

QUESTIONS AND ANSWERS ON LABOUR

AND THE EUROPEAN UNION

1. **What problems and opportunities will be faced by a Labour led government formed after the May 2015 general election?**

It is clear that a Labour led government after the May 2015 general election, either with the Party forming a government on its own or in a coalition or with the support of others, will have every intention of avoiding, if it can, there being a referendum on our membership of the European Union during the period between 2015 and 2020. There would still be a referendum if there was a major further transfer of powers to Brussels, probably in the form of a treaty change, but the Labour Leader has made it clear that he thinks it is unlikely that this will happen. Despite the pressing need for reform of the way the Eurozone is managed, it is likely that the Commission will join with Labour in trying very hard to avoid the need for democratic endorsement of any changes to the fiscal regime which the Single Currency may require because of the danger, from the Commission's perspective, that voting goes the wrong way. The EU is nevertheless going to have a major impact on the way the UK is governed during the forthcoming parliament and this Bulletin sets out what are likely to be the major challenges and opportunities which will need to be faced.

2 **What is likely to happen to the Eurozone?**

The prospect of Greece leaving the Single Currency appears to have been put off for a period as a result of the agreement imposed on the Greeks at the end of February which makes them abide by the current bail-out terms in return for more time to work out some deal for the future. It is clear, however, that both the political and economic situations in Greece are very unstable, with a significant chance that Greece will fall out of the euro despite widespread determination both among the Greeks and the EU's political leadership that this should not happen. Insistence, led by Germany, that there should be no debt write-offs, even though both interest and capital repayments may be postponed

and debt repayments – where these are unavoidable - rolled over, leaves very little room for improving economic conditions in Greece, where GDP has fallen by 25% or more since 2008 and where a quarter of the labour force as a whole is out of work, with youth unemployment running at 50%. It is not obvious that interminable austerity is going to be acceptable in Greece or elsewhere in the Eurozone, so, if it is to survive, changes in the way the Eurozone is run will have to be made. The reality is that the only potentially viable way ahead for the Single Currency area is for there to be much more centralisation of both budget responsibility and debt management, combined with massive transfers of resources from countries such as Germany and the Netherlands with huge trading surpluses to other weaker Eurozone member states. If this happens, however, it is bound to generate a two tier EU, with the countries in the Eurozone moving towards federal union, leaving those not in the euro in an outer ring.

3. **How will Labour handle this situation?**

At present, the UK has some protection against discrimination within the EU as a non-euro member because another eight countries out of the total 28 EU Member States do not have the euro as their currency and this provides non-euro states with something of a blocking minority position. Of the nine non-euro states, however, only three have opted out from joining the euro as soon as possible and one of these countries – Denmark – is effectively in the Eurozone already. This leaves a situation where before long only the UK and Sweden may be in the EU but outside the Single Currency. This is potentially a very weak and vulnerable position for the UK to be in and one of the major tasks to be carried out by a Labour government between 2015 and 2020 is going to have to be to ensure that the UK is not severely disadvantaged as a result. Despite a recent ECJ ruling that went in the UK's favour – after several which went against us – there are signs in particular that there may be further moves which would hamper the City's role in maintaining its dominant position in financial services.

4. **What reform of the EU would Labour like to see?**

The direction in which the governance of most of the EU is therefore moving is towards much closer integration – whether or not this is what the electorates in Europe really want. Clearly, the Labour leadership is not really happy to see this happening. Like the vast majority of the UK electorate, most Labour Party members and MPs, while strongly supportive of developments such as the Social Chapter, have generally been more comfortable with the trading relationship that most people in the UK would like to see rather than supporting moves towards “ever closer union” with all the political integration which this entails. Against this background, while the Labour Party has not developed a specific EU reform agenda, given the chance to do so, there is little doubt that most members and MPs would like to see some curbs put on immigration at least from the poorer parts of Eastern Europe; they would prefer the UK to pay a much smaller net contribution to the EU than the £14bn or so which looks like the UK's total current annual membership fee; they would like to see radical reform of the Common Agricultural and the Common Fisheries Policies, both of which have got almost no

support in the UK; they would be in favour of restrictions being removed on the operation of the Single Market and in particular strengthening of the UK's ability to provide financial services in the EU; they do not agree with the protectionist stance of many EU Member States; nor do they support more and more regulations being formulated in Brussels rather than decided by the House of Commons; and they would prefer to see more subsidiarity rather than the rigid application of the "acquis communautaire" doctrine which means that once powers have been ceded by the nation states to the European Union they cannot be returned.

5. **How are these objectives going to be achieved?**

The problem which is going to be faced by a Labour government post May 2015 is how to get any of this agenda implemented. Without the prospect of a referendum at the end of any renegotiation process which might be set in train the government is going to have to rely on a combination of persuasion and building alliances among the other EU Member States for the changes which the UK would like to see implemented. Finding some common ground for changes should not be impossible but may be very difficult to do on any major scale. The way that the EU operates has been built up over many years. It is highly complicated, depending on agreements and compromises brokered out over a long period, and which are therefore difficult to unpick and to change on a piece-meal basis. If self-interest is hard to harness effectively on a reform platform, persuasion with no sanctions at the end of the day looks even less promising. The problem very likely to be faced by a Labour government in power over the next five years is therefore that it will be trying to implement a reform programme with little appeal to a majority of the other Member States at the same time as most of the EU – far from moving in the direction which the UK would like to see – will be heading towards much tighter integration.

6. **What is likely to happen then?**

The danger for the Labour Party in these circumstances is that the EU becomes even less popular in the UK and euroscepticism becomes more widely prevalent. Sentiments along these lines are likely to be reinforced if the economic performance of the Eurozone continues to be worse than that of the UK economy. Eurozone GDP at the end of 2014 was still marginally below what it was during the first quarter of 2008, whereas the UK economy got back to its pre-crisis output during 2013. With the arrangements in place to manage the Single Currency – even allowing for the institutional changes which seem likely to materialise – it looks as though the Eurozone is unlikely to achieve anything other than very low or perhaps even negative rates of growth in the foreseeable future, with the possibility of much worse performance – at least for a while – if the Single Currency does eventually break up. In these circumstances unemployment is likely to remain very high over much of the Eurozone during the next few years, encouraging further migration to the UK. Against this background, it is hard to see support for UK's EU membership getting stronger. On the contrary, it seems much more likely that the country will become more eurosceptic, with an increasing prospect of a government

being formed after the 2020 election on a Brexit platform, leading to a referendum in the early 2020s with the government then in power advocating the UK leaving the EU.

7. **What should Labour then do?**

The Labour Party has decided to fight the May 2015 on a platform of refusing to support there being an “in or out” referendum except in circumstances forced upon it by a treaty change which the political leadership in the EU is going to do its best to avoid. Confronted, when in power, by both moves towards further integration which the travails of the Eurozone are going to force upon the EU, and with the difficulty in getting any reform programme to achieve anything solely by alliance building and persuasion, should the Labour Party reconsider its position on holding a referendum? Of course, there would be risks in adopting this approach. No doubt there would be the same opposition to holding an “in or out” referendum as there was to the UK not joining the euro. It is also inevitable that holding a referendum would take up a substantial amount of time and energy, which in ideal circumstances a Labour government would rather use on other things. There are, however, powerful general arguments in favour of a referendum. Poll after poll shows that this is what the electorate wants, including many people who would prefer to see the UK staying in the UK rather than coming out. We need to make up our minds whether we are going to stay in the EU and to do our best to make a go of it or whether to leave and to plough our own independent furrow. Whatever choice is made, we need a democratic decision on what our future is going to be and we need to make this decision so that the uncertainty round our membership is put to rest.

8. **Would there be other advantages to Labour having a referendum?**

The strongest argument for Labour holding a referendum between 2015 and 2020, however, given that it wants the UK to stay in the EU, is that with the government behind an “in” vote and with the extra leverage that holding a referendum would bring to any renegotiations which took place, the chances are that the outcome would be a vote for staying in. Strategically, therefore, Labour’s best chance of securing the UK remaining within the EU for at least a further lengthy period would be for it to have a referendum while it controlled the government. Of course there would be opposition to an “in” vote, especially if in the meantime little progress had been made on renegotiation and conditions within the Eurozone deteriorate, but there is always going to be a risk that the result would not be what europhiles want. It is much more likely that there would be a vote to stay in, however, with Labour in control and the government behind an “in” outcome than if a vote is held in the early 2020s with a Brexit government in charge advocating withdrawal. Labour therefore needs to be careful what it wishes for.

Tel: 020 7388 2259 * Fax: 020 7388 3454
E-mail: lesc@johnmillsLtd.co.uk * Website: <http://www.lesc.org.uk>