis, it has been Britain's relationship with Europe that has consumed most of the energy and attention of our politicians and diplomats.

Immediately after the Suez crisis, in reconsidering Britain's role in the world, the Government decided that Britain's interests would be best served by rebuilding the relationship with the USA. This marked a significant split in policy with France. But over the next five years the political establishment became convinced of the need to join the EEC, while trying to protect the interests of the Commonwealth and advance the less supranational approach of EFTA. The motivation was part economic, part political. From 1959 to 1972, as Britain actively sought membership, so its economic performance relative to the Six continued to decline. The case for joining the EEC became stronger as its apparent economic success and Britain's relative lack of it became clearer.

There was also a political motivation. It was in part a pragmatic recognition of Britain's diminished status since 1945. It was also the realisation of a vision born in the ruins of Europe at the end of the Second World War: the political federation of West European nations. This vision was based on the determination to bind former adversaries into a tight institutional structure, which would ensure

⁴ Thus including relationships such as that with Japan (which publicly identifies Britain as its leading partner in Europe) and with China (with £70 billion of investments in Hong Kong).

conflict between the nations of western Europe was never repeated. This was felt by many policy makers, not least veterans of the Second World War, most notably Sir Edward Heath.

However, apart from Sir Edward, the motivation for Britain's post-War Prime Ministers was, rather less inspiringly, the conclusion that there was no alternative strategy for Britain. For the wider electorate the need to join the EEC seemed to be based on economic necessity with enhanced political co-operation as a welcome bonus. The strategy has been negative and defensive, designed to shore up Britain's economy and weight in the world. The debate around the policy has usually been equally negative, with proponents and opponents trading in fear rather than hope.

The political impact of Europe

The approach to our relations with Europe has had a profound effect on Britain's two major political parties. Today, division over Europe is associated, by the popular media and the electorate, with Conservatives. Historically, however, it has been the Labour Party that has changed its European policy most often. Until the late 1980s the Labour movement was broadly antipathetic to our involvement in the EEC. In 1974, the Labour Party temporarily solved its political problems with the promise to renegotiate Britain's terms of entry and a subsequent referendum in 1975. The mechanism of the referendum, skilfully handled, enabled Harold Wilson to keep his party together over the issue. However, Europe remained a contentious issue within the party and was one of the significant factors in the creation of the SDP a few years later.

It was only in the late 1980s that the Labour movement became convinced of the merits of EC membership. Jacques Delors, then President of the Commission, helped to persuade many in the Labour Party that the institutions of the EEC could be used to achieve social objectives by regulation across the Community. Brussels could provide opportunities for intervention that were being denied in the UK by the then Conservative government.

Britain's European policy since 1975

Following the 1975 referendum, British policy towards the EEC was based on a pragmatic exercise in economic self-interest. The main issue was the growing crisis over Britain's net contributions to the Community budget. It was a major preoccupation of Margaret Thatcher's premiership and was eventually solved at the Fontainebleu summit in 1984 with the British rebate. That was followed by the successful negotiation of the single market, a fundamental objective of a United Kingdom more dependent on free trade than most of its partners. However, qualified majority voting was conceded as a necessary tool in order to achieve the wider objectives of free trade within the Single Market. This represented a substantial ceding of sovereignty. It also signalled the start of a rift between Britain and many of its partners: while Britain was trying to restrain the growth of the *acquis communautaire* and restrict supranationality to market issues, other Member States saw no objection, indeed a positive benefit, in extending the sphere of European co-operation and joint action as far as possible.

The increasing depth and intensity of this dispute over the future of Europe was predictable. It was the clash between two philosophic approaches to Europe that could not be postponed indefinitely. The arguments came to a head in the 1991 Maastricht Treaty. British pragmatists could legitimately claim on one level that the Maastricht Treaty was a negotiating triumph. It created a structure in which market issues were dealt with on a community basis and through the institutions of the EU, while the other areas – of co-operation on foreign affairs and security, justice and home affairs – were to be resolved on an inter-governmental basis.

However, the key development in the Maastricht Treaty was the commitment to economic and monetary union. British pragmatists claimed another triumph by negotiating an opt-out for the United Kingdom. But what the leading advocates of EMU always understood was that this was as much a political project as an economic one. Economic and monetary union would create its own pressure for effective political union at a European level.

Maastricht thus represented the longer-term victory of the supranational approach to the central issues of politics: the economy, money and wealth. In practice political supranationality would follow or the democratic safety valve of managing disputes over the distribution of wealth would be absent with predictably catastrophic consequences.

The Maastricht Treaty represented a step change in the nature of the European project. Full economic and monetary union will inevitably change the nature of the relationship between the Member States from one of voluntary co-operation to effective political union. The problem for the politicians who negotiated this was to explain to their electorates the nature of the change at hand. For the French it was a close run thing.⁵

For many continental European states, Maastricht was just the biggest step in a process in which adequate alternative national strategies were unavailable. But Britain's position in the world is different: it does have a viable alternative to ever-closer union.

The comparison of the development of our relationship with United States, the Commonwealth and the European Union over the last four decades is instructive. The relationships with the USA, the Commonwealth and the wider world have largely been successful and stable. This success has been both political and economic. It has been the United Kingdom's relationship with Europe that has consumed policy-makers with angst. They have had to negotiate with partners who have a different set of assumptions about the merits of political integration.

The European issue has produced more difficulty for the political parties and the Government than any other issue over the last four decades. It remains the most explosive, political, economic and social issue in the long term, because of its fundamental effect on our statehood, national identity and wealth, both individual and collective.

⁵ The French Referendum on Maastricht on 20 September 1992 resulted in only a 51.05% 'Yes' vote.

THREE STRATEGIC OPTIONS FOR BRITAIN

BRITAIN HAS THREE STRATEGIC OPTIONS. It can commit wholeheartedly to the concept of the European Union shared by its continental partners; it can return to a more traditional British foreign policy of balancing its interests in Europe with other parts of the world; or it can continue on its current path of trying to sustain its individual global interests while maintaining qualified involvement with the European project, a sort of "Third Way".

Option one: a traditional British foreign policy

Since Macmillan, every British leader has tried to combine involvement in a supranational European body with advancing Britain's wider interests. They have concluded there is no alternative strategy.

Today there is a choice. The alternative to a commitment to European integration would represent the traditional view of Britain's role in the world. It would in many ways be a strategy based around Churchill's interlocking three circles.

It would see Britain continuing its Special Relationship with the United States, but also developing a relationship with Europe linked through trade and the single market. It would require the mechanisms to be negotiated to establish a new relationship with the European Union while the current defence and foreign policy relationships through NATO, WEU and the OSCE would continue. It would free the United Kingdom to be an unrestrained champion of the principles of global free trade

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consistent with global stability. It would be a strategy that enables Britain to maximise the potential of the Commonwealth and its relations with the other nations of the world in pursuit of trade and inward and outward investment. It would enable national policies promoting deregulation and competitiveness. It would be a nation with a global financial centre in London, with an interest in contributing to global stability to protect its substantial overseas investments. It would be an appropriate strategy vision for a country whose unfunded pension liabilities for its own population come to 19% of GDP.⁶ It would be the strategy of a nation that is as comfortable trading with its English-speaking partners in the Commonwealth and the USA as its continental neighbours. It would be an appropriate strategy for a country that Japan identifies as its leading partner in Europe, an island nation with many similarities to our own. It should be the vision of a nation with special links to China through Hong Kong.

However if Europe developed along predicted lines following the establishment of economic and monetary union with increased political union, then there would be the probable development of a global economic G3, of the USA, Europe and Japan. It is probable that Britain's influence would *in direct terms* decline. In security terms, a link could develop between Washington and Brussels. But, if Washington and Brussels were in agreement on security or, indeed, on economic issues it is highly likely that the interests of the United Kingdom would be protected. And if they were in disagreement it would then be open to the UK to choose to throw its weight behind the arguments of whichever of its major partners was thought most suitable in the global and the British interest.

This strategy does have handsome advantages for Britain which compensate for any influence lost in a renegotiation of the

⁶ The comparable figures for our major European partners are 98% for France, 113% for Italy and 137% in Germany. See Francis Maude's speech, "Britain and the Euro", June 1998.

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relationship with continental Europe. Indeed, it is arguable that any renegotiation could produce substantial gains for Britain to set alongside the freedom to pursue a more balanced global engagement. The relationship with the European Union could be rearranged around recognised mutual self-interest that could deliver stability and mutual benefits. This could centre on the single market and with the consequent advantages for both parties. It would provide a key benefit that the relationship was stable, which it palpably is not today.

Option two: wholehearted commitment to the European Union

Britain could choose to embrace the concept of ever-closer union. British policy could change from one of trying to preserve inter-governmentalism to a recognition, indeed a willingness, to explore supranationality at a European level. It would mean an acceptance of a new political order, with democratic expression at the European level.

The overt change in Britain's approach would be joining the single currency. Britain would work towards common fiscal policies and new democratically accountable institutions at the European level to enable the single currency to survive. As the single currency suffers its inevitable crises, Britain would be prepared to agree to, and indeed initiate the pooling of sovereignty. Britain would thus assist the European Union to have sufficient power to make the single currency work.

This change in outlook would not necessarily mean the *permanent* end of Britain as a political expression. Scotland is a clear illustration that unions between peoples and nations can be brought to an end by the will of those peoples. The break up of Czechoslovakia is also instructive. Additionally Britain has the inestimable advantage of being an island: if it ever wished to reclaim independence of action from a European Union, its borders are clear. The consequences of the dissolution of an unstable union such as Yugoslavia would almost certainly be

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absent. Equally, if despite positive efforts to save it, EMU did not work or was found to be totally against the British interest, it is reversible. It would be expensive, but achievable.

Having conceded the principle of supranationality, Britain would achieve significant influence inside the EU. For example, British arguments would have much greater credibility in trying to persuade our partners to meet, without procrastination, the challenge of enlargement. No longer would British motives be treated with suspicion, as another ruse to block progress towards greater European integration.

Until now, Britain has failed to change the EU from inside. If Britain became less obsessed with preserving authority at the national level, but more concerned with achieving policies at all levels in Europe that were in its interest, it would be likely to have more success. For example, examine the priorities identified in the latest Conservative Statement on Europe:⁷ completion of the single market; deregulation; economic reform; global tariff free trade by 2020; enlargement; and, co-operation in area such as defence, foreign policy, crime and drugs. All of these could be pursued by European institutions. Indeed they are precisely the sorts of functions that would occur at a federal level in the USA.

This change in approach is something that Britain's partners would appreciate. It would bring a counterbalance to the Franco-German axis. It would give Germany and France an ally on economic and security questions respectively. The smaller countries would welcome another large country that, while committed to the principle of ever-closer union, would deal with issues pragmatically. Britain would also have the strength to help address the tendency for France and Germany to arrange a joint position on every major decision in advance of negotiations with other Member States. Currently Britain is hardly any use as an ally because of its uncooperative attitude.

⁷ 1998 Conservative Party Conference Handbook.

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If this strategy were adopted it would strengthen the EU. It would also fundamentally change the nature of British politics. Power would move progressively to the institutions of Europe from Whitehall and Westminster. For this approach to command sustained popular support it would need a good majority of UK citizens to see themselves as Europeans as well as British. They would need to be prepared to see their taxes pay for benefits in other countries in Europe and in the final analysis to see the institutions of the police and the armed forces move to pan-European direction and command.

The consequences for the Conservative Party would be profound. Some hold that it is a national party or it is nothing.⁸ A fundamental change in Britain's strategy towards Europe would put enormous strains on the variety of instincts, economic, one nation, nationalist, that go to make up the Conservative Party.

Irrespective of the impact on political parties, this strategy would strengthen the EU and Britain's influence within it. In a world where communications and increasing multiculturalism are making boundaries between peoples less relevant, it is a strategy that has much to commend it. In particular, as with the first option, the British people, their decision-makers and our partners would have a clear idea of what Britain perceived its role in the world to be.

Option three: the Third Way

Both the major UK political parties are seeking an escape from making a choice between the two strategies outlined above. Is this the best or the worst option?

Labour has embraced a qualified pro-EMU stance, but has avoided any discussion of the political ramifications. It speaks constantly of the national "economic" interest. It presents a

⁸ See, for example, William Cash MP, 'What Tory MPs really think about Europe', *Daily Telegraph*, 16 September 1998.

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shallow analysis to the electorate going no further than discussing the merits of the Maastricht criteria.

In opposition, the Conservative leadership has continued its policy of 'wait and see'. The White Paper that delineated the then government's approach to the negotiations leading up to the Treaty of Amsterdam, *A Partnership of Nations*,⁹ was a masterly piece of fence-sitting. Welcomed by William Cash MP and Edwina Currie MP on its publication, it met the political requirement of keeping the Conservative party together. It also represented a clear expression of the ambivalent British approach to the European question. It avoided the issue of EMU as remote from the UK. The current position, to postpone any consideration of EMU for at least the next Parliament, is a continuation of this approach. The mantra 'to be in Europe but not run by Europe' tries to avoid placing enthusiasts and sceptics in an impossible position. To justify this strategy, not least in the face of EMU, Conservatives have adopted the concepts of Flexibility and Subsidiarity.

John Major worked hard to get subsidiarity on the EU's formal agenda, succeeding at the Birmingham summit of 1992, and seeing it adopted as a principle. However it has flaws: subsidiarity can bypass the nation state, particularly the larger ones, and engage the region. Also the decision on what issues should be delegated will be taken centrally, undermining the core principle that nothing should be decided at a European level except when a case is made for it. It also does nothing to address EMU. It is hard to argue against the proposition that the appropriate level to co-ordinate fiscal policy within a single currency will be at the level of that single currency.

An alternative approach has been the concept of flexibility or variable geometry. Both Michael Howard and Sir Malcolm Rifkind have spoken in the past on the need for a flexible Europe. In Michael Howard's paper on the future of Europe he says:

⁹ Command Paper 3181.

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The nations of Europe should come together as a series of overlapping circles: different combinations of member states should be able to pool their policies in separate areas of their own choosing.¹⁰

Sir Malcolm Rifkind in his lecture "Conservative Britain in the 21st Century" said:

I believe our vision of a flexible Europe based on accommodating the interests of all its member states can help secure a Europe genuinely 'at ease with itself.'

But Sir Malcolm went on to warn:

Flexibility must not lead to a two-tier Europe; of first and second class nations. That would be a betrayal of the wider European ideal and a sure recipe for tension.¹¹

Unfortunately for the effective delivery of a Europe at ease with itself through flexibility, EMU *will* lead to a two-tier Europe. A graphic demonstration of this was Gordon Brown's undignified ejection from the first meeting of the Euro X Committee. Flexibility and Subsidiarity do not seem to provide a satisfactory escape from the enormous scope of EMU. It is therefore very difficult to see how Michael Howard's ideas for a flexible Europe can be delivered within the Treaty of Rome.

Arguments in favour of Britain's involvement in Europe

The main argument in favour of continued involvement in Europe was identified by the Swedes as their reason for joining the EU. They found that Sweden was being affected by the external trade, single market, environmental and other policies of the EU but they had no say over them. They, therefore, came to

¹⁰ *The Future of Europe* by Michael Howard QC MP Centre for Policy Studies, May 1997.

¹¹ See Malcolm Rifkind's Autumn lecture delivered to the Centre for Policy Studies, "Conservative Britain in the 21st Century", October 1996.

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the conclusion that the only way they could advance Swedish interests was to increase Swedish influence by joining the EU.

An example of internal influence working in Britain's favour was over the Uruguay round of world trade negotiations. The seven year negotiating round was, in the end, dominated by discussions between the EU and the USA. Had the UK not been part of the EU, it is likely that the EU's agenda would have been more protectionist than free trade in nature, perhaps more French than Anglo-German. In the end, therefore, the French were finding themselves isolated in the EU, coming under pressure not only from the other parties of the international negotiation, but their own partners within the EU. This had its effect in enabling a successful negotiation to take place and the World Trade Organisation to be set up.

The trend of co-ordinating foreign and security policy positions is likely to develop and become increasingly effective as the years go by. The issues of environmental policies are increasingly cross-border ones that are perhaps best dealt with in a supranational organisation like the EU.

Sustaining Britain's economic performance was a key factor in the minds of those who sought entry for Britain to the EEC. But it is debatable whether EU membership has been of significant net economic benefit to the UK. Certainly, the trade balance has worsened with other members. The UK has also been a substantial net contributor to the EU budget.¹² However while the UK remains outside EMU, its influence is likely to diminish on all economic questions within the EU.

The United States and NATO will remain the key focus for security issues, so the advantage of being a full partner is qualified on foreign and security policy issues. Indeed, UK support alone has often been sufficient for the USA to act with authority despite

¹² Between 1992 and 1996, Britain's trade deficit with the EU totalled nearly £24 billion. Its net contribution to the EU during the same period was £12 billion. See Michael Howard, *op. cit.* page 23.

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the reluctance of other European nations. The development of a more united EU position on security issues might not be an unqualified advantage for the UK.

The consequences of renegotiating Britain's position

If a referendum on EMU produced a 'NO' result, and if that 'NO' vote carried with it a mandate to renegotiate the relationship with Europe, then clearly Britain's membership of the EU would be at risk. Examining that risk is another way at looking at the merits of the third way.

The aim of any renegotiation of Britain's EU membership would be to take Britain off the conveyor belt towards ever-closer political union. Any renegotiation would be difficult as it would involve a point of principle in the historic development of the European Union: should Member States be allowed to secede? Britain could not rely on its partners being constructive, even if it was in their interests to be so. They might feel that a nation that challenged the concept of ever-closer political union should be punished, even if that involved damage to their own immediate interests.

In reality it is unlikely that Britain's partners would behave like this if faced with a democratically-endorsed British decision to renegotiate the relationship with its European partners. A useful comparison is to compare the likely attitude of England if Scotland should decide to be independent. There would be no merit or self-interest in England seeking to punish Scotland.

However, unilateral secession does give a clear bottom line, from which to assess the potential damage to Britain's interests. And any damage would need to be set against the benefits that would accrue from having a clear national strategy and an understanding of what Britain's role in the world was.

WHY BRITAIN SHOULD DECIDE NOW

THE POLICY OF CONSTRUCTIVE ENGAGEMENT in Europe has been followed by the majority of British decision makers since 1961. Despite the fact that Britain did not share the political vision of its more integrationist continental European partners, it was judged correct to try and shape the institutions of the EEC in Britain's interests and to work within them. It was believed that it was in Britain's own trading interests to make a success of the European market. This remains the political consensus. The Prime Minister talks of leading in Europe and has given no indication that an alternate strategy is at least conceivable.

Nor does the current Conservative strategy challenge this broad approach. William Hague in his INSEAD speech called for Britain not to give up the fight, to continue to have as great a say as other members over the future direction of the Union:

Some will say that this speech is too late, that European political integration is inevitable and that Britain must jump on board or miss the boat. I say to them that it is not inevitable that the EU will fail to respond to the new economic opportunities. It is not inevitable that the EU will miss the historic opportunity to unite our continent. It is not inevitable the EU will push into political integration beyond its natural limits. None of these things are inevitable if Europe's political leaders speak out now."¹³

¹³ See William Hague's speech at INSEAD Business School, "The Potential for Europe and the Limits to Union", 19 May 1998.

But EMU creates a practical need for political union beyond the natural limits that would have been deemed acceptable by any British administration since Churchill offered the French Union in 1940. William Hague acknowledges this. His vision of an open and flexible European Union contained a warning about the political consequences of the single currency. He quotes with approval the current President of the Bundesbank, Hans Tietmeyer, saying:

A European currency will lead to member nations transferring their sovereignty over financial and wages policy as well as in monetary affairs. It is an illusion to think that states can hold onto their autonomy over taxation policies.

If Tietmeyer's arguments are correct, and the experience of every existing single currency area supports him, the logical consequence is that EMU will require a form of political union and democratic accountability.

As with almost every other major party political leader before him, William Hague is trying to play it both ways. But EMU exposes the dilemma. Implicitly he recognises this by saying:

I believe that there is a limit to European political integration and that we are near that limit now.¹⁴

This position cannot be reconciled with the likely and necessary development of the institutions which are necessary to sustain a single currency.

The political consequences of EMU

The rules set down in the Maastricht Treaty¹⁵ may be sufficient to sustain the currency for a while. However all existing single

¹⁴ See William Hague's address to Conservative MEP Candidates made at Hinckley on 11 September 1998.

¹⁵ For example, those rules limiting the public sector borrowing requirement to 3% of GDP and on having public sector debt heading towards 60% of GDP.

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currency zones are associated with a single government. Those single governments have unified tax and benefit policies. These act, in an invisible way, to make significant transfers of funds between parts of that single currency zone that are more or less successful than others. This acts to stabilise the social effects of the inevitable asymmetric economic performance of different geographic areas with different skills and different industries. Regional economic performance will never be synchronised with the rest of a single currency zone, but a tax and benefit policy that is aligned with a currency area acts as a very substantial smoothing instrument, and one that sustains social stability. This becomes doubly important in a single currency area with limited labour market mobility. Without this dampening effect or even without provision for overt fiscal transfers, EMU will surely experience a crisis. The resolution of that crisis will either be the end of EMU for one or more of its members, or, more probably, an impetus towards greater political union.

The British Government is now dealing with the political consequences of a semi-independent central bank. These are manageable. But the lack of democratic accountability for both monetary policy and fiscal policy, and the need for resource transfers, will require the development of political institutions at the level of the single currency zone. It is this political development which will force a choice to be made about the scope of political union in Europe. All Europeans, Britain included, can recognise that if EMU is to be successful and sustainable a commitment to European political integration is required in order to make EMU work.

This conclusion has already been acknowledged by our European partners. In Germany across the political spectrum the commitment is specific. Helmut Kohl famously declared at Louvain in 1996:

WHY BRITAIN SHOULD DECIDE NOW

...the policy of European integration is in reality a question of war and peace in the 21st century... if there is no momentum for continued integration, this will lead not only to standstill but also to retrogression.

He also said in a speech to the Council of Europe on 28 September 1995:

We want the political unification of Europe. If there is no monetary union, then there cannot be Political Union, and vice-versa.

Oskar Lafontaine, from the left of the SPD, endorsed Kohl's description of the Euro as an important building block in creating the "European House".¹⁶

Hans Tietmeyer has gone further than the politicians:

It must be clear to everyone: monetary union is more than a technical process. It has a deep reaching effect on the political sovereignty of its members.¹⁷

Karel van Miert, then European Commissioner for Competition, also pointed out:¹⁸

The single currency is a strongly federalising element. The opponents of a federal Europe are right about that. It is my conviction that the euro will lead to a European economic government.

John Bruton, leader of Fine Gael, expressed the political nature of the project with the greatest clarity:

Economic and Monetary union is in the final analysis a political project. It is happening because of political will. Its purpose is to bind Europe's countries so closely together that they will never again come into conflict with one another, as they did so disastrously twice this century...

But we must recognise that political unity of purpose will be vital if the Euro is to work. Countries will not be able to dine *à la carte* at the

¹⁶ *Handelsblatt*, 31 December 1996.

¹⁷ Interview for *Der Spiegel* 49/1996.

¹⁸ Interview for *Elsevier* 31 August 1997.

European table any more. Europe needs to develop political institutions that have sufficient democratic legitimacy to demand sacrifices of European peoples and to mobilise them for a common cause. The United States, the world's other great and successful currency union, has strong federal political institutions. Europe has yet to develop in that direction, but it will have to do so.¹⁹

The benefits that flow to Britain from a continued muddled relationship with the European Union are increasingly outweighed by the costs that would be imposed by second-class status. But Britain is free to pursue its interests against a clear set of objectives: either those of making European political, economic and monetary union a success as a full member; or steering an independent path. The preoccupation of the political elite with sustaining a qualified position would be over. That intellectual energy and effort would be freed to pursue a clear strategy. The cost in time and energy of sustaining a position of 1 versus 11 or 15 should not be underestimated. From being a largely negative exercise, British foreign policy could become positive and constructive.

HOW BRITAIN MIGHT DECIDE ITS FUTURE

ALL THE MAJOR PARTIES are committed to holding a referendum on EMU. It is becoming clear that Labour plans to try and seek re-election in 2001 and, if successful, to hold a referendum on Britain's accession to EMU in 2002, shortly after the notes and coins come into circulation. The Conservative Party is likely to endorse the strategy of postponing any decision until around 2006.

The arguments that are already being adduced by supporters of EMU are mainly economic, not political. We are being warned of the dangers of being left out; of the dangers of diminishing international investment into the United Kingdom if we are not part of EMU. Already the signs are that any debate around a possible Labour referendum in the early years of the next century would not be conducted around the political vision of Britain's place in the world. No acknowledgement is made of the degree of political union that is required if economic and monetary union is to be a success. These issues will be sidelined as far as possible and the interests of multinational companies paraded as central to those of the UK.

There are four possible outcomes of any future referendum decision on the issue of EMU. The likelihood of each will probably depend on when and who is in government when the referendum is proposed.

The first option: 'Yes, and we know the consequences'

The United Kingdom could take a decision to join economic and monetary union in the full knowledge of the political

¹⁹ *Irish Times* 16 January 1998.

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consequences of that decision. The country would have decided that it wants, enthusiastically and willingly, to be part of a great European project. It would be prepared to make the necessary democratic investment in making it work. Sovereignty would be pooled at a new European level in order to sustain a single currency zone. There would be democratic acceptance of a new polity of Europe, or at least the mandate to work towards it to help make a success of EMU.

The second option: 'Yes, but only as long as it's economic'

The United Kingdom might say 'Yes' having had a discussion around the economic merits of economic and monetary union. The decision could be taken with the UK at the bottom of its economic cycle and continental Europe at its peak. EMU would be all the more inviting. The consequences for our politics and our place in the world would be largely ignored. It would be presented not as a matter of great moment, but as another necessary stage in the development of our relations with our European partners. The interests of pan-European British businesses would be seen as paramount and to be a conclusive element in seeking an affirmative vote to EMU.

The parallel of this arrangement would be the referendum campaign in 1975. Then most of the public believed that they were voting for a 'Common Market'. The idea that people were being invited to sign up to political integration and a sort of United States of Europe were refuted by the 'Yes' campaign as the alarmist contentions of the crankier extremes of British politics (such as Tony Benn and Enoch Powell). It would be a vote that did not deliver the political or democratic legitimacy to undertake the necessary political integration to make economic and monetary union work. It is the probable outcome in 2002 if Labour are in a position to implement a ballot.

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The third option: 'No, not yet'

The third possibility of a referendum result would be a temporary 'No' vote. If there was a successful 'No' campaign which was centred around arguments such as "the economic time is not yet right, economic cycles are not yet synchronised" and we should "wait and see", this would leave Britain's position in the European Union in a state of unstable suspended animation. Constant pressure would build from the moment of that 'No' vote to reverse the decision and for Britain to become a full member of the Union. Britain would have become a second-class member of the EU until it was prepared to put the question of membership of EMU to the electorate once again. The issue would never go away as long as EMU sustained itself as a successful project for the other members of the European Union.

The fourth option: 'No, renegotiate our relationship on the basis that this is a permanent decision'

The fourth possible outcome would be a 'NO' vote based on a call for a new relationship with the European Union. This would involve a renegotiation of our membership, so that we were not saddled with the resentments of being a second class member of the club. It would be a vote to decide that Britain's place in the world was not in an ever-closer union of European nations. Britain would be in the best position to defend its interests in a more traditional and looser relationship with its European partners and a relationship balanced with its interests in the rest of the world.

Of these four possible options, the first and fourth seem self-evidently preferable to the second and third. The second and third options, regardless of whether the answer is yes or no, are a recipe for instability. The first and fourth options would be an opportunity for Britain to arrive at a position where its policy makers could have a strategy consistent with a defined role in the

world. It would reflect the British people's decision and understanding of their place in the world.

At the moment only the second and third options look likely. Labour policy is either the second or third option, the third is Conservative policy. However by not making a choice the interest and influence of Britain are being progressively eroded.

There is a commitment in the treaties of the European Union to ever-closer union. To many of our continental partners this means ever-closer union of political institutions. Britain has been the drag anchor on this process. It has consumed a great amount of diplomatic and political effort. It has won the UK no friends amongst our partners, who have a different vision of Europe. Our partners are entitled to expect Britain to decide either to join them as full members of the European project or to carve out a new relationship with them on a stable and long-term basis. That choice should now be put to the British people. Any major political party that did so would not only be acting in the national interest but would derive legitimate political advantage.

THE OPPORTUNITY FOR THE CONSERVATIVE PARTY

THE CONCEPTS OF NATION AND STATEHOOD, and consideration of our role in the world, are central to Conservative philosophy. The decades of the 1960s, 1970s and 1980s that saw the culmination of the battle between socialism and capitalism were in many ways an aberration. The Conservative Party in the 1980s became untypically economically determinist in order not only to overcome socialism, but also to reverse the damage done over the previous decades. At the same time our world role as a nation was clear. Margaret Thatcher and Ronald Reagan stood side by side leading their nations and their philosophy to victory over communism. It was only the most coldly logical thinkers such as Enoch Powell and Sir Edward Heath, who understood the long term consequences of British membership of the EEC, who made Europe the pre-eminent issue *before* the end of the Cold War.

The major preoccupation of east versus west, socialism versus capitalism is over. Britain, having been content to take a pragmatic line supporting engagement in Europe for apparent economic benefit and in the interests of a habit of political co-operation with our liberal western partners in Europe, has an opportunity to redefine its role in the world. But political caution is preventing any choice being offered to the nation.

Conservatives have been faced with a dilemma: it is possible to come from opposite sides of the debate with passion and integrity on the question of engagement in Europe. For example, the arguments of Conservatives such as Sir Leon Brittan and John

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Stevens MEP hold entirely respectable Conservative positions. It is wholly consistent with Conservatism to claim that our influence inside the European Union has been for the good of the liberal, economic and Conservative cause in Europe. Indeed, it is legitimate to claim that it has been the influence of Conservatives both in the United Kingdom and Germany, that has ensured that the economic rules that will govern the single currency will do so in the interests of sustaining free market economies. These rules are also making the countries of Europe face up to the difficult decisions concerning taxation and expenditure now, not to borrow and undermine future prosperity. In other words the EU has helped to deliver orthodox liberal economic practice.

This success is a legitimate basis from which Conservatives can argue that Britain's future should be inside this new European polity. But the Party is faced with the fact that a majority of its members do not want to embrace political union. Europe is an issue about which people feel passionately. The result has been a policy on EMU that is driven by a majority but qualified by a minority.

Britain's place in Europe must be settled for the foreseeable future. The issue is now the most important national decision. A party platform that calls for the choice to be made, but does not insist that its members endorse one particular side of the argument, would combine the political with the national interest. It would overcome the political challenge of incorporating two opposed approaches to Europe in the same party. Whatever the result, that party could convincingly claim to govern.

This is the strategy that was successfully followed by Harold Wilson in 1975. The danger for the Conservatives is that if Labour win a second term, and are able to win a referendum for a 'Yes' vote on EMU, it will be a greater challenge to convince the electorate in the subsequent general election that a party largely opposed to the central economic policy of the country should be entrusted with running it.

Once the choice is made it would not be in Britain's interest to reopen the policy options baring unexpected development in

THE OPPORTUNITY FOR THE CONSERVATIVE PARTY

global affairs. To do so would impose an electoral handicap on any Party as well as undermining the national interest. If it became part of a party's platform to overturn a referendum result in favour of political, economic and monetary union, it would be asking the nation to pay a heavy short-term price for its election.

Damage would be done by an inadequate referendum. It would place the country in difficulty. However, if the Conservative platform is to decide the future of Britain's place in the world, this eventuality is made less likely. It is a policy that would have popular appeal and make the election of a Conservative Government more likely. It would also end party divisions over Europe.

The opportunity for the Conservative Party is to invite the country to choose. The promotion of either choice should be left to individuals organised in non-party groupings. The position of the three main parties would be distinct, with probable political benefit for the Conservatives. The Liberals' unqualified enthusiasm for political union would be clear. The Conservatives would be charting a course for the future from one of two positive roles for Britain. The Labour Party would be left as the party of the third way.

While the issue of Britain's relationship with Europe remains undecided, then the Conservative platform could remain the same: to invite the country to make a fundamental choice between the two visions. Part of the price of a 'Yes' vote on a false prospectus would be the much higher cost of reversing and renegotiating the position once Britain was committed to economic and monetary union. That would, therefore, make the nation more likely to vote 'Yes' on a second occasion, to justify the sunk costs of commencing EMU and to avoid the costs of reversing out of a single currency. But it would remain right for the country to decide Britain's role in the world and for that position to be the Conservative Party's policy until that choice was satisfactorily made.

This is a platform around which Conservatives can unite. It has the merit of being in the national interest. And it charts a route to deal with the great issue of our time which has not been, and cannot be, addressed through traditional party politics.