

Transcript of Lord Lawson of Blaby's keynote speech at The UK in a Changing Europe's conference What Influence? The UK and Europe

12 January 2016

Good morning everybody. Thank you very much Professor for that very kind introduction.

One thing we need to make clear absolutely from the start is that this is not about Europe as such. I love France, which is why I live in France. This is not about whether you like Europe or not. This is about an institution called the European Union and Britain's relationship with it. That's what it's all about and one shouldn't be misled by people who say that if you don't think the institution is a good thing to be part of then you must be in some way anti-European.

Sadly, it is a difficult discussion to have. There are two main obstacles to rational discussion:

The first is the political correctness which surrounds this issue. Political correctness is the great blight of our time. If you don't think membership of the European Union is a good idea you are, as we say in France, *mal vu*. This great blight of political correctness is one reason why rational discussion is difficult.

Another is the vested interests. Wherever there is a status quo, and this has been a status quo for a long time, vested interests accrue. They're quite powerful. There are corporate vested interests, there are substantial bureaucratic vested interests and, if I may say so, there are some academic vested interests. But let us try and have a rational approach to the issue. What is wrong with the European Union and British membership of it as we know it and see it at the present time, and why should we leave?

There are three main reasons. The first is that it is a political project whose objective we don't share. In France, I find they accept entirely that it's a political project. Curiously, in this country, there is a reluctance to believe that somehow politics can trump economics and it seems to be seen exclusively in economic terms. But it is, of course, a political project whose objective we don't share. That objective is to create a United States of Europe.

That is what 'Ever Closer Union' is about. 'Ever Closer Union', as the Stuttgart Declaration of 1983 made clear, is not just a union of the peoples but a full-blooded political union of the member states. That is what monetary union is all about. The father of that was Jacques Delors. I knew Jacques very well as he was my opposite number, my *homologue* as we say in France, when I was the Chancellor. He was the Finance Minister of France and a very clever man. He understood fully that you cannot have a satisfactory monetary union without a fiscal union and you cannot have a fiscal union without a political union. Therefore this was the crucial stepping stone towards a political union.

In a sense, it was never intended as an economic project, and indeed it has been a disaster as an economic project. It has been extremely damaging economically for the countries which are members of the Eurozone. But that was actually part of the game plan, because that was necessary to make it clear that you had to have the fiscal union, or 'transfer union', which is what the Germans don't like. In every single full-blooded monetary union, such as the union between England and Scotland and the monetary union of the United States, there are fiscal transfers from the more successful parts, automatic ones, which don't have to be separately voted on, from the more successful parts of the union to the less successful.

So monetary union is meant to be the gateway to political union and it's one of the reasons why, quite rightly, we decided that we didn't want to be part of it. As I say, it is economically damaging.

The fact that the monetary union has been damaging for the countries that are members of it is clear enough and of course that is not good news for us because we want to see prosperity in the European continent. It is of no benefit to us if the Eurozone countries are in trouble and the fact that they have to spend so much of their energies firefighting in the Eurozone is not good news either.

Second, it's economically damaging in other ways. It's economically damaging because we have to pay a pretty hefty annual subscription, despite the improvements that Margaret Thatcher managed to negotiate, which is running at about £10 billion a year. That's the net. The gross subscription is substantially greater. More serious is the regulatory cost, which has been reliably calculated to be of the order of £25 billion a year. That's the burden of European Union regulation.

I'd like to kill one myth about this. There are people who say you have to have European regulation whether you are in the European Union or not, because if you want to export to what they call the 'Single Market' - which is a complete misnomer, they mean the European Union market - then you have to abide by their regulations. Just like when Americans sell to the European Union, they have to abide by European Union regulations. Just as when we sell goods and services to the United States, we have to abide by United States regulation.

The problem with European Union regulation is that it affects the 85% of our GDP which are *not* sales to the European Union. Sales to the European Union are 15% of our GDP. The rest of our GDP is accounted for by exports to the rest of the world and, overwhelmingly, internal sales or sales within the United Kingdom. This burden of regulation affects everything and it is particularly tough for small and medium sized businesses. Small and medium sized businesses, at this stage in their evolution, often don't export at all, whether to the European Union or to the rest of the world, but they are caught in this mesh of European Union regulation which is extremely damaging and costly to them.

The third reason why it is bad is that it is profoundly undemocratic, and that is a matter which is of concern to some people in other countries of the European Union, but I think it concerns us in particular. We have a kind of addiction to freedom and democracy. The phrase 'the democratic deficit' is a cliché which is well-known, well-understood, and I think when you talk to the people who passionately believe in it they say of course but that's just a transitional phase: once we have a full-blooded political union, then that will be a democracy.

Maybe, but it is certainly not democratic at the present time and the full-blooded political union may be a long way off. It may or may not happen. Incidentally, I think it is unlikely that it would work in a democratic way because there is no genuine European *demos*. I'm not the slightest bit anti-European - I love France and the French - but there is no sense of a European *demos* in the way that there is a British, and indeed a French, *demos*.

Those are the three main problems; it's a political project whose objectives we don't share and therefore we shouldn't be shackled to it; it is economically damaging; and it is profoundly undemocratic.

Well, what about influence? Within the European Union, our influence has never been as great as our political leaders and the people in the Foreign Office have liked to imagine and liked to pretend. We did have some slight influence, but the creation of the Eurozone was a watershed. That has changed everything in the area of influence. You can make an argument that this half-in, half-out relationship that we have is the worst of both worlds, that we should choose whether we want to be wholly in or wholly out. The problem, at the moment, is that the Eurozone caucus has now got an automatic qualified majority and therefore our influence on decisions that are made by the

European Union is nugatory. That is why the creation of a Eurozone and our decision – correctly - not to be part of it was a watershed.

The lack of influence is quite marked. Over the past twenty years, which is roughly the time that the Euro has been in existence, there have been 72 occasions in the Council of Ministers where the United Kingdom has opposed a particular measure. Of those 72 occasions, we have been successful precisely 0 times and we have lost 72 times. That is a fact. And, you know, a scoreline of 0-72 is not particularly brilliant. This is how it would continue.

Of course what matters is not our influence in the European Union, but our influence in the world as a whole. And we have a certain degree of influence in the world as a whole, certainly more than most countries.

The problem with influence is there's no metric. You can't measure it and say 'our influence is X or Y', but our influence is clearly quite considerable. We're big, the fifth largest economy in the world. Our economic strength is partly related to this, but is also related to how well the economy is doing. I can remember very clearly that in the 1970s our economy was doing very badly, then in the 1980s, we recovered from that during the Thatcher era, which I was involved with. That greatly increased our influence in the world from what it had been. We had been regarded with pity and derision in the 1970s and there was suddenly a new interest in and respect for what we were doing. Our economic strength was a real factor in the influence we had.

And therefore anything like membership of the European Union, which is damaging to the economy, *ipso facto*, reduces our influence in the world as a whole. Military strength is also important. We are the only country in the European Union which has a 2% of GDP spending commitment on defence. We have very effective armed forces. After the Americans, they are among the most effective in the world.

Then there are these things which are commonly known as soft power. The English language, which is the global language, is clearly a factor which helps us in the soft power field of influence. The relationship with the Commonwealth again is difficult to define or quantify, but it is a very important source of influence and is a relationship with the rest of the world which is greater than that of any other European country. The French have a close relationship with their former Empire, but it's much smaller and therefore much less important. The Commonwealth is also an important part of the emerging world.

Therefore the economic dimension comes in again, because whereas the European Union is economically stagnant - even if it can recover and start growing again, it's not going to grow all that fast - it is in the emerging world, in Asia, in Latin America, maybe in Africa too, where the growth of the future is going to overwhelmingly come from. India is an obvious example, but there are many other countries too. This is the part of the world we should be focused on.

We are also, of course, a member of the Security Council of the United Nations. Most countries aren't, that gives us influence. The capital city in which we are meeting and discussing is the greatest global financial centre, helped of course by the fact that we are in the European time zone. Were we to leave the European Union, as I think we should, we would still be in the European time zone, and the advantage for a financial centre of being in the European time zone is very clear.

London is the number one financial centre in the world, but it is also far-and-away the most international city in the whole world. Far more international than New York, far more international than Paris, far more international than any city in Germany or wherever you like to name. That is a

great strength, and it helps our influence too. So there are all these aspects and dimensions of soft power. Not one of them, not one, is dependent on our membership of the European Union.

In a number of ways the European Union reduces our influence. I've already mentioned how it damages the economy - it's a net minus for the economy, therefore the economic strength aspect of influence is diminished. The Financial Transaction Tax - which is still on the table for the European Union who are still determined to introduce it - will be damaging to London as a financial centre. We are not able, as members of the European Union, to be independent members of the World Trade Organisation. If we were outside we would be, and we would be a strong and liberalising voice within the WTO.

Is there a downside from Brexit? If there is, it is trivial compared with the upside. There is a lot of talk about the importance of access to the Single Market. As I indicated, that is complete nonsense. In the first place, there is no Single Market, there is a European market. Once all the tariff barriers had come down, there was an awareness that regulatory laws and practices were different in different countries, and there was an idea was to unify all the regulation. Not a bad idea, provided the regulation is not excessive.

That hasn't been completed. Regulations are still very different in different parts of Europe. The idea of access to a regulatory system is, anyhow, a complete nonsense. We're talking about access to the European Union market. We have that access because happily, we live - whether we're in or out - in a relatively free trading world. The Common External Tariff - leaving aside agriculture which is not all that important to Britain as an exporting nation - has a weighted average of little more than 3%. That's a trivial barrier. That is why you find goods from outside the European Union everywhere within the European Union. The Americans and the Chinese have no difficulty exporting to the European Union, just look at their goods in the shops. In the European Union you'll find goods from all over the world. It is a very minor cost indeed, and far outweighed by the benefits we would get from not being in it.

Not only is the European Union as an institution profoundly bureaucratic rather than democratic - I mentioned the democratic deficit but there's also a huge bureaucratic surplus - but it also suffers from the mantra that 'more Europe' must be a good thing. 'More Europe' is far too often seen as more European regulation. As for the idea that the European Union can have some kind of deregulatory Thatcherite agenda, forget it. That can never happen. It is contrary to the nature of the beast.

Moreover, we are an enormously important market to the rest of the European Union. We are a market of approximately £300 billion a year. The rest of the European Union is interested in a free trade agreement with the United States, which may or may not happen. The American market is worth, for the rest of the European Union, £300 billion a year. We are as important as that. We are the most important market for a number of key industries on the continent such as the German motor industry. It is highly unlikely that they will not wish, for their own benefit, to sign a free trade agreement with the United Kingdom. It matters to them far more than it matters to us.

So, to coin a phrase, we have nothing to fear but fear itself. What I believe the British people want is a genuinely global future as a self-governing democracy. That is not something we can have as a member of the European Union. It can be assured only by Brexit. I leave you with one last thought: if we had never joined the European Union, would the British people vote to join it today? The answer, emphatically, is no. Therefore, the only rational course is to leave.