Saying 'No' to the Single Market

Foreword by Barry Legg

Professor David Myddelton
Professor Jean-Jacques Rosa
Dr Andrew Lilico
Ian Milne
Ruth Lea

Saying 'No' to the Single Market

Foreword by Barry Legg

Professor David Myddelton
Professor Jean-Jacques Rosa
Dr Andrew Lilico
Ian Milne
Ruth Lea

Published in January 2013 by

The Bruges Group, 214 Linen Hall, 162-168 Regent Street, London W1B 5TB

www.brugesgroup.com

About the Authors

Dr Andrew Lilico is a Director and Principal of Europe Economics. At Europe Economics, His doctorate was in bounded rationality, he is an acknowledged authority on the application of real options to price regulation, and has also done working papers on short selling, risk-sharing contracts in pharmaceuticals, housing, debt, and the regulation of markets with short-sighted agents.

Dr Lilico has lectured at UCL in Money and Banking, in Macroeconomics, and in Corporate Finance, and is a member of the IES/Sunday Times Shadow Monetary Policy Committee. Andrew received his first degree from St. John's College, Oxford, and his PhD from University College, London.

Professor David Myddelton is a chartered accountant with an MBA from the Harvard Business School. He has been Professor of Finance and Accounting at the Cranfield School of Management since 1972 (Emeritus since retiring in 2005). Since 2001 he has been Chairman of the Trustees of The Institute of Economic Affairs, a free market think-tank.

He has written a number of textbooks on accounting and finance; and he has written other books on Inflation Accounting, the British Tax System and Accounting Standards. His two latest books are; *They Meant Well: Government Project Disasters* and *Margins of Error in Accounting.* He's also a prolific writer of letters to the newspapers, especially the *Financial Times.*

Professor Jean-Jacques Rosa is an eminent French economist and Eurosceptic. As long ago as 1999 he described the Single Currency as *'a time bomb'.* He advocates France leaving the euro. Professor Rosa is also sceptical about the Single Market and believes that it is mostly used as a regulatory instrument.

Amongst his many works, Jean-Jacques Rosa, is the author of *The Second Twentieth Century: How the Information Revolution Shapes Business, States, and Nations.*

Professor Jean-Jacques Rosa blog can be found at: http://jjrosa.blogspot.co.uk/

…(cont)

About the Authors

Ian Milne is the author of an analysis of the net economic costs and benefits for the UK of EU membership, titled; *A Cost Too Far?*

Ian Milne has had a forty-year career in industry and merchant banking in the UK, France and Belgium. He is the author of the Bruges Group publications; *Lost Illusions: British Foreign Policy and The Single Market and British Withdrawal.*

Ruth Jane Lea is currently Economic Adviser to and a non-executive director of the Arbuthnot Banking Group. She is also a member of the IEA's Shadow Monetary Policy Committee. Ruth is the author of many papers on economic matters.

Her previous posts include the Director of Global Vision (2007-10), Director of the Centre for Policy Studies (2004-07), Head of the Policy Unit at the Institute of Directors (1995-2003) and Economics Editor at ITN (1994-95). She was also Chief UK Economist at Lehman Brothers and Chief Economist at Mitsubishi Bank. Ruth worked for 16 years in the Civil Service (the Treasury, the DTI, the Civil Service College and the Central Statistical Office) and was an economics lecturer at Thames Polytechnic (now the University of Greenwich). Ruth, along with Brian Binley MP, is the author of *Britain and Europe: a new relationship.*

Table of Contents

FOREWORD

Saying ‘No’ to the Single Market

The political establishment now mainly defends our membership of the European Union on the grounds that to leave the Single Market would be a disaster for us economically.

On the 20th anniversary of the creation of the EU’s Single Market the Bruges Group hosted a conference to expose how membership of the customs union is hurting our economy and preventing Britain from competing on the world stage. The Single market is a regulatory instrument. It is not about freedom nor is it a free trade area. Indeed it is more of a red tape area.

Many of the burdens on British businesses come from the UK being politically subsumed within the EU’s Single Market. Yet too many opinion formers in both the media and politics mistakenly believe that exiting the EU will endanger British businesses selling goods and services to those on the Continent. The speakers that we hosted at our conference explained that the psychological dependence upon the Single Market is one of the major ways by which the EU runs affairs in this country.

The government’s strategy towards the EU is hamstrung by a mistaken belief that accepting the supremacy of EU law is a pre-requisite for trade with the EU. The Single Market is a Customs Union with the institutions of the European Union making regulations which govern businesses within it. There are no important customs unions anywhere else in the world.

EU membership is not a prerequisite for access to the Single Market. Switzerland and Norway which are outside of the EU, export more in relation to their GDPs and per capita than the UK does. Furthermore, both China and the USA each export more to the EU than the UK does and without having their economies burdened by costly EU regulation.

The Office for National Statistics exaggerates the importance of trade with the EU. They take into account the reshipping of goods in Antwerp and Rotterdam. The reality using OECD figures which are not distorted by the Antwerp/Rotterdam effect show that 41% of British trade is with the EU, not 48%. However, trade with businesses on the continent is declining and trade to the rest of the world is increasing. By 2020 around 70% of Britain’s foreign trade will not be with the EU. Yet as members of the EU Britain is banned from negotiating trade deals with other countries.

Less that 10% of the British economy is involved with trade with the EU yet 100% of the economy is hamstrung by excessing EU regulations which disproportionately harm small and medium sized enterprises. SMEs employ the vast majority of workers in the UK. It has recently been calculated that the cost of EU regulation is some 5% of GBP equivalent to some £75billion per annum.

On withdrawal, the EU would continue to trade with the UK. The UK is the 26 other states of the EU biggest single customer. And actually has a trade deficit of £50 billion per year.

Under Articles 3, 8 and 50 of the Treaty on European Union, the EU is constitutionally obliged to negotiate “free and fair trade” with non-EU countries – which it does. Besides, discriminating against exports would be illegal under the rules of the World Trade Organisation.

Countries as far afield as Mexico, Turkey, Chile and South Africa have tariff free access to the Single Market. Without having to pay the huge costs associated with the EU. Britain, with only 8% of the votes in the Council of Ministers has little formal power over the determination of EU rules, whereas a sovereign state would have 100% authority over its own affairs.

Outside of the EU Britain can retake its seat on the World Trade Organisation and negotiate according to our best interests instead of being represented by an EU trade commissioner who is currently from Belgium. Britain will then be able to negotiate without being encumbered by the differing interests of other EU nations that often have a different outlook to the UK. And as one of the largest WTO members the UK can support the many other members who share our global trading outlook.

This paper has contributions from a number of speakers at our conference, which was titled *Say ‘No’ to the Single Market.* They are Professor David Myddelton, who is Emeritus Professor of Finance and Accounting at the Cranfield School of Management, the economists Ruth Jane Lea and Ian Milne, the French economist Professor Jean-Jacques Rosa and Dr Andrew Lilico, the Director and Principal of Europe Economics.

The Bruges Group and I offer them our sincere gratitude to all of our speakers and to those that have contributed to this booklet.

Barry Legg
Chairman of the Bruges Group

Speech by Professor David Myddelton

The Market Process versus the Political Process

Introduction

When I was first asked to talk at this Conference, I was just told it was about the Single Market. But a month ago, when I got a flyer for the event, the headline, in bold type, was: ‘Saying No to the Single Market’.

Now I’ve been observing the Bruges Group for years. If I’d known the conference’s title was either going to be ‘Saying Yes to the Single Market’ or ‘Saying No’, my shrewd guess would have been that it was likely to be ‘Saying No’!

As it happens, I’m actually *in favour* of a single market. I hope everyone’s hearing is OK. I said ‘a’ single market, not ‘the’ single market! What do I mean by ‘a single market’? Essentially *global* free trade. The whole world must continue to be our oyster. I’m against any parochial EU attempt to construct a Fortress Europe.

Surprising as it may sound, we in Britain really *don’t* crave economic or political union with Greece or Latvia! We simply want a free market -- which is more than our partners do! Their ideal still seems to be the Common Agricultural Policy, which aims to protect producers who can’t compete, and leads to higher food prices and higher taxes. That’s not in the interests of consumers. Each year sees more CAP corruption, fraud and waste. Occasional talk about reforming it is just a *charade*. (I purposely use a *French* word!)

Cost/benefit analysis

I’m not going to talk in any detail about specific costs and benefits of the Single Market; but I expect some of the other speakers will do that.

From a British viewpoint, in any overall ‘cost/benefit’ analysis of the EU’s ‘single market’, the key point is this. The benefits – such as they are – apply only to the proportion of UK GDP exported to other EU countries; while the *costs* of EU regulation and bureaucracy are a burden on the *whole economy*.

The UK exports over 20% of its GDP; with under half going to the EU. So the UK exports about 10% of its output to other EU countries. But while the single market’s *benefits* apply to 10% of our output, its costs affect 100%.

And in future, for demographic and other reasons, the proportion of UK output going to other EU countries is going to get even smaller than it is now. So a bad deal will become even worse.

It's worth bearing in mind that tariff levels today are very much lower than they were when the Common Market's customs union was set up more than fifty years ago. So being outside the single market wouldn't be the end of the world.

Is the EU fit for purpose?

Last week on Any Questions someone said: "The EU isn't fit for purpose". But I disagree. The EU's purpose is 'ever closer union' – regardless of the wishes of most Europeans. In fact the EU's anti-democratic set-up has been deliberately designed for its political purpose!

Christopher Story wrote a book ten years ago with a sobering title. It was called: *The European Union Collective: Enemy of its Member-States*. That may seem a bit extreme. But it's no coincidence that the EU *both* discourages referendums about the EU in member-states *and* ignores the results when they go the 'wrong' way.

They're even prepared to ignore the terms of European treaties when it suits them. Remember the 'Stability and Growth Pact'? Remember the 'No Bailout Clause'?

We British eurosceptics sometimes make a mistake on this important point. Most of us think 'ever closer union' is such a mad idea that we can't believe other people really want it. But the eurocrats really do want it – as do some of the senior politicians in our own country. And we shouldn't underestimate their determination to pursue that aim through thick and thin.

The Market Process versus the Political Process

I'm going to talk mostly about one aspect of the EU and the Single Market – namely: 'The Market Process versus the Political Process'. That may sound a bit abstract, but I think it's relevant. We must always remember the European Union's a *political* project not an economic one.

The 'market process' is on the whole voluntary. In contrast, government action represents the political process as opposed to the market process. It involves not just the 'public sector' versus the 'private sector', but collective versus individual choice and compulsion versus voluntary activities

Those who favour the market (like me) may be called ‘market optimists’ or ‘government pessimists’. We tend to assume that, on the whole, leaving things to the market will in the long run turn out to be the most sensible policy; and that governments will somehow often manage to mess things up. But we’re not anarchists. There are – and need to be – some regulations and legal constraints (for example, in enforcing property rights).

On the other hand, those who favour government intervention are ‘*government* optimists’ or ‘*market* pessimists’. They often emphasise so-called market ‘failures’. Modern economists sometimes refer to a straw man of ‘perfect competition’ based on perfect knowledge, zero transaction costs, etc. They regard any shortfall from such an unreal description as ‘market failure’ – and then suppose that governments can correct it. But as Alfred Marshall used to ask: “Do you mean government all-knowing, all-wise, or governments as they are today?”

In order to benefit consumers, the classical economists normally preferred voluntary markets with private property, rather than state coercion often aiming to protect producers. 150 years ago they perceived corruption in government as more of a problem than we do today … at least, in the United Kingdom!

One of my favourite Private Eye stories appeared soon after the euro had started. It reported the EU Commissioners as saying the euro had fallen so far against the dollar that in future they’d prefer their bribes to be paid in dollars!

Maybe, like Arthur Seldon, the classical economists regarded the market as ‘corrigible’ and government as ‘incorrigible’. I think most of us have come to regard the European Union as ‘incorrigible’!

The European Union was recently awarded the Nobel Peace Prize, which prompted Nigel Farage to remark that it showed the Norwegians, who awarded the prize, had a sense of humour! At least the EU wasn’t awarded the Nobel Prize for *Economics.* That really would have been adding insult to injury!

Government interference

In the last hundred years real national income per head in the UK has multiplied about fivefold. It seems paradoxical that at the same time, government spending has increased roughly from 12 per cent of national income to 48 per cent. That implies a *twenty-fold increase* in real government spending in a century!

In recent years, widespread regulation has become a major threat to the market system. The EU interferes coercively in many areas of life. But some freedom remains in a country as long as you're able to emigrate from an oppressive regime – *and take your personal property with you.* Preventing a nation-state escaping from the EU would be like forbidding a customer to switch from one supplier to another.

I'd argue it was the *diversity* of political conditions in European countries that led to Europe's world dominance for half a millennium. So 'harmonising' the rules across different countries (which the E U's very keen on) can be extremely damaging.

International harmonisation probably does more harm than good. I'm convinced that's true in accounting. The market system is a 'trial and error' system. And there's a good deal to be said for *competition* between regulators!

Political pressures

In the democratic political system you get one vote every four or five years on a whole package of unenforceable 'promises' between so-called rivals that are often very hard to distinguish. In non-democratic systems you probably won't even get that. In contrast, in the market system people make millions of separate choices between competing suppliers, in what's been called a 'daily democracy'.

The government's attitude to markets is nicely summed up by the way that Her Majesty's Revenue and Customs now refer to taxpayers as their 'customers'. Real customers have the power of choice and, in particular, of exit. But you wouldn't get far if, when invited to submit an income tax return, you politely wrote back to HMRC saying: 'Thanks very much, but I think I'd prefer not to join.'

Once government benefits have become established, like winter fuel payments or free bus passes, in a democracy it's very difficult to remove or reduce them, whether they're really 'justified' or not. Hence cutting government spending is not at all easy.

There's been some unfavourable comment in this country about the inexorable likely increase in the EU's budget over the next seven years. But it's worth noting that – despite all the *talk* of 'austerity' – the UK's coalition government itself plans to *increase* its own spending over the five year life of the current parliament.

To be fair, we must admit there's *one* important advantage in the EU's set-up. Their appointed political leaders don't have to worry about getting re-elected – which seems to be the Number One priority for democratic politicians. For example, it seems to me wholly disgraceful that British governments have delayed decisions on nuclear power and airport capacity for short-term political reasons.

As against that, of course, one has to set the even more important advantage of democracy: from time to time we the people can ‘throw the rascals out’. There’s no question of doing that with the European Union – which is why I continue to regard it as an alien tyranny.

Satisfying people’s wants

Market prices represent both signals and incentives. If there are shortages, market prices rise, which in time tends both to *reduce* consumption and to *increase* production, thus getting rid of the shortages. With surpluses, market prices *fall,* which tends to increase consumption and reduce production, getting rid of the surpluses. That’s just elementary economics.

When you don’t allow markets to work properly, you can end up with shortages (for example, in housing) or surpluses such as wine lakes and butter mountains – *and* unemployed workers (which, of course, represents a surplus of labour).

The profit motive spurs business people to discover what consumers want and how much. Segmenting the market means trying to distinguish between different customers, and their different requirements.

But governments often prefer a ‘one size fits all’ approach, which seems much less likely to satisfy all consumers. The EU is prone to this fault even though it covers a vast area with very different environments.

Long-term dynamic competition

Competition is central to the market system. But there’s a potential problem. Those producers who might be hurt by competition are known, and they’re often rich and powerful – while those who’d probably gain are unknown nobodies (or not-yet-anybodies). And consumers, who’d certainly gain, are so widely dispersed that politicians feel able to ignore them.

Thus there may well be more effective political demand for *suppressing* market rivalry than for permitting it, let alone encouraging it. This is likely to be especially strong in relation to imports. Hence protectionism is always a possible threat to free markets, especially in the EU.

So it can often pay pressure groups to invest substantial resources in political lobbying. They hope to get large returns from their rent-seeking. Most of the benefits accrue to their own members, while the community as a whole bears the costs. That's why so many pressure groups have 'emigrated' to Brussels, where power now lies.

Remedies for market failure

The market system is one of profits *and losses*. So at least there's a general remedy for failure in the market: incompetent (or unlucky) producers, who fail to satisfy consumers, make losses and in the end can go bankrupt. That's the good news. The bad news is that no such fate awaits governments or government agencies that fail.

Indeed, as we see with the EU, the difficulty of getting rid of political failures may be a serious problem. Arthur Seldon said: 'The test of the relative significance of government and market 'failures' is less in their frequency than in the ease with which they can be escaped.'

The eurozone provides a terrible example of government failure, and of the weaknesses that can occur when politics dominate market factors. Many people predicted that the euro zone was by no means an 'optimal currency area' and said it could only work if there were first a political union. But the powers-that-be took no notice – they were so obsessed with their vision of a United States of Europe.

Project of an Empire

I'm reminded of the last paragraph of *The Wealth of Nations*, published in 1776, the year we lost the American colonies.

Adam Smith wrote:

> 'The rulers of Great Britain have for more than a century past amused the people with the imagination that they possessed a great empire on the west side of the Atlantic. This empire, however, has hitherto been, not an empire, but the project of an empire, not a gold mine but the project of a gold mine. A project which *has* cost, which *continues* to cost and which if pursued in the same way as it has been hitherto is *likely* to cost an immense expense, without being likely to produce any profit. …'

I doubt if I'm alone in seeing parallels between Adam Smith's description of the American colonies – especially their *cost* – and the European Union with its vainglorious 'project of an empire' on the *east side* of the Atlantic!

It doesn't make sense to wait for the continental Europeans to declare their independence from us. Instead the time has surely come for us to declare our independence from them – and quit the European Union.

Speech by Professor Jean-Jacques Rosa

The Single Market and European organisational Sclerosis

I'd like to present a view that we cannot understand what determined the move towards a single market , what are the possible evolutions of the single market right now, and what are the reasons for the obstinate attempts of the national political class to build a centralized political European Union, without a theory of centralization, that is, of the changing optimal size of hierarchical organizations. The facts and consequences of the "centralization of Western Europe" have been exposed with remarkable clarity and perspicacity by Professor Roland Vaubel many years ago in an IEA publication .

What I present here is a view of the economic calculus of optimizing organizational structures, a calculus which was massively in favour of larger hierarchical organizations during the first three quarters of the 20th century, leading to the concentration of giant firms and to the centralization of the political structure of the world under the dominance of two giants empires – The USA and the Soviet Union – that confronted each other during the Cold War. The attempt to construct a third superpower by combining the former imperial nations of France, Germany, Italy and possibly even Great Britain was intended to reinforce and consolidate the Western Alliance. But the last quarter of the century saw a sea change in organization, coming, as I shall explain shortly, from the information and communication technological (ICT) revolution.

The organizational trend underwent a complete reversal from the mid-1970s onward, changing the structure of most hierarchical organisations, and boosting the development of markets everywhere. I claim that the optimal organisation of the public sector and also of private businesses has been revolutionized by an informational tsunami during the past three decades in favour of smaller hierarchies and larger markets. And that is the reason why the old project of centralizing Western Europe by building an additional level of political organization above that of the nation states is now not only obsolete (the remnant of a former era) but also moving more and more afar from the modern (information era) optimal political organization. For that reason it is deeply detrimental to growth and economic dynamism.

A problem of Centralisation

The singe market itself is another step in that wrong direction, alongside with other centralising policies, whether effective, such as monetary policy (the creation of the euro) or projected, such as a single tax policy intended to suppress tax competition among governments. They all belong to the general category of anti-competition policies.

I'd like to present this plain economic analysis in terms of the public choice theory and of the theory of industrial organisation. And for that I'm asking three basic questions.

First question: in what respect is a single market different from the previous notion of a common market? What are its effects on competition and consumer welfare (the second depending upon the first)?

And the answer is: the single market really means European-wide centralisation of national regulations, a regulatory centralisation that decreases competition and consumer welfare.

Second question: what are the reasons for the dogged pursuit of such a centralising strategy?

And the answer is: huge new rents for centralized European regulators and for business interest groups and oligopolies.

and finally,

Third question: how far can it go and could it be reversed?

And the answer will be suggested as a result of my analysis.

I. Common market versus single market

At the time when Jacques Delors coined the term "single market", the "common market" had not even been completed yet (especially lagging were the agricultural sector and the service sector, particularly banking). The aim of creating a truly single market thus appeared in reassuring continuity with previous policies. But the appearance was deceptive. There is in fact a huge difference between the common market and the single market. The common market was basically a free trade area with a low common external tariff. It helped transforming and opening the formerly protectionist and fragmented national economies of Western Europe after the war, and it was hugely successful.

But then the utility of this common market policy decreased with time, first because of its very success, and second because of the worldwide trend towards freer trade (GATT, WTO). The interest of a regional market was still important, but decreasingly so.

It followed that European politicians needed another program to keep their own business growing. A new program of action had also to contribute to the overall centralization of the continent that was their ultimate aim and their main strategy. Their motto was the "bicycle theory": if "Europe" (read political centralization of Europe) does not progress, then it fails.

The new instrument that was chosen in 1986 was the single market, or in other terms "deep integration". Just ordinary free trade (no tariffs, no quotas) wouldn't do. What was needed was a "level playing field" meaning that the political framework of economic activity should be the same in all countries: unification, centralisation of all regulations in all fields, was required for "fair" competition to exist. Social regulations, taxes, industrial standards, competition policy and cultural policy, subsidisation of industrial sectors, and of course a single currency (which means that a single monetary policy rules the whole of Europe) were all to be unified as elements of the single market.

The creation of a regulatory union would, allegedly, foster product competition by decreasing political competition between national governments. Indeed, under national regulations there is a competition of different policy models and that's good for the consumer because competition should prune out the inferior regulations and promote the good ones through movements of firms and people from one country to another.

What are, in fact, the effects of such a suppression of political competition on consumer welfare?

First it cannot improve much, if at all, the protection of consumers: it would be hard to explain how a single European regulatory body could be more efficient than several national regulatory authorities, which are more attuned to the local preferences of national consumers (and here the often cited example of the fabled French cheese variety obviously comes to mind!) . There is no rationale for that. So it's most likely that the motive for centralising regulations is not one of a defence of consumers.

What could it be?

Well, in practice it stifles competition, competition of products and competition of policies. Product competition is weakened because a single regulatory framework homogenises the products. This means that "non-price" competition, the competition through quality and variety, decreases. And non-price competition is very important for all products that are not "commodities" (products that are perfect substitutes to each other such as a barrel of oil of a same quality). All that is left to firms is price competition for products that tend to become similar. And this decreases the range of products and variety available to consumers, thus their welfare.

The centralisation of regulation ignores the difference of tastes in various countries. It also ignores the difference in economy conditions, such as the local (national) elasticity of demand, the elasticity of supply, the density of population in various countries, and so on. These factors explain the differences in the demand for environmental regulations from one country to another. Fixing the same standards for the whole of Europe ignores these differences in demands: one size does not fit all and the consumers are less well served.

I thus conclude that centralising regulation distorts competition instead of increasing competition . It's just the reverse of what the common market was intended to do.

So it appears that the substitution of the single market objective to the common market objective is an instance of what George Orwell forecast for the year 1984 in his well-known novel: The Reign of Newspeak, the official language the terms of which mean the contrary of their ordinary meaning. In the "Single Act" of the EU, the request for a more competitive environment means in reality just the contrary of what it seems to be meaning. Instead of a further progress towards competitive markets, the centralisation of regulatory authorities is a regress and a distortion of competition.

"Newspeak" thus became a reality in Europe in 1986, when the project of a single market was adopted. It was only two years late on Orwell's forecast schedule: that's not too much of an error by the current standards of economic forecasting!

This brings me to the second question: why are European politicians doing that?

II. Interest groups versus consumers

My answer is rather straightforward in public choice and industrial organisation terms. There are large benefits for interest groups, including the interest groups of the politicians and bureaucrats themselves, to be gained from these distortions of competition. It must be understood, to start with, that a regulation in fact is a tax plus a subsidy.

Take the example of seatbelts. When you regulate carmakers to compel them to put seatbelts in their new cars, this is going to increase the price paid by the consumer for the car, so it's a tax on consumers since at least a part of the additional cost is born by the consumer, not the carmaker.

And by the same regulation you develop the sales of the business firms that produce seatbelts, so you increase the profits of the seatbelt providers. It follows that the seatbelt regulation is a transfer: it is both a tax on consumers, and a subsidy for the belt producers.

This gives us the key of what happens with the centralisation of regulations. Transferring income is the basic business of politics. Politics is about the distribution and redistribution of income. It consists in taking money (or resources) from some groups and giving money (resources) to other groups. Increased regulations thus develop the business of politics, and politicians of course are glad of that. They are glad to see their business increased, so they usually are in favour of extensive regulations.

The question is: is the centralisation of regulation increasing the overall volume of regulation? I say yes of course.

Why? Well take the European Union. The total population of the 27 countries is about 500 million people. The "theoretical" average size of the national economy is thus about 18.5 million people. So when you shift regulation from a national authority to a central EU regulator you multiply by 27 the value of the national regulation for the regulated firms because when your product gets market access (because of the conformity to the norms) it is for a market of 500 million potential customers instead of a market of 18.5 million people. The costs of regulation for the firms are divided by 27 because one of the main costs, the cost of lobbying the regulatory authorities is now incurred only once, instead of 27 times in 27 different national markets.

Increasing the benefits of regulation and decreasing its cost for the firms will result in a large increase in the demand for (favourable) regulation because the cost/benefit ratio (the “price” of regulation) is much decreased.

Is that good for consumers because of the economies of scale in regulation and cost savings for the firms? I don’t think so. A large enough firm will now have its former lobbying budget available to lobby not 27 regulatory bodies but just one central authority. Since all firms are in the same situation they will spend at least the same amount on lobbying the central authority that they used to spend in 27 lobbying campaigns in 27 different countries. But the price of regulation having been decreased they should even “buy” more of it.

Consider also that lobbying is usually a collective activity. A lobby is a group of firms, usually large enough to find an incentive in spending time and money for promoting a collective interest. Smaller firms that could not create a lobby and cover its fixed costs in a small economy with a narrow market now can do so to influence regulations in a large market of 500 million people. New lobbies will form. That’s why the lobbying industry has been growing so rapidly in Brussels, imitating what happened long ago in Washington D.C. Overall the total amount of lobbying will increase with centralisation.

So there is an overall increase of the money spent lobbying and of course the regulatory authorities are influenced by the spending of lobbies and that’s what the late Professor and Nobel Prize winner George Stigler showed and called the “capture” of regulators by the regulated firms and their lobbies. The regulatory authorities are not completely independent of the actions and spending of the lobbies. Bureaucrats

controlling access to a 500 million people are obviously more actively lobbied than bureaucrats controlling a market of 18.5 million people.

It follows that not only will the overall amount of lobbying increases but the distortion of regulatory decisions will be more important in large centralized markets than in smaller ones. Rent seeking will increase and that’s bad news for consumers. That’s

good for some businesses, that is good for the bureaucrats, but it is bad news for consumers.

A last effect is detrimental to consumers. When there is an increase in spending for lobbying, and new lobbies are formed, individual firms get used to work more intensively and more efficiently together, to get “better” regulations passed by the authority. And so the incentives for forming cartels, the collusion between firms, are much increased. As we know, cartels are good for business and bad for consumers: they result in higher prices and lower quantities.

So all of these effects are bad for competition and detrimental to the consumers' interests. But that's not all.

There is a second important real effect of the centralisation of regulation and I'll just explain why it matters so much. It comes from the dilution of democratic control. You could consider that regulations are ultimately the result of elected politicians' decisions, and politicians in Brussels or Strasbourg are elected, one way or another. Presumably they thus have to defend the interest of voters. But which voters?

They are less and less efficient representatives of the voters who elected them. Why? Because the number and the influence in the EU of politicians of a given nation, is proportional to the importance of nation's population in the overall EU population, according to the institutional rules of the EU. Be it in the council of ministers or in the parliament.

For instance, before the existence of the EU, whatever the French voters collectively wanted the French politicians could supply and control at 100%. Now in a 500 million polity the politicians of the average "theoretical" country of 18.5 million people amount to only 1/27 of the total number of EU politicians. That represents about 4% of the elected members of the Parliament. It follows that if 100% of the voters of that country want a law or a regulation to pass, their influence on the final result is minimal instead of total. The preferences of the average German or Italian voter are not influential anymore. Laws and regulations are in fact decided by German, French and Spanish voters for Portuguese, or Belgian citizens. The power of national electorates is diluted.

Their formerly hard won national democratic control is reduced through the extension of the voting area and voting population, and that's exactly what happens in business firms when you dilute the capital by the creation of new shares. You increase the capital and you dilute the power of the former owners (voters or shareholders). The control that these "owners" can exert on managers, that is, in this example, the politicians and bureaucrats, is lowered in the same proportion. Accordingly, the politicians all over the EU are not going to resist the trend towards more centralisation. On the contrary they retire some personal benefits and increased independence vis-à-vis the electorate by that very diluting process.

My conclusion is that the centralisation of regulation brings about an extension of the size of central bureaucracies and this is the case even more when you consider that existing bureaucracies usually do not disappear when new ones are created.

Look at the European Central Bank. The ECB has been created and is now working in a huge expensive building in Frankfurt. But the French Central Bank still exists, it didn't decrease its employment or budget and I suppose it's the same for other national central banks in the Eurozone. So there is a net addition of monetary bureaucracies with the centralisation of monetary regulation and the creation of one more level in the political hierarchy, which results in an increase of the overall size of bureaucratic Europe.

On the business side of that process, the development of lobbies mainly benefits existing established firms because they are the only firms that can create a lobby. "Potential" firms obviously cannot, nor do the new entrants. The extension of lobbying thus favours existing firms. Existing firms are large firms, and the older they are the larger they are. It follows that centralisation of regulation and increased lobbying promote the concentration of business firms and business interests and that's not really an advantage for consumers either.

This is not good for the creation of new firms and for the general dynamism of the economy. Indeed, it is the source of what I call the sclerotic organisation in the EU. It enforces and enhances the rents of large, older business firms and bureaucracies and freezes the hierarchical structure of both industry and political production at a moment when innovation, new small firms, and lighter government are required. It is a recipe for accelerated decline.

III. Organisational sclerosis

How far can this process go? Well I think that we now have to understand what happened in organisational terms in the 1970s. It was a revolution. I explain in my book on the *Second 20th Century: How the Information Revolution Shapes Business, States, and Nations* (Grasset, Paris, 2000, and Hoover Press, Stanford, 2006) that during the first three quarters of the 20th century there was a trend towards centralisation, concentration, increase of the size of hierarchies both public and private (big firms, big states). Industrial organisation economists call it the "fordist" era after the name of the American carmaker that invented the continuous production line, but it was also the era of socialism and centralisation of the state and of the increase of the size of state bureaucracies everywhere, including in the democratic "market economies".

But from the mid-70s on, a reverse track upset organisational structures everywhere. Big conglomerates disappeared in the following decade, very large and inhomogeneous countries dissolved: the USSR first and then Yugoslavia, Czechoslovakia, while regionalist and secessionist movements multiplied in Spain, Italy, and elsewhere in the world.

So something big happened in the 1970s: that was the dawn of the information era. Suddenly information costs fell vertically because the drastic fall in the cost of storing, processing and communicating information due to the microchip, the computer, and radio transmission of the internet. An economist would say that when the cost of information is going down more information should be used. But a more intensive use of information is going to impact profoundly the structure of organisation of all productions.

We know basically of two modes of production: decentralised production operated through market exchanges between makers of parts of a product, and centralised production in which parts makers are integrated as specialised employees in a single hierarchical firm (whether a privately owned firm, as in thee U.S., or a state owned firm as in the USSR or many continental European economies of the 1950s). This is the Coase-Williamson theory of markets versus hierarchies. In it, the choice of the type of organisation is more fundamental than the choice of the type of property, public or private, because both public and private hierarchies have many similarities while they fundamentally differ from market organisation. In this view of production we should add that the respective roles of markets and of hierarchies in an economy are distributed along a continuum. Some economies include more markets and thus less hierarchies, while other rely more on hierarchies and less on markets. And I'd like to emphasize that the position of a given country on that continuum could very well change through time. It is not given forever: it evolves.

The question is: what are the drivers of such an evolution in productive structures. My suggested answer is that the cost of information is the main determinant of the adoption of centralised or decentralised structures, and thus of the economic "regime" or "system".

Why? Because of the big difference in information use between a market exchange and exchanges within a single firm. The market is an information-intensive mechanism: each buying agent in the market needs a lot of information to discover who are the producers, what is precisely the product they offer (their "qualities"), what are the prices and what are the transactions cost for the purchase of a given intermediate product. The hierarchy, on the contrary, is an information-saving device because (in an extreme case) only the top of the hierarchy needs to be informed. It thus uses information sparingly. Once you produce the information for the top management you can use it again through the directives by which the manager transmits it to all the people under him, instead of having each of them look for information separately. The hierarchy uses economies of scale in information. So you can save information and information seeking by adopting an integrative hierarchical structure in place of a decentralised market economy.

The conclusion I draw from this analysis is that when information is very costly it should be used sparingly and thus the “best”, more efficient organisation of production (including “political production”, that is, the activity of politicians), should be integrated in large hierarchies and few markets.

On the contrary, when the cost of information goes down dramatically as it did in the 1970s, then the market becomes more efficient than the hierarchies. So hierarchical Europe is to shrink its hierarchies: they should be divided and reduced, and at the same time markets should expand, and that’s what happened in the 1980s, worldwide. It was even more the case in highly centralised economies such as the USSR. They simply went broke because their organisational structure had become uncompetitive and obsolete. They did not take advantage of the sudden fall in the cost of information. They did not realize that a new and abundant resource (information) was available for maximizing growth. Or if they did they weren’t able to change their outdated organisational structure to benefit from the new cheap resource and they lost to information intensive competition from the U.S.

Adam Smith called attention to the invisible hand of the market and the American economist Alfred Chandler explained in a symmetric fashion that the “visible hand” of the big corporation, the existence of large hierarchies, was characteristic of the 20th century businesses. What one could observe today is that since the last quarter of the past century large hierarchies are shrinking: the information era is the era of the “shrinking hand” .

Against this general background what are we doing in Europe? We are still extending the public (or political) hierarchies and contracting markets, a directly dysfunctional and unproductive strategy. The relative prices of factors and information tell us that we should be doing the opposite.

Such a policy that ignores the new relative prices in an information economy is detrimental to efficiency in production and to wealth creation because, as Alfred Marshall, the English economist, showed, organisation is a factor of production besides capital and labour. Capital and labour can be used in various mixes with more or less centralised or decentralised modes of organisation, which use information more or less sparingly. The right mix depends on the relative prices of factors, capital, labour, and organisation (i.e. information). Using too much centralisation when information is cheap is inefficient. The economy could be much more productive with the same amount of capital and labour but with more use of information, through a decentralised (market) structure of production.

It is not always so: in an information scarce economy, centralisation would be more productive, be it private (big firms and corporatism) or public (state capitalism also called "socialism").

But in the present, and for a foreseeable future, we live in an extraordinary abundance of information, and the deluge is increasing.

Given the current relative prices of labour, capital and information, if you use large organisations, large hierarchies, when these prices tell you that you that you should use few hierarchies and more markets, then you are not efficient in the absolute and you lose ground relative to your competitors, you produce and sell less, and consequently the consumers can get less goods and services.

I conclude that in the present circumstances the centralisation of regulation is detrimental to growth and wealth production. This inability of organisational structures to adapt to the new relative scarcities and relative prices of factors is what I call the European organisational sclerosis .

What then is going to happen? I'd like to give you my best forecast, hopefully as good as that of George Orwell. I think that something has got to give. The current European orientation towards increased centralisation is itself increasingly questioned and will be reversed just as in the last part of the 19th century, the previous British trend towards free trade and small hierarchies was replaced by a new trend towards centralisation, including both big firms and big state. I think that current European policies are a legacy of this period (the 20th century) but that they are counter productive in the new era of the information age. What we need to avoid a growing organisational sclerosis is a radical about face of policy, a great reversal if you like.

A uniform union-wide regulation (and the underlying model of centralisation of everything) is just like the Ford Model T: the choice of the car paint is up to every buyer, provided it's black. This could be a productive, wealth enhancing, policy in the price context of the past century. But it won't do today. With the falling costs of information, centralisation is out, variety is in and centralisation becomes directly unproductive and will lead to failure in a very short term as the information revolution proceeds at an accelerating pace.

Variety and specialisation are now cheaper to obtain through market exchange and as Adam Smith wrote, specialisation, not uniformity, is the key to wealth creation.

Professor Jean-Jacques Rosa blog can be found at: jjrosa.blogspot.co.uk/

Speech by Dr Andrew Lilico

Introduction

So unlike most of you in this room and unlike probably most of the other speakers today, I've never been in favour of leaving the EU and it's not something I advocate now. In fact one of the things that I would quite like to say to you is that it seems to me that that whole debate is irrelevant in that the EU is over. The EU that we belong to is at an end so questions of in or out and so on don't really enter the equation. There's only out or more out at this stage.

There are various things that one could mean by that, okay so it's possible that the Euro collapses and the whole EU project collapses, I don't think that's a favourite with the way things are going in the Eurozone, it's not terribly unlikely but I don't think it's the most favourite scenario. I mean something much more concrete and specific.

What's happening is that in response to the Euro crisis and in pursuit of the project of the European Union as it always was from the beginning, they are converting the European Union into an EU federation.

Towards and EU Federation

Now if you went back 15/20 years to those of us who were in favour of renegotiation back in the past, like myself, there was the possibility of having a kind of two-spheres Europe, different kinds of Europe where in one part it would go ahead rapidly to the single European state, another part might have another kind of relationship.

I think it's very clear from the EU Fiscal Union Treaty where 23 people signed up and then the rest don't, that there's really only the EU, there isn't any longer a kind of two spheres option. There are the people who are members of the Euro, the people that are shortly going to be members of the Euro and then some irrelevances. That's basically how it works in the EU.

With this EU federation, the EU federation will vote on block and they will have a qualified majority. So what happened was that we entered into an arrangement whereby we would negotiate with the partners within the agreement, sometimes we'd win, sometimes they would win, if we could get enough allies on our side that would work for us, if we could get enough allies we could block things, get a blocking minority, all of that has gone.

With the EU federation, the EU federation will vote on block and will have a qualified majority and that means that we will have to do whatever it is that they want; they will set the rules of the single market in the future. The EU arrangement whereby sometimes we won, sometimes we lost is over.

That will mean that our status by around 2016/2017, whenever this really gets solidified, will be equivalent to that of Norway now. So we will contribute to the EU budget as Norway does now, we will have opted out of most of the EU state building projects, we're not any part of the EU police force or army or any of those kind of things. So we will have opted out of those as Norway has now and we will be subject to single market rules set by others as Norway is now.

Which Type of Out

So whatever you call it, whether we still hold a card that says 'I am a proud member of the EU', the reality is that our status by then will be equivalent to Norway's status now as an out. So all that we have, even the just 'carry on as we are' option is an option in which we are out. The correct way to frame this debate is do we want that kind of out from the EU or do we think that we can do better than that kind of out.

So when I put things this way sometimes people suggest: "So you're saying we shouldn't bother about any of this kind of changing our deal with the EU at all since we're just going to be out anyway." No! Why would anyone imagine that I thought a Norway style out was a good arrangement? It's a terrible arrangement! The right way to frame this is what alternative could we have, another kind of out, which was better than that Norway out.

I would also caution you, there's going to be a referendum. I'm not in favour of having a referendum, I thought we should just renegotiate it, but there is going to be a referendum after the next General Election.

I think this whole allegation that somehow it's going to be an in/in referendum is totally wide of the mark, not because there's the possibility of in/out. But the reason people say this is that David Cameron has been resistant to saying he's going to have an in/out referendum. What he says is he's not going to have an in/out referendum because 'in' is totally unacceptable. The likely referendum will be that we have a renegotiation, he takes that renegotiated package to the people, if people agree to that in a referendum then that's what we'd have, otherwise we leave. So the likely referendum is going to be an out or more out referendum, that's the kind of referendum we'll have.

I believe all the major parties will offer a referendum of some sort at the next General Election, including the Labour Party. I don't know whether the Labour Party's options would be exactly the same as the Conservatives' options, they might have three options, who knows, but I think it's likely we will have a referendum. And I think that the most likely scenario is that the Government seeks to renegotiate something and what they seek to renegotiate is rejected. I see an enormous appetite on the part of the British public just to say no.

86% of people wanted to have a referendum on the Lisbon Treaty, I can assure you that wasn't because they wanted to vote yes.

What's happened in the public is that people look about and they see all these other countries: the Danes, the French and the Dutch, the Netherlands and so on, they all had their go at saying no to various things and people in Britain feel like we never really got to stick our two 'Battle of Agincourt' fingers up at the EU and they will take that opportunity.

So I think that it will be most unlikely that anything happens in that referendum other than a no. If it were to be anything other than a 'we're just going to reject any renegotiated package', it would be because it's framed as an in/out referendum.

Framing the Debate

And I will caution you on this point, if you want to do any better than a Norwegian in, if that appears among the options, do not characterise that as an in. In referendums all around the world there's an enormous bias for the status quo. If you can tell people your options are that they can carry on with things pretty much as before, the life that you've had, carry on in much the same jobs – there's good things and bad things about that, but it will carry on much as it has done – or you can go for something completely different.

What happens is that when you put that to people in advance they think its all terribly romantic the idea of having something different, so opinion polls in advance say, oh isn't it great, we're going for the new spangley thing, but then when they actually sit there in a booth and they think about it, they think actually maybe I'd just prefer to carry on as I have before.

If you characterise the referendum as being between and in as to carry on as it was before and who knows what as an alternative, a vague out, then that's the most likely way in which we will end up with it going for an in option.

The way to frame this debate if you want to have anything other than we carry on with the least change, is to frame it as our EU membership is over and the question is what we do next. That I would urge upon you as the way to frame this discussion.

Options for Out

If we were to think about what it is that we want to do instead, and I think there are all kinds of possibilities here, I think that the right way to think about that is not that you go out into the world and you just operate as yourself. Not that that's lonely, not that that's disastrous but I think one has to understand the purposes of these kinds of international trading agreements. The central purpose for a medium sized country of its trading agreements is not trade. These are fundamentally political in nature. What you do is you combine with some pals so as to project your values geopolitically out into the broader world.

Once upon a time having pals of France and Germany and Italy and so on, they were pretty good pals. We had broadly similar values in terms of some of the concerns, looking towards the Soviet Union and things of that sort, seeking to extend democracy into the Iberian Peninsular, absorbing the post-Soviet break-up, accession states, that kind of thing, no those weren't controversial to us.

If you are a tiny country, if you are Switzerland who has opted out of world affairs for two centuries, they're just making ATOC agreements with whoever, that's kind of an attractive thing to do.

If you're the largest country, if you're the British Empire in the 19th century, if you're the US hegemon today, then you can just impose trade agreements on others. So you don't have to go and have some narrow set of mates.

If you're a medium sized country you do better with some mates. Now as it happens I think that there aren't going to be any medium sized mates to have in Europe anymore because we're going to have this great leviathan of the EU federation, which will be one of the world's great powers and they will come into existence very shortly. So that's not really an option for us anymore, so we should be seeking some other medium sized mates.

Who are the right medium sized mates for us to have? I would say that the best alternatives out there – there are various things we can imagine – but the best alternatives out there are probably the Australians and Canadians, they're the right sort of scale for us. We can offer a much more mutually intimate relationship or a relationship much closer to that of equals with them than they would get with the United States or we could obtain say in the United States.

I think that the right kinds of mates to have are people of that kind of order who share similar values, similar history and so on with us. I think that that's the right way to frame things. And the right thing to think is not just 'we leave', its 'we do that instead' or 'we seek to do that instead'. You win arguments if you offer a better alternative.

I'm very Popperian about these things – this may be a language that appeals to a few of you out there in the audience – I think it's a terrible idea to abandon something.

I'll give you an example: my wife frequently irritates me by throwing away the last dish brush and I try to urge upon her the last dish brush it's started to bend over here and it doesn't work very well anymore. I say yes but we don't throw away the last dish brush until we have another dish brush. We need to have a better alternative before we reject the thing that we have.

And just saying I don't want to have a dish brush at all I think is the wrong way of going about things. The only merit of that would be if you thought if I throw away my dish brush that means that I'm pre-committing to going and seeking something else, some other arrangement.

So if you think that the only way, if you despair of the thought that the British would ever seek to project themselves to be involved in world affairs by seeking other kind of partners, for it first to nihilistically abandon everything and just leap out into the void, then of course you might think that that was the thing to do.

Personally I think that we can have a better and more concrete ambition than that.

So what the kind of dream scenario for me would be here would be something like the following. I imagine us leaving the EU, because that's over, I imagine us leaving the EU and then seeking to get for instance an arrangement with the Australians and the Canadians, maybe that arrangement could inherit the Canadian NAFTA membership and then countries, so investors from China and Brazil and whatever might invest into the UK as a means of access for them into NAFTA. Similarly we might find that single market compliant goods who are able to export into the EU.

One thing about the renegotiation strategy, the idea of this, and its connected with this point, is one reason why that's likely to fail now is that because the EU is building this single state in this way its going to have a lot of other things to do. It's going to be spending its time passing new treaty after new treaty, many which may require referenda in the Czech Republic, Ireland and the Netherlands and so on. Getting through their EU police and their EU central budgets and their EU army and all this kind of stuff, the last thing that they're going to want to do is to either attach some rearranged position for the British to one of those treaties and risk them being rejected or delay passing of some referendum so that they can pass the referendum on our new renegotiated conditions.

Renegotiation: A Non-Starter

I think that the whole renegotiation thing is over. The last chance we had of doing anything of that sort was around 2010 I would say. I think that's now done. And I think we saw that in 2011.

So whereas in 2010 when David Cameron went out and he agreed to the revision of the Lisbon Treaty which occurred then - which led to the ESM Treaty in the middle of 2011 - that was the revision of a treaty of which we were signatories, so they needed our consent in order to go along with that.

Now they're just going to have a whole series of new treaties. So we saw it in 2011 when he went along and tried to renegotiate the tiniest little bit of financial service regulation powers, they just said well if you don't want to be in then we'll just go and form a different treaty. They weren't interested anymore because they felt they had better things to do. They're going to feel like they have better things to do all through the next decade.

It would be much more straight forward for them simply to allow us to leave and perhaps with some phased ending of our single market access in the formal sense. And once we've exited we then renegotiate with them from outside some new market access procedures. And that's quite easy, I mean nobody thought there was any great fuss within the EU, you didn't see the Irish rejecting some free trade agreement with Israel or Turkey or any of the other kinds of Pasagenian free trade agreements that the EU has. It's quite straight forward for a procedure to agree trade negotiations with third countries. That's one of the things which you pass to them as a pal under the whole single market process.

It's much more tricky for you to agree any revision to things internally. So in practice it would be much easier for the EU members just to say just go and then we'll sort out the whole single market thing afterwards.

And I think that there is a realistic possibility that we could have single market access as non-members. I know some of you don't think single market access is a terribly nice idea, I think you're mistaken, but one thing that I will say about the way that the single market has gone - because we should just ponder a little on how attractive the single market access would be – is the following: the main way in which we gained economically from EU membership, bearing in mind that the main gains in - these things are never economic in the first place, they're mainly about political effects that you have - the main way we gained economically through the single market was through our influence over the policy of Italy for instance and other members.

Because what happened within the EU was that at the centre, particularly the Commission, they were very interested in British IPS and what would typically happen is that you'd have a measure which was liberalising for most of the EU, in fact in some cases it was so like the British policy already that in Britain it would just seem like you'd just change a few of the rules without having any real affect. So in Britain they were saying, well it's just a stupid rule right, you haven't actually changed any of the substance of things, you've imposed loads of petty compliance costs that are changing the way that we do things without actually having any effect and then that would be complained about. And what wasn't recognised I think usually in the British press was that that was precisely because we made other countries do things like us. And because that was the key, the key game, the intellectual game that we had within the EU was that we exported our ideas across the European Union.

I want to say that that process which went through particularly from say the early 1980s through to the mid-2000s is really at an end with the financial crisis people have decided that it was the Anglo-Saxons, those terrible Anglo-Saxons with all their deregulation, all that capitalism, unfettered capitalism and all that kind of language that has led to these things. The last thing they want to be doing is listening to Anglo-Saxons about how you resolve them. And so the whole direction, the whole thrust, the underlying impetus of the EU single market project is going right away from us.

Of course we've changed some of our regulatory trends in response to the financial crisis as well but the ways that we've done that are quite significantly diverging from those within the EU and they just aren't going to be interested in doing things our way in the future. And that's quite a significant loss, that intellectual pressure.

One of the implications of that would be of course, once we left the EU and all that we had was just abiding by rules set by then, we shouldn't assume that that would continue to be significantly advantageous to us even over the medium term.

So there is a risk that we would sign up for some single market laws and then find actually after a while we didn't want to abide by them at all and we'd just rather have a free trade agreement.

A Positive Future

So I think that that is a possibility but I'm hopeful for now at least that what we can secure is an arrangement in which we had single market access for single market goods, we didn't have to pay compliance costs and tariffs on them subsequently, they came and they exported things to us in much the same way, so international investors, Americans and so on would find that we were launching off point into Europe, others would find that we were launching off point into NAFTA and then we would combine with our Australian/Canadian allies, probably in a significant increase in our populations.

I think that there's a great potential for Britain to be a very significant importer of people and we tended to resist being an importer of people in recent years because we haven't had the opportunities that we had in the past, say in the period of the Empire, to export them in the same way.

If we combined with significantly like-minded other countries I think that we would then go back to being very significant exporters of people out to them as well and would be more welcoming of importing people. And I think that that change in the migration dynamic is another thing that we should anticipate as a consequence of leaving the EU and we should not neglect its longer term significance.

Conclusion

So to sum up: in my view our EU membership as we've understood it is over or it will be over within a very short time. So the whole in/out discussion is a red herring.

The correct discussion to be had is out or more out. I think that that is in fact likely to be – there's a pretty good chance at least – that that will be the way the discussion works.

I think it's almost certain that there will be referendum offered by the Labour and Conservative Parties at the next General Election.

I think that there should be the opportunity to negotiate some kind of new deal which could be more attractive than just simply exiting but I think that there's a pretty good chance that what will happen is that we just simply exit without working out what it is that we're going to do first, which I think could be a bit of a shame.

And that over the medium term we should be seeking other new medium sized country allies, perhaps having single market access but already thinking ahead to the point in the future where perhaps even single market access might not be attractive to us.

Speech By Ian Milne

The Single Market: What are the alternatives? And how do we get out?

A lot of work is now being done on the details of getting out, building on the broad-brush work done in previous years. Ruth Lea's & Brian Binley's book is one excellent example. Tim Congdon's Cost-Benefit Analysis for UKIP, building on Gerard Batten's work in earlier years, is, as you'd expect, first-class, full of original insights. Talking of UKIP, its leader Nigel Farage has just published a short pamphlet with the best description I've read of the Single Market's pernicious effects. My own book, Time to Say No, came out a year ago, & set out both the "Why" of withdrawal, and the "How".

In the last year, the economics of withdrawal have moved decisively in our direction. It's likely that the economics will continue to point to exit for years, even decades, to come.

I'm convinced that, on withdrawal, arrangements for free trade between the departing UK & the remaining EU are inevitable. The Lisbon Treaty has at least 3 articles obliging the EU to negotiate free trade with a departing member-state; & of course the EU's a positive junkie when it comes to negotiating & signing FTAs all over the world. Is the EU really going to refuse free trade with its biggest single customer worldwide? Of course not.

Especially as the UK is the country with which the EU, & its dominant member Germany, have their biggest trade surpluses anywhere in the world. Naked commercial self-interest will ensure that, tradewise, the rump EU won't mess around with us once we leave.

In the working group I'm involved in at Civitas, we've been looking at the car industry to see whether, at the industry level, on UK withdrawal, the EU would impede UK-EU trade. We worked through a what-if exercise to predict what would happen to the car industry if the UK left the EU without arrangements for free trade in place. We asked ourselves: *What if, despite everything, the EU declined to enter into an FTA with the UK post-withdrawal? What would be the consequences for cars?*

Such a decision on the part of the EU – Council, Commission, Parliament, European Court of Justice, umpteen advisory committees – could not, would not be taken without the wholehearted support of its most powerful member state, Germany.

Germany's flourishing car industry is perhaps the emblematic symbol of German post-war recovery. Any decision by a German government to seriously damage its own car industry is practically unthinkable, but, however improbable, let us assume, for the sake of this *"What if?"* exercise, that that is what the Chancellery, the Bundestag, the Bundesrat, the regional Länder, perhaps the German Constitutional Court as well, would all decide to do.

Let us imagine the 'phone call from the German Chancellor to Martin Winterkorn, CEO of the Volkswagen Group in Wolfsburg, Europe's biggest car maker, announcing the EU decision:-

Chancellor: *"Good morning Herr Doktor Winterkorn. I have some bad news for you, & for your employees. Now that the UK is outside the EU, and there's no UK-EU FTA in place, despite the British offer to scrap duties altogether, the EU and therefore Germany will charge ten per cent customs duty on car imports from the UK, and the UK will charge ten per cent customs duty on UK car imports from the EU & therefore from Germany. So, from tomorrow, all of your exports to the UK (374,000 in 2011, including lots of high-end high-margin Audis) will henceforth be ten per cent more expensive. What's more, the UK being outside the EU has abolished its duties on car imports from China, Japan, Korea and from all other non-EU countries. It's a pity you've spent 60 years making VW market leader with a 19% share of the highly-profitable UK market, but that's life. Sorry about all this but that's EU politics for you……..Tschüss !"*

Herr Doktor Winterkorn: *"Donner und Blitzen !"*

Next, the Chancellor puts in a call to Norbert Reithofer, CEO of BMW in Munich.

Chancellor: *"Good morning Herr Doktor Reithofer. I have some bad news for you, & for your employees. Now that the UK is outside the EU, and there's no UK-EU FTA in place, despite the British offer to scrap duties altogether, the EU and therefore Germany will charge ten per cent customs duty on car imports from the UK, and the UK will charge ten per cent customs duty on UK car imports from the EU & therefore from Germany. So, from tomorrow, all of your exports from Bavaria to the UK (130,000 high-end BMWs in 2011) will be ten per cent more expensive, no doubt giving Jaguar cars produced in England quite a lift. Oh, and just to make your day, all those high-margin Minis you produce in Oxford for export to the EU (156,00* *in 2011) will also have to bear the ten per cent EU duty, making them significantly less competitive in Germany, France and elsewhere in the EU.*

As for your Rolls Royces, even wealthy EU buyers might jib at paying the upwards of £10,000 extra that the ten per cent duty will cause. Sorry about the triple whammy, but that's EU politics for you…..Tschüss !"

Herr Doktor Reithofer: *[unprintable]*

That short imaginary dialogue between a German Chancellor & the heads of VW & BMW (though the numbers are real, not imaginary) shows how unthinkable it is that Germany, and therefore the rest of the EU as well, would damage UK-EU trade on UK withdrawal.

Let me conclude with a few words about the current position – so far as I can understand it- of the British PM in the matter of referendums & renegotiation.

First: Referendums. The Prime Minister supports In-Out Referendums in two parts of the realm, the Falkland Islands, and Scotland. In Scotland, he's ruled out the option of *"let's negotiate repatriation of powers then vote afterwards on the outcome".* Yet in the UK, he's dead against an In-Out EU Referendum. For the English, he wants the very option he's just refused the Scots: of negotiating repatriation of powers from Brussels & then having a referendum on the outcome - in other words an "In-In" referendum.

Confused? Me too.

It seems to me there are three possibilities. First: our PM is a dedicated, unthinking Europhile (like Mr Clegg.) Second: he's inconsistent. Third: – he's an inconsistent dedicated unthinking Europhile.

Actually, if you look at the recent merger proposal between BAE & EADS, the evidence for the PM's Europhilia is pretty obvious.

A month ago, he publicly supported selling BAE to EADS, knowing full well that both the French & the German governments call the shots in the latter's management. He publicly supported giving control of the UK's major defence contractor to France & Germany.

Why was that, if not to promote the EU Defence Policy, which means, eventually, a single EU navy, a single EU air force & a single EU army? The French media are quite openly talking about inter-operability - in the framework of EU defence - between their aircraft carrier and ours, once they become operational.

Let's now examine what appears to be current Coalition policy on Europe: "Renegotiation".

The concept of "Renegotiation" of the UK-EU relationship has been around for decades. At times it sinks from view; at other times, as at present, it rises from the ground like marsh-gas.

"Renegotiation" is not a policy; and it's not a set of principles or beliefs either. It's a vague, never-defined, flabby notion. It's a slogan. It's sleight-of-hand. Its purpose is to avoid any serious concrete thinking about "Europe".

The contemporary version betrays the usual confusion. Some argue that the resolution of the eurozone crisis will mean a successor treaty to Lisbon. That would need approval by all twenty-seven member-states, and – so the argument goes - that would be the opportunity for the UK to repatriate some powers from Brussels.

This pre-supposes that if Brussels refused to give back such powers to the UK, the UK would refuse to sign the new treaty. Really? Are we being asked to believe that the UK – with its record over four decades of giving in to everything – would play hardball in such negotiations? That the UK would refuse to agree to a new treaty that already has the support of the Prime Minister?

And that has already been presented as the solution to an EU & eurozone in economic crisis? The very idea is laughable.

The other snag is that by waiting for the rest of the EU to come up with a new treaty over whose provisions the UK could "Renegotiate", the UK would cede control of not just the agenda of the negotiation, but the timetable as well. As everyone knows, the key to negotiating successfully is to control both the timetable and the agenda. "Renegotiation" hands over to Brussels, on a plate, control of these two key elements.

There's another snag, too. Those who argue that "Re-Negotiation" is the way forward appear to be suggesting that the rest of the EU is ready to give back powers to member-states. Really? Nick Clegg said in his Chatham House speech last week that there was no question of Brussels returning powers to member-states. I don't often agree with Nick Clegg, but in this case I do.

Haven't the Prime Minister's advisers read the drafts of the forthcoming treaties? Haven't they noticed that the Franco-German strategy for resolving the eurozone crisis consists in giving more powers to Brussels & Frankfurt, to set up a real "economic governance" of the eurozone?

Haven't they noticed that the new French government of Francois Hollande has given its wholehearted support to "deeper integration" into the EU? That its mantra in the six months since Hollande's election has been that "Europe" – they mean the EU – needs more "mutualisation" – of pooling of debt, (which is code for "Germany must pay") & of everything else: banking supervision, the tax on financial transactions, & so on.

Germany is content with "more Europe" because it reinforces *de facto* German control of the machinery. France wants "more Europe" because Paris still harbours the illusion that Paris is an equal partner with Berlin in the *dirigiste* venture that the EU has always been. The idea that the EU is ready to devolve or re-patriate powers to member-states is pure pie-in-the-sky.

Yet another problem is that "Renegotiation" pre-supposes a body or entity which would negotiate in good faith with a British government. Does such a body or entity exist? No. Is there any prospect of its existing in future? No.

The Commission, the Council, the European Parliament, the European Court of Justice and the other bits of the world's biggest quango, the EU, are, to put it mildly, *parti-pris.*

Their over-riding priority, under the cover of "ever-closer-union", is to defend their very considerable empires, prestige, powers and privileges, not to mention their high salaries, generous pensions & short working weeks, all paid for by you & me. They are emphatically not "neutral" or "even-handed" when it comes to a request for giving back powers to member-states.

I've no need to remind you that they have a long track-record of cheating, as the Irish found out over Lisbon when they had the effrontery to vote No. It's a safe working assumption that in this matter – of negotiating with the UK over "re-patriation" - Brussels can be relied upon to regard existing and future treaty provisions with – how shall we put it? – a degree of elasticity.

So what's going to happen if the Prime Minister tries to "re-negotiate"?

Well, of course, Brussels will throw him a sop. His PR people, & the BBC, will dramatize a last-minute all-night struggle in Brussels. He'll land at Northolt at dawn and emerge from the plane waving a bit of paper. He'll proclaim to the waiting TV cameras that "Re-Negotiation" has worked. Yes, the British Prime Minister has secured the heroic return of – wait for it ! - the Cauliflower Directive !

That is why “Re-Negotiation” is, for the UK, an elephant trap. If the UK is serious about reclaiming powers from Brussels, she must refuse all “negotiation”. The only way to get powers back is to leave the EU altogether.

Despite the grotesquely over-hyped “benefits” of belonging to the Single Market, in the real world, about which Clegg & others seem to know so little, since 2000, British goods exports outside the EU have been growing more than twice as fast as exports to the EU. And the value of British goods exports outside the EU is now bigger than the value of British exports going to the EU.

The Eurozone is faced with two mutually-reinforcing crises: the euro of course, but also its demography, which is anaemic. The outcome is already visible: stagnating economies, reduced demand for imports – even in Germany. Outside the EU - for example in the Commonwealth countries – the picture is different: fast-growing populations & fast-growing demand for imports. That is where our much-maligned exporters have already been rightly focussing their efforts. Once the UK leaves the EU, the British economy could really motor, free of the dead weight of EU regulation, quotas & interference.

Speech By Ruth Lea

Introduction

Well today we're talking about slaying the single market, or slaying the idea that the single market is something we have to belong to. But before I start slaying that particular dragon, I thought I'd have a little go at the other leg of economic union because there are two legs to economic union with the EU: the first is the single market; the second is the Customs' Union. And indeed countries can belong to the single market but not the Customs' Union or they can belong to the Customs' Union and not the single market.

There's a lot of confusion between the two. For example when it comes to the EU's Customs' Union it comprises all the members of the EU 27 plus Turkey, plus Andorra, plus San Marino, plus Monaco and I suspect it's probably only the stamp collectors amongst you who will have heard of half of those. But that is the Customs' Union where you have no internal tariffs but a common external tariff.

When it comes to the single market it's a different sort of animal altogether. There you don't just have the EU 27 but you also have the three members of the EEA: Norway, Liechtenstein and Iceland.

The Customs Union

Back to the Customs' Union, I was interested in Ian's remarks that the EU is a Trade Agreement junky because, to some extent, it is. And I agree with him that they will probably end up at some point in about 20/40 years have trade agreements with most members of the world.

But in the meantime, as I understand it, the EU does not have Trade Agreements with some of our most important trading partners and our potentially more important trading partners. I don't think there's a Trading Agreement with the United States of America and I don't think there's one with Australia or New Zealand. And whilst we're in the Customs' Union we cannot as a country - and we're the seventh biggest economy in the world and probably the sixth biggest trading nation in the world - we cannot have our own trading negotiations.

Now of course in the EU's Customs' Union you have the EU Commission, the Trade Commissioner, doing all the negotiations for the EU as a whole and not for the original countries. But it's not just that they don't comprehensively cover the countries we should be interested in. But there is also protectionism when it comes to agricultural products, which is not to this country's advantage.

So the Customs' Union, or our membership of the Customs' Union, prevents us making the sort of Trade Agreements that I think we should be able to do.

Back in the 1950s there was the Treaty of Rome in 1957, and we joined the EEC in 1973. You could then argue that the tariffs on industrial products were so high, that it made sense to belong to the EEC's Customs' Union. It was a very different age. But since GATT, and since the WTO, average industrial tariffs have fallen substantially. And it's meant that the Customs' Union is now an anachronism, a thing of a different age. I was going to say probably I think the EU is now an anachronism and a thing of a different age but far be it for me to suggest anything as cynical as that.

So there we are, the Customs' Union, let's slay that one. We do not want to belong to the EU's Customs' Union. And I noticed the other day in response to an article by Mats Persson in The Daily Telegraph a certain gentleman who shall be nameless but Ian and I know him very well, said that of course we should be in the Customs' Union, but we should sort of leave the EU. Why? I shrug my shoulders in despair.

The Single Market

Well that's the Customs' Union, let's go onto the single market. It is the 20th anniversary of the great single market. I remember it very well because I worked in the Department of Trade and Industry (DTI) in the 1980s, just before I privatised myself and went off to work for the Japanese, but I did work at the DTI and it was at a time when they were getting frightfully excited about the single market. Of course Lord Cockfield, who I think was our Commissioner at the time, was very keen on it and our Secretary of State was very keen on it. The idea of the single market was to get rid of the internal non-tariff barriers to trade as it was claimed that the Customs' Union had got rid of the internal tariff barriers to trade. And that was all well and good and there was much rejoicing in the land when the single market, or the internal market as it was known in DTI, at the time was 'completed' on 1st January 1993.

But there was a huge misunderstanding in this country as to exactly what the single market was. And indeed I think there's been so much misunderstanding in this country about what the whole of the EEC was right from the start.

Well we know what the EEC was all about, political union, of course it was, it was the ever closer union of the peoples of Europe. Edward Heath of course knew that as well, not that he bothered to tell us. He was always a bit economical with the truth.

But we were given to believe that somehow the single market would be a Free Trade Agreement and nothing else.

But of course you and I know that right from the start that was only part of the agenda. Yes it was part of the agenda, I think that is a fair comment to say, to encourage trade, to encourage competition. But there was also another very, very, very important part of the single market that somehow slid under the radar screen.

And that was that of course it wasn't just a straight forward Free Trade Agreement or a free trade market, no, god forbid, it was about harmonised, regulated Free Trade Agreement or free trade area. After all if you just let Anglo-Saxon markets have their own way, so the argument would go, they are chaotic. They need controlling.

And if, for example, you had one country that had an advantage when it came to low tax rates, then that was unfair competition. I don't know how many times you've heard that but I've heard it a million times. It was, for example, fiscal dumping if you had a competitive advantage when it came to taxes.

I find it unbelievable that Ireland, with its 12.5% corporation tax rate, has been accused of unfair competition. The idea about competition surely is that you play to your strengths, control your regulations, let business thrive and don't tax people too hard. I thought that's what competitiveness was about, but in the land of Brussels a lot of this is regarded as unfair.

I spent years dealing with labour market regulations. Remember Madam Cresson, who had certain connections with the dental profession. .She went on in the 1990s about how we were sort of cheating because our labour market regulations were not as onerous, or socialist , as they were in France or some of the other countries of the European Union. Hence all the social and employment regulations that have come through since. Because we were social dumping with our slightly less regulated labour market. It was unfair competition.

When people discuss the single market and say we like the free trade area but we don't really like the regulations, they are failing to understand the single market. The regulations are an intrinsic part of the creature. And if we were to negotiate – I use the word ‘negotiate’ advisedly – a new relationship as we described in our booklet then I wouldn’t go down the EEA route and stay within the single market.

There are estimates of the various costs of the single market. But when it comes to a proper cost-benefit of the single market then it’s actually quite difficult to get comprehensive figures.

I think the nearest I’ve found was when the Gunther Verheugen, who was the Industry Commissioner back in mid-2000s , estimated that the cost of the regulations was something like €600 billion and yet the Commission estimate for the benefits was more like €225 or €250 billion. In other words we’re talking about €600 billion of costs and €225 or €250 billion of benefits.

You don’t have to be a whiz kid to work out that the costs are exceeding the benefits and that I suggest is really not a very good place to be.

And of course with these regulations you and I know that every so often you get politicians standing up talking about a bonfire of red tape. We’ve had lots and lots of bonfires, more bonfires that I care to remember. I remember Heseltine going on about a bonfire of regulations. Even this Government claims they are deregulating.

But you and I know they can’t even start to touch the regulations that come from Brussels. I think it was Lord Triesman, who was a Foreign Office Minister, who back in the mid-2000s suggested a good half of the regulations, the serious regulations affecting business, were from Brussels. You just can’t even start to touch them.

So what can I say? The single market is not a good idea quite honestly.

I find it interesting that people say, “well you know we should stay in there and fight a good fight because after all you should influence the agenda”. Excuse me? When it comes to qualified majority vote, and after all these regulations go through by QMV, we have about 8.5% of the votes. And we find it very, very difficult to have any real impact. I suspect over the years Britain hasn’t succeeded in stopping one extra regulation.

When you come to financial services, and whatever the troubles of the City of London, it is still a very, very important part of our economy. I noticed in the latest Pink Book showed that in 2011 net exports of financial services were about £38 billion. That was their contribution to the balance of payments, and that’s about 2.5% of GDP. That is incredibly important. And for the financial sector as a whole you’re probably talking about 10/12% of total Treasury revenues coming from the financial sector. So you’re talking about something that is really, really very important.

And yet of course we know that the City, and I still work in the City, the regulations just come on by the bucket load from the EU.

Open Europe, and I again I quote them with some approval because they do some superb research though I'm not entirely convinced about their reformist agenda but we'll leave that on one side for the time being, came out with a report in 2011 that said there were about 49 regulatory proposals that potentially affect the City of London in the pipeline.

And damagingly they concluded, and I will read out what they wrote: 'regulation is now less geared to financial services growth but more towards containing financial market activity irrespective of whether such activity is good or bad'. In other words this is a matter of trying to nail the creature to the floor even though the creature can actually do good as well as ill.

This was happening at a time when international opportunities in non-EU markets were exploding - and 'exploding' was their word not mine. This reflects the fact that such a lot of the rest of the world economy is doing very nicely thank you even, as we know, the Eurozone is in recession.

But whilst we're in the EU there's not much we can do about this, there's not much we can do about these competitiveness damaging regulations.

I sometimes hear politicians say "well you must stay in the single market, it is the jewel in the crown". Well if it is the jewel in the crown then god help the rest of it, that's all I can say.

But when we talk about the single market we must always say to people there are two things to remember. It is not necessary for us to be in the single market in order trade with the EU 27, as I think Ian convincingly explained. There's no question you have to be in a single market to be able to trade with other countries. Anyone other country proves that. And, secondly, when people talk about the single market as just a free trade area it is not.

The Positive Case for Exit

I'm going now onto something positive because I think this country has got a potentially great future. We should all start thinking about the positive as to where this country can go if it is actually free from the shackles of EU membership.

Contrary to what people say "well look all these people who want to get out, they've got no vision, they've got no alternatives for what else we could be". Well Ian and I and several other people have tried very hard to discuss alternatives. We think there is potentially a far better set of international relationships than the country has at the moment.

And in our little paper here we just came forward with a couple of ideas. One is that once out of EU we should build our own Trade Agreements with the EU as indeed Switzerland has. And no one is saying that Swiss trade with the EU is nugatory because it most certainly is not.

And indeed you could argue that really Switzerland has the benefits of being in the single market without the costs. So that's what we should be.

And of course I don't know if any of you here read the Financial Times but there was an article recently by Martin Wolf which was headlined that Britain was "needlessly" going towards the exit door from the EU. Suffice to say I crossed out needlessly and put sensibly.

However, he did make me smile because (I think) he said you would have to negotiate and that's really going to be difficult. Really? Oh come on, we're a grown up country for god's sake. If we haven't got a civil service and an executive that is capable of negotiating what is right for this country then I think it is really is time to pack up and leave.

But then once outside the EU we would be free of the EU's Customs Union and then we'd be free to negotiate the sorts of trade deals we want to with the countries that we want to.

And NAFTA comes to mind, with the idea of changing from a North American Free Trade Agreement to a North Atlantic Free Trade Agreement, including ourselves. And then there's the economic potential of the Commonwealth, which has got I think a terrific future. Ian was talking about the demographic decline of Europe and the shocking growth prospects in Europe partly reflecting the demographic problems. The Commonwealth doesn't have these problems at all.

If you had a closer relationship with North America and the Commonwealth, then this country would undeniably be better placed to benefit from the growth prospects globally than it is now. I have no doubt about it.

This is a positive vision. I'm with Ian, I think a referendum could well be on its way sooner rather than later and what is so important is to think how we're going to put these positive messages across. Don't be scared by people who say "oh we'll be isolated". How many times have you heard that? We'll be isolated or in the middle of the North Atlantic sinking beneath the waves if we're not part of the EU. Oh come on, no. We'd actually be better integrated with the world and we'd be better placed to benefit from global growth. That's the message to get over.

And I noticed that Mrs Merkel had suggested that poor old Britain, if we left the EU, would be "lonely". She's obviously never heard about the English speaking world.

But as I say we need to be ready with the positive messages. Needless to say we need a business campaign that is going to support this vision because I'm afraid to say that organisations like the CBI, and indeed the IoD, are very much for staying with the EU and will not contemplate leaving.

Now in my final few remarks, I'll pick up something that Ian was saying, that the Eurozone crisis has hugely, hugely changed the game. Back in the early 90s when the EU agreed the Maastricht Treaty and economic and monetary union, many people had the feeling that this was sort of fragile "EMU-lite" In other words just having the currency without political union backing it up, was an unsustainable situation. And so it has proved to be.

And those of us who did not want this country to go to the Euro made that point time and time again. Currency unions without the backing of a political union are not sustainable.

But the idea from Delors (and others) was that, if and when the Euro gets into difficulties, then the response would have to be more Europe. There would have to be more integration.

There is no question in my view that the Eurozone will be moving down the road of political, banking and fiscal integration, in order to hold the euro together. Because if the Euro falls apart the whole EU falls apart.

But as the Eurozone integrates – and this is really significant for us – then the Eurozone institutions will start to usurp the role of the EU 27 institutions in making decisions. They're already talking about a Eurozone budget for example.

Now where does that leave us? Well it leaves us on the periphery is a rather simple way of answering that question. In other words we would be even more locked out of decision making than we already are.

I notice that when Mr Cameron talks about financial services and the Eurozone's banking union he says that he will safeguard the City of London. Well as I've already said under QMV we have only 8.5% votes, and with other political developments, it's going to be politically more and more difficult to do this.

So as the politics inevitably drives Eurozone integration, then the choice for us will become increasingly obvious. We will have to say "thank you very much, time for a new relationship".

And I'm not the only one who is saying these things. Certain fellow mainstream politicians are now on this wavelength.

I think Michael Gove was – and I don't wish to embarrass him in any way, I have no intention of embarrassing Michael Gove – but I think he's suggesting that perhaps the "out option" is not completely off the cards and Iain Duncan Smith, circumspect though he was, he didn't sort of have a "tantrum" when someone suggested that the UK may leave the EU.

I don't think there is any doubt the EU is now dominated by Germany. It always reminds me of old Brian Clough, I don't know if you remember Brian Clough who was a very straight spoken football manager, not that I know anything about football, don't get me wrong, but he was asked at some point 'are you the best football manager?' And he said 'I wouldn't say that but I'm in the top one'. He was an honest man.

When I see Mrs Merkel now there's no pretence that there's a strong determining Franco-German Merkozy relationship. There's been a step change there.

Mrs Merkel is in the top one, let's be honest – I say that without criticism and I say that without any anti-German feeling at all because I don't have any anti-German feeling – but that is the reality. It is the political reality. And it is increasingly obvious to me that the German political class are beginning to consider Britain's leaving the EU.

Conclusion

So, to cut a long story short, to me the world is changing and at some point this country will, I'm almost convinced, have a referendum and it will have to be in or out, I don't think there's any question about that. But I will just say this to you again, and be positive. This country has a terrific future but we know what has to happen.

THE BRUGES GROUP

The Bruges Group is an independent all–party think tank. Set up in February 1989, its aim was to promote the idea of a less centralised European structure than that emerging in Brussels. Its inspiration was Margaret Thatcher's Bruges speech in September 1988, in which she remarked that "We have not successfully rolled back the frontiers of the state in Britain, only to see them re–imposed at a European level…". The Bruges Group has had a major effect on public opinion and forged links with Members of Parliament as well as with similarly minded groups in other countries. The Bruges Group spearheads the intellectual battle against the notion of "ever–closer Union" in Europe. Through its ground–breaking publications and wide–ranging discussions it will continue its fight against further integration and, above all, against British involvement in a single European state.

WHO WE ARE

Honorary President: The Rt. Hon the Baroness Thatcher of Kesteven, LG OM FRS
Vice-President: The Rt. Hon the Lord Lamont of Lerwick
Chairman: Barry Legg
Director: Robert Oulds MA
Head of Research: Dr Helen Szamuely
Washington D.C. Representative: John O'Sullivan, CBE
Founder Chairman: Lord Harris of High Cross
Former Chairmen: Dr Brian Hindley, Dr Martin Holmes & Professor Kenneth Minogue

Academic Advisory Council:
Professor Tim Congdon
Professor Kenneth Minogue
Professor Christie Davies
Professor Norman Stone
Dr Richard Howarth
Professor Patrick Minford
Ruth Lea
Andrew Roberts
Martin Howe, QC
John O'Sullivan, CBE

Sponsors and Patrons:
E P Gardner
Dryden Gilling-Smith
Lord Kalms
David Caldow
Andrew Cook
Lord Howard
Brian Kingham
Lord Pearson of Rannoch
Eddie Addison
Ian Butler
Thomas Griffin
Lord Young of Graffham
Michael Fisher
Oliver Marriott
Hon. Sir Rocco Forte
Graham Hale
W J Edwards
Michael Freeman
Richard E.L. Smith

BRUGES GROUP MEETINGS

The Bruges Group holds regular high–profile public meetings, seminars, debates and conferences. These enable influential speakers to contribute to the European debate. Speakers are selected purely by the contribution they can make to enhance the debate.

For further information about the Bruges Group, to attend our meetings, or join and receive our publications, please see the membership form at the end of this paper. Alternatively, you can visit our website www.brugesgroup.com or contact us at info@brugesgroup.com.

Contact us
For more information about the Bruges Group please contact:
Robert Oulds, Director
The Bruges Group, 214 Linen Hall, 162-168 Regent Street, London W1B 5TB
Tel: +44 (0)20 7287 4414
Email: info@brugesgroup.com

The Bruges Group

www.brugesgroup.com