



Lord Owen argues that the principal distinction in British politics over the last quarter-century has not been between Labour and Conservative, but between the modernisers of all parties and those who continue to believe in the structures and assumptions of the post-War settlement.

Like Lord Joseph, Lord Owen is an internationalist and supporter of strong institutional ties with continental Europe. Here he analyses the elements of Britain's economic recovery achieved by successive governments since 1974, and concludes that 'the painful and hard-won struggle for modernisation of 1974-2001 is the prime asset on which we now have the strength as a nation to stay outside the euro and resist being part of a single federal superstate.'

Lord Owen argues against considering membership of the 'speculative experiment' that is the euro until at least 2004. He sets out eight Amendments to the putative 'European

Constitution', enshrining the principles of national sovereignty, subsidiarity and democratic accountability, and effecting institutional reforms to achieve the growth of a decentralised, deregulated and dynamic Europe.

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CENTRE FOR POLICY STUDIES

The Fifth Keith Joseph Memorial Lecture

Limits to EU Integration

Eight Amendments to the Union Treaties

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THE RT HON THE LORD OWEN CH was an MP from 1966 to 1992 during which time, under Labour Governments, he was Navy Minister, Health Minister and Foreign Secretary. He was a founder of the Social Democratic Party in 1981 and its leader from 1983 to 1990. From 1992 to 1995 Lord Owen was the EU peace negotiator in the former Yugoslavia. Current activities include spearheading the pro-EU, anti-euro organisation, New Europe. He is Chancellor of Liverpool University; Director of the Centre for International Health and Cooperation; member of the Eminent Persons, Group on Curbing Illicit Trafficking in Small Arms and Light Weapons; and a Director of a number of national and international companies.

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I

IT IS ALMOST A RITUAL to say that it is a great honour to be asked to speak for someone's memorial lecture but in my case there is a special factor since Keith Joseph was a political opponent in the House of Commons for the 21 years our membership coincided. I strongly disagreed with a number of his views, yet I have intellectual debts of gratitude which this lecture gives me an opportunity in some way to repay.

In the index to my autobiography, to which most politicians turn first, I found no reference to Keith Joseph but in fact there are a number of mentions, and one of these I would like to quote:

Sir Keith Joseph was a very interesting politician, far removed from his stereotype as a harsh Right-winger. A highly strung, deeply sensitive intellectual with the social awareness and concern that is often found in leaders of the Jewish community, he had just developed a research programme to discover the facts behind his concept of the 'cycle of deprivation'. It was a concept that drew attention to the interaction of poor educational attainment, poverty, emotional impoverishment, depression and despair.¹

In 1982, the Social Science Research Council, after 10 years study and 30 separate pieces of research, found deprivation

¹ David Owen, *Time to Declare*, Michael Joseph, 1991, p. 219.

common amongst single parent families, ethnic minorities and families of unskilled workers. But it concluded that Sir Keith's belief that deprivation was transmitted from generation to generation was only true to a limited degree, and the only way to deal with the problem was by fragmentary and piecemeal improvement of benefits and opportunities for specific groups.²

My main identification with Keith has been over the term social market. We both founded think-tanks – he your Centre for Policy Studies (CPS) in 1974 and I the Social Market Foundation (SMF) in 1989. It may not be known to everyone that the objectives of the CPS as stated within its Memorandum of Association were:

...to engage in research into methods available for improving the standard of living, quality of life and freedom of choice of the British people, with particular attention to social market policies, and into all or any problems relating to Government, industry, business, the trade unions and economic and social conditions in all or any countries.³

The phrase 'social market policies' had two important advantages according to Morrison Halcrow, in his book *Keith Joseph: A Single Mind*, for the Centre's founders:

One was that the word 'social' conveyed the idea that market economics was not in conflict with social idealism; indeed that social idealism was unrealistic without market economics. The other advantage came from the connection with West Germany.⁴

² Muriel Brown & Nicola Madge, *Despite the Welfare State*, Heinemann Educational Books 1982.

³ Michael J Todd, *The Centre for Policy Studies: Its Birth and Early Days*, University of Essex, Papers in Politics and Government, 1981.

⁴ Morrison Halcrow, *Keith Joseph: A Single Mind*, Macmillan, 1989, p. 67.

For many of the same reasons, I highlighted the social market economy in a lecture I gave soon after the SDP was founded in 1981. We needed to drop the term mixed economy and endorse markets. Somewhat reluctantly, I admit, I acknowledged that Keith had identified himself with the term.⁵ The reason for my reluctance was that I knew that this fact would put off some liberal-minded people for whom Keith Joseph was indelibly identified with his Birmingham birth control speech of 1974. That speech was misjudged but a cynical criticism was that he should not have linked sex and social class, the two topics on which the British are most hypocritical.

Keith Joseph was a supporter of British membership of the European Community and he was an internationalist. The social market economy owes much to Germany. Alfred Muller-Armack invented the phrase, Ludwig Erhard first practised it and the SPD adopted it at Bad Godesberg in 1959. Robert Skidelsky wrote at the start of the SMF that the key 'condition' was that the market system should be socially acceptable. Ten years later, in 1999, he wrote that this approach marked a decisive break from Tony Crosland's view that:

...market capitalism was simply a superior means of producing taxable wealth for redistribution. Making the market economy a primary value – by virtue of its association with liberty, self-reliance, entrepreneurship, dynamism and efficiency – entails limiting the claims of redistribution.⁶

I agree but that does not exclude redistribution along the lines of John Rawls's principles of a "just" or "fair" society.

⁵ The Social Market Fourth Hoover Lecture, Strathclyde University, 19 May 1981.

⁶ Ed. Alastair Kilmarnock, *Social Market and the State*, SMF, 1999, p. 281.

HISTORICALLY, KEITH JOSEPH'S main claim to fame will be that he was mainly responsible for the political revival of the intellectual case for monetarism in the middle 1970s. In turn, this has led, over the last 27 years, to the reversal of our nation's economic decline. Two other people, in my judgement, can also claim a major role, as journalists: Peter Jay writing in *The Times*, a Labour party supporter; and Sam Brittan in the *Financial Times*, a liberal with a small 'l'. Both of them were consulted by Keith for his September 1974 Preston speech entitled, "Inflation is caused by Governments" written by Alfred Sherman and influenced by Alan Walters. That speech caused a furore polarising the Conservative Party just before the second General Election in 1974.

Shortly after, as Health Minister, I was handling the after-effects of Keith Joseph's bureaucratic nightmare, The National Health Service Reorganisation Act 1973. This had had to come into operation on 1 April 1974 in what was then jokingly referred to as the Department of Stealth and Total Obscurity. The Labour Government could not possibly reverse it with the NHS battling with the consequences of runaway inflation of over 20%. Even with the DHSS receiving substantial increases in expenditure, I knew then that the old policies of both parties had to change.

Keith Joseph and Margaret Thatcher were bent on reforming the Conservative Party and at that time according to Peter Jenkins felt that:

It was necessary to establish a Great Betrayal and the great betrayal was the consensus... [Soon] the indictment was complete. The collective guilt of consensus politicians was established. Post-war history was rewritten. The post-war settlement was exposed as a fraud. Heath's great betrayal was a culmination of a long saga of misguided interventionism.⁷

The big divide in British politics since 1975 has not been between Labour and Conservatism. It has been between the modernisers, those who believed in a counter-revolution, and those who thought we could continue with the post-war settlement. As a moderniser, I admit it has meant having some surprising companions on that journey.

The "Yes" vote in the 1975 Referendum on Europe, for which Harold Wilson deserves more credit than he is usually given, started the cross-party mood that we could gain more economically from entering the Common Market across the Channel. The critical moment when the long hard grind back to economic prosperity really started, however, was September 1976 at Blackpool. Then Jim Callaghan, as Prime Minister, in a brave, frank speech to the Labour Party Conference, to which Peter Jay contributed, spelt out the new monetarism:

We used to think that you could spend your way out of recession and increase employment by cutting taxes and boosting Government spending. I tell you in all candour that that option no longer exists, and that insofar as it ever did exist, it only worked on each occasion since the war by injecting a bigger dose of inflation into the economy, followed by a higher level of unemployment as the next step. Higher inflation followed by higher unemployment. We have just

⁷ Peter Jenkins, *Mrs Thatcher's Revolution*, Pan Books, p.64-65.

escaped from the highest rate of inflation this country has known; we have not yet escaped from the consequences: high unemployment. That is the history of the last twenty years.

Here I want to start ramming home my central message – reversing the relative decline of the British economy and with it the revival of our national strength and purpose has been the result of many people's thoughts and actions and has stemmed from many different political parties. The painful and hard won struggle for modernisation and the reforms of 1974-2001 are the prime assets on which we now have the strength as a nation to stay outside the euro and to resist being part of a single federal European state.

The other milestones on the path to reversing that decline are many and I can only highlight a few.

On education, the speech made by Jim Callaghan at Ruskin College in October 1976 inaugurated the 'great debate' on standards in public education. It has since been led by successive Prime Ministers and is still with us today. Educational reform in our schools has already contributed to our economic recovery and has the potential to make a much greater contribution to our skills deficit and workplace lack of competitiveness. The next big reform has to be in funding University education. This is the one big sector of public expenditure where a shift to private provision would represent greater social justice: the state continues to subsidise better-off parents and better-paid graduates. Here again, as Secretary of State for Education, Keith Joseph was the first to spell out the uncomfortable truth that better-off parents should pay more towards their children's university education. It provoked, however, a major rebellion on the Conservative back-benches and Margaret Thatcher chose to retain her "earthy links with the new suburban middle class" rather than support Keith. Reform of University funding should be any government's priority in public expenditure

after the next General Election. We cannot expect to continue with sustained economic growth without our Universities recovering their excellence and they need to be released from government controls and restraint and allowed to become truly independent.⁸

⁸ Lord Owen, *A World Class University Education?*, SMF, 2000.

THE ELECTION OF MARGARET THATCHER on the back of the Winter of Discontent in 1979 was a step-change in the political modernisation, a virtual counter-revolution. It brought the much-needed trade union reforms and the slashing of what was then absurdly high personal taxation. Privatisation emerged as did the all-important deregulation, particularly of the City of London, without which it would not be today the biggest international finance centre in the world.

The launch of the SDP in early 1981 was initially a revolt against not the *status quo* but against the backward retreat of Labour's suicidal lurch to the far Left. Historically it will be seen primarily as a wake-up call to the Labour Party to which it only fully responded after its fourth defeat in 1992 and most dramatically after it elected Tony Blair as its leader in 1994. Labour, over time, adopted the reforming social market agenda that the SDP first established at its Torquay Conference in 1985.

Political change also requires psychological momentum. All-important to Margaret Thatcher sustaining her economic transition was the retaking of the Falkland Islands in 1982. Had the valour and improvisation of the Task Force that sailed to the South Atlantic not triumphed, and had they returned with heavy casualties and with General Galtieri's forces still ensconced on the Falkland Islands, then the political climate for the counter-revolution would have collapsed. Maybe Margaret Thatcher would have fallen. The SDP would almost

certainly have won many more than the six seats it won in the 1983 General Election. But a most damaging malaise would have seized the mind of the British people. The mood of defeatism that already existed amongst a broad stretch of our élite would have spread to the whole nation. The economic fightback would have been over. We would have retreated into the failed politics and outlook of the 1960s and 1970s. Our relative decline would have gathered pace.

The next threshold was the 1984 miners strike. This was an event closer to the economy and held the key to trade union reform. But it also had an important psychological element. Here, the real heroes were not the politicians but those who braved and controlled the intimidation and violence on the picket lines, the Nottinghamshire miners' leaders who refused to strike when Arthur Scargill deprived them of their right to a pit-head ballot.

The start of the European Single Market in 1988 was the next opportunity. Besides Jacques Delors, Margaret Thatcher and Lord Cockfield deserve praise for helping to bring it about.

The next threshold was John Major's considerable negotiating feat in achieving the "opt out" from the euro at the Maastricht Intergovernmental Conference (IGC) in December 1991. That was followed by the humiliation of being forced to withdraw from the Exchange Rate Mechanism in 1992. This proved to be a blessing, not a curse. The devaluation, and particularly the cuts in public expenditure which were wisely imposed afterwards by John Major and Norman Lamont, made room for the sustained economic growth that we have experienced ever since. This growth was, I believe, stabilised by the bold decision, taken by Tony Blair and Gordon Brown, to give the management of interest rates within a government inflation target to the Bank of England's independent monetary committee. They coupled this with the correct decision not to call an early referendum in the autumn of 1997 on joining the euro and to concentrate on building up our competitiveness within a social market approach.

THE UK NOW HAS the fourth largest economy in the world. We are economically much stronger and nationally more self-confident than we were 30 years ago. Britain has learnt how to handle floating exchange rates and has experienced only three periods of exchange rate constraint – our six week membership of the “Snake” in 1972, shadowing the Deutschmark in 1987 and ERM membership from 1990-92. All of these experiments failed. Today, we are working successfully outside the euro, with lower unemployment and lower taxation than the Euroland countries. To join the euro quickly would be to embark on a speculative experiment. We simply do not know under the Enhanced Cooperation, agreed at Nice, what the Eurogroup within the Council of Finance Ministers will do to integrate economic policy and control the European Central Bank. We should watch and wait.

Public opinion is right to hold out against entry. A stunning opinion poll figure in January 2001 shows that among 18-24 year olds support for joining the euro runs at a mere 14%, much lower than the 23% recorded last September. I commented on this phenomenon to a friend saying “Thatcher’s children.” But he was wiser. “No”, he said, “many of them hardly know Thatcher. They were young kids when she was last Prime Minister. What influences them is success. All their adult experience is of a thriving British economy”.

This confidence amongst our young people is an absolutely essential factor for middle-aged decision-makers to grasp. The young are not looking over their shoulder to be part of the new European currency with a European Central Bank, determining Britain’s interest rates and, critically, influencing our unemployment rate and our economic growth rate. They have seen economic policy being handled competently and successfully since 1992 by successive British Governments. They, along with the vast majority of this country, wish to continue to be a self-governing nation. They want us to continue to modernise, to be part of an Internet Europe, decentralised, deregulated and dynamic.

I do not envy Tony Blair the task he appears to want to embark on, if re-elected at the next election, namely to convince this younger generation that Europe can better manage our own currency and that we are too weak or too vulnerable to control our own economy. They are the most sceptical of all the age groups on the euro but the most enthusiastic for EU membership. The Prime Minister’s speech from Poland about rejecting the single European federal state was important but this is something on which he must deliver. I believe he can deliver, provided he persists, masters the detail and is resolute. But he will not do so by sound-bites calling the European Union a “superpower not a superstate”. That will not convince the young. They are sensible enough to know it is impossible to envisage the EU as a superpower without it being a single state. A superpower exercises military, political and economic power that needs the identity and the cohesion that comes from being one nation. Most of the young I suspect, like many other people in the EU, do not wish Europe to be a superpower. Even those who do must face up to the fact that EU politicians over the years have not been conspicuous in demonstrating either the resolve or the will militarily to become a superpower. Most of the EU, unlike the UK, were not ready to be involved in the Gulf War, were reluctant peacekeepers in Bosnia and combatants over

Kosovo. The EU member states for the most part are not prepared to spend more on conventional defence and do not want to possess nuclear weapons. Our own UK defence spending has been massively reduced following the fall of the Berlin Wall.

What many people in the EU do appear to want, and many of its politicians openly state to be their political project to achieve, is to build up progressively the powers of the EU in the major national policy fields of economic, defence and foreign affairs. They openly advocate that the Council of Ministers should operate by a qualified majority vote, in effect as a European Cabinet in these hitherto crucial areas of self-government for the member states. Were they to achieve this, they would fundamentally alter the unique balance between inter-governmentalism and supranationalism within the EU.

Many politicians in the UK, who ought to know better, continue to say that this is not a political project supported by many European politicians, despite their now frequently reported words in speeches and articles. Some UK politicians, while secretly desiring the very same political project, deny that this is their intention, also knowing they are in a considerable minority in the UK. There is a dangerous divide emerging between politicians and people in Britain which will be carried to a new level with the Government trying to avoid discussion of the profound political and constitutional implications of the euro in the forthcoming General Election.

HERE I WANT TO ram home my central message: reversing the decline of the British economy, and with it the revival of our national strength and purpose, has been the result of many people's thoughts and actions and has stemmed from many different political parties. The painful and hard won struggle for modernisation and reforms of 1974-2001 must continue. It will be very hard – I fear impossible – to maintain this momentum for modernisation if we spend two or three years hesitating about whether or not we should join the euro. We have the capacity as a self-governing nation to stay outside the euro, at least until the 2004 IGC. By that time, it will be clear whether we have ensured that the EU will not become a single federal European state.

We know that in 2004 there will be an IGC on the future of the Union as stated by the Heads of Government in Nice. The IGC will cover the simplification of the Treaties, subsidiarity and the role of national parliaments. Though I am very attracted by the Constitution put forward last October by *The Economist*,⁹ I fear that it will prove to be too radical for the EU. It is far more likely that some simplification of the Treaties will be negotiated.¹⁰ Also they will attempt to classify elements of the Treaties into two categories. The

⁹ www.economist.com

¹⁰ www.new-europe.co.uk. Papers to seminar held at Chatham House on 10 January 2001.

first category would contain those elements of the Treaties that would not need to be ratified by unanimity; while some other parts which would need ratification, not by unanimity, but by a "super qualified majority" allowing only four-fifths of the states to ratify.

A vital task for the UK will be to insist that some Treaty principles covering the basis of national self-government could only be amended by unanimity. Public opinion in the UK will have to be mobilised over the next few years to insist that no government will consider asking the British people whether or not we should join the euro until after that 2004 IGC is completed and we can see that our self-government is protected.

THERE IS A STRONG CASE for following the precedent of the US Constitution. That Constitution was ratified on 17 September 1787, 12 years after Independence. Yet in his inaugural address as President in early 1789, Washington hinted that Congress should promptly add a bill of rights to the Constitution in order to appease the Anti-federalists. This Congress did in September 1789 with 12 Amendments. The First Amendment on freedom of speech and the Fifth Amendment on being able to stay quiet until formally indicted are as famous as many parts of the original Constitution. By 2004, it might be possible to amend the European Convention on Human Rights to incorporate some of the new provisions proposed in the EU's Charter of Fundamental Rights. That Charter has not and will not have by then the maturity and acceptability of the European Convention which has won acceptance in the wider Europe and is one of the few structures to bind in almost all those who can reasonably look to eventual EU membership.

The **Eight Amendments** could be developed along the following lines (and wording which I have drawn from the Constitution put forward by *The Economist* has been italicised).

The First Amendment

The European Union is not a country and shall not create from its Member States a single state. It is a unique Union, part

supranational, part intergovernmental. Its parliamentarians must be elected by the Member States and should reflect these divided responsibilities in that accountability for the supranational institutions should lie with the European Parliament and that for the intergovernmental part of the Union with the national parliaments of the Member States.

The Second Amendment

The Union shall levy no taxes. Member States have the right to retain the power to conduct their own economic policy which would include amongst others monetary, taxation and social benefit policies. *No national law regulating the taxation of income or profits shall be construed as an obstacle to the free movement of goods, or services or capital.*

The Third Amendment

Member States have the right, following the procedures in the Treaties, to retain the ultimate power of independent action over foreign and defence policy within the framework of the Common Foreign and Security Policy and European Defence and Security Policy.

The Fourth Amendment

Member States are not bound to give legal force to decisions of the European Court of Justice unless those legal powers directly stem from Treaties ratified under the procedures of the Union.

The Fifth Amendment

The Union and the Member States shall uphold the principle of subsidiarity and the responsibility for determining what powers from the inception of the Treaties should be returned to Member States should be that of the European Council taking into account the views of the European Commission and the European Parliament.

The Sixth Amendment

The Union and its Member States shall respect the fundamental rights of its citizens, including, but not limited to, those rights guaranteed by the European Convention for the Protection of Human Rights and Fundamental Freedoms, signed in Rome on 4 November 1950, and rights common among Member States.

The Seventh Amendment

Member States may leave the Union at any time, after a period of no less than six months of consultation with other Member States and the European Commission, reflecting the reality that the commitment to an ever closer union is of its peoples and not the Member States of the EU.

The Eighth Amendment

The European Council, one for each Member State, shall be the high policy making body of the Union. The President of the Council shall be drawn from its members on an agreed rotation and there shall be no direct elections across the Union for a President of the EU nor for the President of the Commission. *The European Council shall give instructions and guidance to the Council of Ministers and to the European Commission which shall normally be published after each meeting along with voting records. An Agenda shall be published before all Council of Ministers meetings. A voting record shall be published immediately afterwards.*

These eight Amendments could only be changed in part or in whole by a ratification procedure involving the unanimous approval of all Member States.