

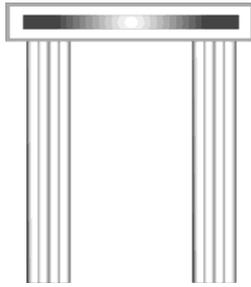


Nigel Lawson

**Joining the World
Britain Outside the EU**

POLITEIA

A FORUM FOR SOCIAL AND ECONOMIC THINKING



POLITEIA

A Forum for Social and Economic Thinking

Politeia commissions and publishes discussions by specialists about social and economic ideas and policies. It aims to encourage public discussion on the relationship between the state and the people. Its aim is not to influence people to support any given political party, candidates for election, or position in a referendum, but to inform public discussion of policy.

The forum is independently funded, and the publications do not express a corporate opinion, but the views of their individual authors.

www.politeia.co.uk

Joining the World
Britain Outside the EU

Nigel Lawson

POLITEIA

2016

First published in 2016
by
Politeia
33 Catherine Place
London SW1E 6DY
Tel. 0207 799 5034

E-mail: info@politeia.co.uk
Website: www.politeia.co.uk

© Politeia 2016

ISBN 978-0-9564561-7-5

Cover design by John Marenbon

Printed in Great Britain by:
Plan – IT Reprographics
Atlas House
Cambridge Place
Hills Road
Cambridge CB2 1NS

THE AUTHOR

Lord Lawson of Blaby has been a member of the House of Lords since 1992. Before that he was Member of Parliament for Blaby (1974-92) and Chancellor of the Exchequer (1983-89), Secretary of State for Energy (1981-83) and Financial Secretary to the Treasury (1979-81).

He is founding Chairman of the Global Warming Policy Foundation. He has also been President of the British Institute of Energy Economics (1995-2003), Chairman of the Central Europe Trust Company Ltd (1990-2012) and Chairman of Oxford Investment Partners (2006-13).

His books include *An Appeal to Reason: a cool look at global warming* (2008), *Memoirs of a Tory Radical* (2010), *The View from No 11* (1992) and *The Power Game* (1976). He was editor of *The Spectator* and started his journalistic work at the *Financial Times*.

Joining the World Britain outside the EU¹

Europe, the EU and Political Integration

For Britain, the issue for the EU referendum is not Europe, with its great history, incomparable culture, and diverse peoples, but the European Union. To confuse the two is both geographically and historically obtuse. Switzerland, for example, while quintessentially European, is not in the European Union (and incidentally flourishing). And European civilization existed long before the coming of the European Union, and will continue long after this episode in Europe's history is, hopefully, over.

On the European mainland it has always been well understood that the whole purpose of European integration was political, and that economic integration was simply a means to a political end. In Britain, and perhaps also in the US, that has been much less well understood, particularly within the business community, who sometimes find it hard to grasp that politics can trump economics.

The fact that the objective has always been political does not mean that it is in any way disreputable.

Indeed, the most compelling original objective was highly commendable. It was, bluntly, to eliminate the threat to Europe and the wider world from a recrudescence of German militarism, by placing the

¹ This analysis was prepared for a conference in Princeton University, 'Europe and the Challenges of Brexit'. Politeia is grateful to Professor Harold James and the University of Princeton for kindly agreeing to its publication. For the contributions of other speakers see <http://jrc.princeton.edu/events/europe-and-challenges-brexite>.

German tiger in a European cage. Whether or not membership of the European Union has had much to do with it, that objective has been achieved: there is no longer a threat from German militarism. The fact that, today, German influence is increasing peacefully, largely at the expense of France, as a result of Germany's superior economic performance, is not something to which anyone can legitimately object.

But in the background there has always been another political objective behind European economic integration, one which is now firmly in the foreground. That is the creation of a federal European super-state, a United States of Europe. Don't be seduced, as too many in the US State Department are, by the resonance of the phrase. Not one of the conditions that contributed to making a success of the United States of America exists in the case of the European Union.

But that is what the European Union is all about. That is its sole *raison d'être*. And, unlike the first objective, it is profoundly misguided. It is certainly not right for the UK.

A Euro Designed to Fail – First steps to political union

As far back as January 1989, as Chancellor, and well before the single currency had come into being, I pointed out, in a speech at London's Chatham House, that the only way that European monetary union could be made to work would be if it were accompanied by full fiscal union, which in turn required full political union. I warned that it would therefore be most unwise to go ahead with the project since, whatever the European elites and above all the eurocracy may have wished, a full-blooded European political union was not wanted by the majority of the peoples of Europe. And that remains the case today – indeed, more so than ever before. Unfortunately, a fundamental contempt for democracy

has always been one of the most striking and least attractive characteristics of the European integrationist movement, however noble its intentions.

The need for monetary union to be accompanied by both fiscal and political union is now widely accepted. It has been endorsed most recently by the EU's so-called Five Presidents' Report on the completion of monetary union, which calls for the creation of a single Eurozone finance ministry, presumably headed by a single Eurozone Finance Minister, by 2025.

It is also what all economic history tells us. There is not a single major monetary union in the world that is not also a fiscal union and a political union. The economic and political logic is incontrovertible. Indeed, the monetary union *tout court* was deliberately designed to fail.

The father of the Euro, Jacques Delors, whom I knew well when, as French Finance Minister, he was my opposite number in the European Community's Ecofin Council and elsewhere, was well aware that it could make sense only as a stepping stone to political union. It was a colossal, and some would say grossly irresponsible, gamble.

Not least because the lesson of history is that monetary union invariably follows, rather than precedes, political union. That was the case, to cite just three examples, with the United States monetary union, the German monetary union and the Italian monetary union. Hence, in large part, the continuing Eurozone disaster, and with it continuing European economic underperformance.

But the coming into being of monetary union – and there can be no doubt of the determination of the leaders of Europe to persist with it at

Nigel Lawson

all costs – has fundamentally changed the nature of the European union, and of non-Eurozone Britain’s relationship with it.

In his new book, *The End of Alchemy*, the former Governor of the Bank of England, Mervyn King, devotes a chapter to the European Union. In it he points out that

‘The crisis of monetary union will drag on, and it cannot be resolved without confronting either the supranational ambitions of the European Union or the democratic nature of sovereign national governments’.

One or the other, he explains, will have to give way.

‘Muddling through may continue for some while, but eventually the choice between a return to national monies and democratic control, or a clear and abrupt transfer of political sovereignty to a European government cannot be avoided.’

Lord King concludes that ‘The tragedy of monetary union in Europe is not that it might collapse but that, given the degree of political commitment among the leaders of Europe, it might continue, bringing economic stagnation to the largest currency bloc in the world’.

Not Being in the EU - The advantages of the many over the EU few

Meanwhile, for the United Kingdom to remain in the European Union would be particularly perverse, since not even our political elites wish to see this country absorbed into a United States of Europe. To be part of a political project whose objective we emphatically do not share cannot possibly make sense. It is true that our present Prime Minister argues that

he has secured a British ‘opt – out’ from the political union, but this is completely meaningless.

We continue to be fully subject to the ever-growing corpus of EU legislation and regulation, all of it directed to the achievement of full political union. And the theology of the *acquis communautaire*, reinforced by the so-called *passerelle* clause of the EU’s Lisbon Treaty, means that competences transferred from the member states to the Union can never be repatriated: the traffic is only in one direction.

‘But’, comes the inevitable question, ‘what is your alternative to membership of the European Union?’ A more absurd question it would be hard to envisage. The alternative to being in the European Union is **not** being in the European Union. And it may come as a shock to the little Europeans that most of the world is not in the European Union – and that most of these countries are doing better economically than most of the European Union.

Moreover, once out of the European Union the UK would no longer have to pay its annual EU subscription of some £10 billion a year and rising for nothing in return – yes, nothing, for the figure is calculated **after** netting off everything British farmers and scientists and others at present receive from the European Union.

Nor would UK business and industry have to carry the burden of excessive European regulation, which bears down particularly hard on the SME sector. Yes, British businesses would have to conform to EU regulation when exporting to the European Union, just as they have to conform to US regulation when exporting to the United States. But exports to the EU represent only some 13 per cent of UK GDP, and the proportion is declining. The liberation of the remaining 87 per cent of the UK economy from a bureaucratic Brussels that believes that more

Nigel Lawson

Europe is always a good thing, and that more Europe means more EU regulation, is greatly to be desired.

To suppose that being within the so-called single market confers a great economic benefit is palpably absurd. If it did, most of our European partners would not be in the mess they are in today, with miserably low growth, high unemployment, and ultra-high youth unemployment.

Moreover there is a more fundamental reason than this, which goes beyond the mischief of the single currency.

Towards the end of his long life, the great Fritz Hayek was interviewed by the American philosopher W.W. Bartley, who asked him about his differences with the Keynesians.

Hayek replied in these terms.

‘Keynes, against his intentions, had stimulated the development of macroeconomics. I was convinced that not only his particular conclusions but the whole foundation of macroeconomics was wrong, so I wanted to demonstrate that we had to return to microeconomics.’

This is of the first importance. Over anything but the very short term, national economic performance depends on the efficiency and flexibility of the micro economy, sometimes known as the supply side. That insight is what drove the economic reforms of the Thatcher administration of the 1980s, of which I was a part; and it worked. An important element of this was intelligent deregulation. By contrast, the European Union’s addiction to ever more regulation can only further damage its economic performance.

The Nation State, Economic Progress and the Market Economy.

Of course there are some who find the whole concept of national interest objectionable. In an age of globalisation, it is argued, the nation state has become an anachronism. History provides the simplest refutation of this muddled thesis. The late nineteenth century is widely recognised as having been the heyday of the nation state. Yet it was also the epoch that saw the first coming of economic globalization, an era of massive economic progress, which came to an end only with the onset of the first world war.

Others argue that whether or not the nation state has in fact become obsolete, it certainly ought to be, given the havoc that nationalism has wreaked over the past hundred years.

Now, there are three great forces that make the weather that governments have to steer through. These are self-interest (including the interests of one's children), nationalism, and religion. Each of them can certainly turn ugly, but each of them can also be a force for good. It makes no more sense to reject nationalism *tout court* because of its evil exploitation by Nazi Germany than to reject religion *tout court* because of the excesses of militant Islamic fundamentalism. Indeed, I would argue that it is not nationalism, or patriotism, which is the mischief (which of the two you call it depends on whether you approve of it or not), but ideology. Think fascism, communism, Islamic fundamentalism. For while nationalism or patriotism can properly respect the nationalism or patriotism of others, ideology accepts no such limitation.

So far as self-interest is concerned, Adam Smith long ago demonstrated how the market economy channels this into public benefit. But nationalism is important, too, in this context. It is no historical accident

that the evolution of the nation state and the evolution of the market economy coincided.

For the market economy rests on a non-economic infrastructure, of which a vital component is the rule of law. And in a free society, the rule of law will work satisfactorily only if the people feel that, in the last resort, it is **their** law. Their law in two important senses. It is the law of their country, to which they have a keen sense of belonging. And it is the law of their government, which they have democratically elected and which – even more important – they can democratically eject.

Global Security – The true foundations

We are told that EU membership is necessary for our security in a dangerous world. Poppycock!

We do indeed live in a dangerous world; and security is certainly of the first importance.

But this has nothing whatever to do with either the European Union or Britain's membership of it. What it has got to do with is NATO, of which the UK is a leading member and the only major EU country with a commitment to spend 2 per cent of GDP on defence, plus our special intelligence relationship with the United States, and the wider 'Five Eyes' intelligence agreement, which also includes Canada, Australia and New Zealand, which is crucial for our ability to defend our people against terrorists. None of these countries were members of the European Union when I last checked.

The wider point is this. In today's globalized world, more than ever before, not only is international cooperation vital, but it has to be on a

global scale. To take just three areas, this is true for defence, for the defeat of terrorism, and (to take a topical example) to combat money laundering and tax evasion. An obsession with the European perspective is worse than useless.

Britain and New World: Who decides what's best for Britain?

The world we live in today is a very different one from that of 1973, when the UK joined what was then known as the Common Market.

Britain today is the very opposite of the sick man of Europe we were then. Germany has been peacefully reunited, and has forsworn any militaristic ambitions. The Soviet Union is no more. The world economy has been transformed by the coming of globalisation, with the emerging economies of Asia, Latin America and much of Africa steadily catching up with the West as they abandon socialist economics and embrace the market economy. That is the world of today and tomorrow, which the United Kingdom, freed from the constraints of the EU, has the opportunity to take the greatest advantage of.

Even Britain's EU-obsessed Foreign Office, in its 2013 'Balance of Competences' report, has documented how and why there is no other European nation which has comparable global potential, from our membership of the Commonwealth to the fact of English being the world's language, from our bilateral relationships with key members of our former empire, to London's position – which owes nothing to EU membership – as one of the world's two pre-eminent global financial centres.

Indeed, London remains threatened by misguided EU legislation, not least the proposed Financial Transactions Tax, which Chancellor George

Osborne has fought vainly to get declared illegal. It is of course true that London is helped by being in the European time zone. But that will still be the case outside the European Union. The Financial Transactions Tax episode, incidentally, illustrates a wider point. For any member state of the European Union, EU law automatically overrides national law. In the same way the European Court of Justice is superior to all national courts, including the UK Supreme Court. But the ECJ is not just a legal entity: it is a political entity, too. One of the fundamental institutions of the European Union, it is committed to furthering the cause of full-blooded political union. According to the European treaties, while other legislation can be introduced by a majority vote, a new tax requires unanimity. Britain voted against the proposed Financial Transaction Tax, and this was the basis of the unsuccessful British decision to appeal to the ECJ. The ECJ simply ruled that the Financial Transactions Tax was not a tax.

The Choice for Britain: A global future as a self governing democracy

For the reasons I have explained here, in my considered opinion, EU membership is on balance economically harmful to the UK, and why Britain's economic future is global.

But at the end of the day the issue before the British people is a much more fundamental one. The European Union suffers not only from a bureaucratic surplus: it also has, as is widely accepted, a serious democratic deficit. Those who are committed to the European project, the creation of a full-blooded political union, see this as simply a transitional phase: once the United States of Europe has been achieved, it will of course be a democracy.

Maybe so, although – as has frequently been observed - there is no genuine European *demos*, whereas there is of course a very real British, and for that matter French, *demos*. (I speak as one who nowadays lives in France.)

But what is abundantly clear is that is that the EU as we know it now is profoundly undemocratic. This is a matter of concern to many people throughout the European Union; but it is a matter of particular concern in the UK, with our addiction to freedom and democracy. And it is intimately connected with something even older and even more fundamental: self-government.

Which importantly includes control of our own borders, which we cannot achieve so long as we remain within the EU. Membership of the European Union, however well-intentioned, is an affront to self-government; and it offers nothing that remotely compensates for this. What the British people want, I believe, and what we now have in our grasp, is a genuinely global future as a self-governing democracy.

* * *

To conclude. The case for Brexit, in my judgment, is overwhelming.

But what does this imply for other member states? Should they continue the onward march to a United States of Europe? Or should the entire project be abandoned, having served whatever useful purpose it once had (including, incidentally, and not to be dismissed lightly, proffering a helping hand to the former members of the Soviet empire, following the collapse of that empire some 15 years ago)?

That is not for me to say.

Nigel Lawson

We are all of us the products of our histories, and our histories are all significantly different, not least in modern times. It may well be, in particular, that the EU's leading member, Germany, still feels more comfortable – or other EU countries still feel more comfortable – if it is wearing European rather than German clothes.

But that is for them to decide.

It is certainly no argument against Brexit.

Subscribe to Politeia's Publications!

For £35 a year (£30 standing order) you will receive an electronic copy of each of our publications, plus hard copies of two new publications on request, and, if you wish, free hard copies of your choice from our back catalogue. You will also receive advance notice and invitations to Politeia's conferences and flagship events, with guest speakers from the UK and overseas.

More information can be found on our website: www.politeia.co.uk. Or, write to the Secretary, Politeia, 33 Catherine Place, London SW1E 6DY or at info@politeia.co.uk

A Selection of Recent and Related Publications

Banking on Recovery: Towards an accountable, stable banking sector
J. McFall, S. Kamall, G. Lyons, F. Capie and others

Dumbing Down the Law – The SRA's Proposals for Legal Education
Anthony Bradney

The British Bill of Rights: Protecting Freedom Under the Law
Jonathan Fisher QC

Paying for the Future: Working Systems for Healthcare and Pensions
Ludger Schuknecht, Matthias Dauns, Werner Ebert

Working Welfare: Contributory Benefits, the Moral Economy and the New Politics
Frank Field

QE for the Eurozone - What does this mean?
Tim Congdon

The UK Government Spending Ratio: Back to the 1930s?
David B Smith

The Financial Sector and the UK Economy: The Danger of Over-Regulation (Vol I)
J. McFall, K. Matthews, P. Minford, D.B. Smith and others

Magistrates Work! Restoring Local Justice
Stanley Brodie, John Howson, Simon Reeve

What's the Point of the Human Rights Act?
Dinah Rose QC

Zero-Plus: The Principles of EU Renegotiation
Martin Howe QC

History in the Making: The New Curriculum, Right or Wrong?
David Abulafia, Jonathan Clark and Robert Tombs

The current Chancellor of the Exchequer, George Osborne is a keen protagonist of the campaign to remain in the EU. By contrast, two of his Conservative predecessors are convinced opponents. In *Joining the World: Britain Outside the EU*, Nigel Lawson, Chancellor in the Thatcher governments and an architect of Britain's economic recovery in the 1980s, explains the reasons for Brexit.

Being out of the EU - as most of the world is - would be good for Britain's economy. Not only would UK business (and 87 per cent of our economy) be liberated from Brussels bureaucracy. It would also allow for the return to an efficient and flexible UK economy: to the microeconomic arrangements on which national performance depends. It would promote the conditions for economic progress and the market economy under the rule of law.

Above all it would allow a global future for Britain as a self governing democracy, outside the undemocratic EU.

POLITEIA

£5