



REPORT

FOUNDATION FOR EUROPEAN
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D'ÉTUDES PROGRESSISTES



IPPR



STAYING IN

A REFORM PLAN FOR BRITAIN AND EUROPE



Will Straw

November 2012
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Institute for Public Policy Research

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EXECUTIVE SUMMARY

Britain's relationship with Europe is at crisis point. The number of people who think that European Union (EU) membership is a 'good thing' has fallen to new lows. British citizens are far less likely than their European neighbours to believe that EU membership is of benefit to the UK. Just 11 per cent of British voters think their voice counts in Europe.

Even though the issue does not top voters' list of concerns, sentiment is sharp when people are asked to form a judgment. Brits are fed up with perceived legal interference, the opaque nature of decision-making in Brussels, the financial costs associated with EU membership, and high levels of immigration. A majority of Brits now want a referendum on whether Britain should remain in the EU, while a plurality (48 per cent to 31 per cent in one poll) say they would currently vote to pull out.

A referendum of some kind on Britain's relationship with the EU now looks inevitable. If treaty change is necessary to approve changes in the governance of the eurozone, the 'referendum lock' created by the European Union Act 2011 will kick in. Meanwhile, a Foreign and Commonwealth Office 'review of the balance of competences' is widely expected to propose a new relationship with the EU which David Cameron has hinted he will put to a popular vote. But just as the prime minister has called for Scotland to have a decisive vote on its relationship with the UK and only then for consideration to be given to which powers should be devolved, any referendum on the UK's relationship with the EU should also be clear and decisive.

It has been nearly 40 years since the 1975 European referendum. Since then the institution has changed dramatically. It has expanded from 12 to 27 member states. It has changed from a common market, to a European community, to a European Union. A directly-elected European parliament has been created and given powers of co-decision with the European council. This body, in turn, decides most votes under a complicated qualified majority voting system rather than on the basis of consensus. New powers, including a social chapter, have been added to the statute book. Meanwhile, other member states have gone even further, with the advent of economic and monetary union and the Schengen agreement on common borders. Extension of Britain's involvement in Europe has generally been cautious and incremental – but, unlike Denmark, France, Ireland, the Netherlands, Spain and Sweden, Britain has not had a referendum on any EU reform.

We believe that if there is a referendum in the next parliament then the British people should be asked a straight in/out question. A referendum before 2015 could leave more questions asked than answered, as the eurozone attempts to stabilise its financial and fiscal crises, partly through the creation of a new banking, fiscal and political union. Yet once these questions have been resolved, the UK will be in a position to make a clear decision about its involvement in non-eurozone institutions.

An in/out referendum is preferable to one that asks the British people to ratify a renegotiated UK–EU relationship for three reasons.

- First, it is extremely unlikely that Britain will be able to secure agreement from other member states for a significant renegotiation. European commission president José Manuel Barroso has said that there are no supporters on the continent for a British repatriation of powers.
- Second, anything short of an in/out question will fail to satisfy large sections of political opinion and the public that they have been given a genuine say on the fundamental question of the UK's relationship with the EU. It is far better for all concerned to have a clear and decisive answer with which no one can disagree than to leave the question of membership open.
- Third, it would act as a catalyst for pro-European voices in the main political parties, businesses, pressure groups and the media to coalesce behind a positive and hard-headed campaign setting out why Britain should remain in the EU. A clear campaign can only be mobilised by a clear question.

In undertaking such a campaign, pro-Europeans must be under no illusion as to the level of antipathy that many feel towards Europe. Advocates of continued membership must not fall back on the old arguments for European integration – peace and prosperity – which have diminished in public discourse. The cohort that fought the second world war are reaching the end of their heroic lives. Meanwhile, prosperity has turned to austerity around Europe with one of its own instruments, the euro, seen as a significant cause of the crisis.

In essence, there is currently no compelling public argument in Britain today in favour of the EU. Debates tend to be overly technical or too narrowly related to issues of the 1980s (single market), 1990s (monetary union) or 2000s (enlargement). A new purpose is needed if pro-Europeans are to secure public support for Britain's continued EU membership. We believe there are compelling geopolitical, economic and cultural reasons for the public to vote in favour of Britain staying in the EU.

- From a geopolitical perspective, Britain's global influence will wane unless we remain part of our regional group. Britain makes up less than 1 per cent of the global population and its economy

contributes less than 4 per cent of global GDP. In 2000, Britain was the world's fourth-largest economy. By 2020, it is estimated that it will be the ninth, overtaken by China, India, Brazil and Russia – the so-called BRICs – as well as France. By contrast, the EU is home to 7.4 per cent of the global population and is the world's largest market, representing 25 per cent of global GDP. Although this will also diminish in relative terms, the size of the EU's economy means that it will remain in the world's top four – with China, the US and India – for decades to come. On increasingly important issues like global trade and climate change, Britain will continue to benefit hugely from its EU membership.

- From an economic standpoint, there are clear advantages to Britain remaining in the EU. It is estimated that withdrawal could result in UK GDP being permanently lower by 2.25 per cent. Worse, relinquishing membership would mean that Britain would be unable to benefit further from the EU's efforts to liberalise trade relations with fast-growing economies or from the further relaxation of rules across its service sectors. With the right internal reforms to extend the single market, Britain could see a 7.1 per cent increase in national income by 2020 and a 47 per cent increase in exports.
- Culturally, Britain's membership of the EU over the last 39 years has led to increased levels of European integration with more and more people living, working, studying and holidaying in Europe. There are now 1.4 million Brits living in Europe and 2.5 million Europeans living in the UK. Each year, 40 million Brits travel to EU countries, while 20 million come the other way. Britain also has proud and overlapping traditions with the Commonwealth, Anglophone countries and the United States, but geographically and culturally we remain closest to Europe.

In making a positive case, however, pro-Europeans must admit that the EU has been beset by incompetence and scandal of its own making. The court of auditors repeatedly refuses to sign off EU funds, the structural funds have been badly misspent, and some policies – like the common agricultural policy (CAP) – are discredited and counterproductive. The gray train of MEPs commuting between Brussels and Strasbourg has become an expensive laughing stock. More than ever before, voters feel they are being taken for a ride by the EU.

A reform agenda for the EU is urgently needed. This should be predicated on growth and democracy. The EU's next seven-year budget is up for discussion at November's European council meeting. The talks have reached a log-jam, with Britain pushing for a budget cut but unwilling to give up its rebate, France and others remaining stubborn on reform of the CAP, and few members accepting the case for a smaller budget. Rather than exercising its veto and condemning the EU to merely rolling over its old, inefficient budget, Britain should put its cards

on the table and call for a genuine budget for growth. Britain should attempt a ‘grand bargain’ – offering to give up its rebate but only in return for a much smaller overall budget focused on growth alongside meaningful reform of the CAP and structural payments. As a result, Britain would end up contributing less rather than more to the EU.

With savings from better-targeted structural funds and less distortive farm payments, more money (albeit from a smaller overall budget) could be focused on growth: helping countries on the periphery of the eurozone to make structural reforms to their economy, increasing resources for joint research and development projects, and creating an EU-wide industrial strategy to revive and expand capital markets to finance large European infrastructure projects in the fields of transport, energy and information technology. A new commissioner for growth should oversee this programme.

While a third constitutional convention would be unworkable and undesirable, the EU’s institutions do require further reform to give them greater democratic legitimacy and accountability. The formation of the next European commission in 2014 presents a fresh opportunity to make the EU more responsive to public opinion and to ensure that its officials are more accountable. Pressure for a single head of the EU’s institutions with a mandate secured from the European parliament is increasing and should be supported. But support for the reform should be on the proviso that the European commission’s powers of initiation are reduced and that the organisation becomes more of an impartial civil service, implementing the wishes of the council and parliament. To enhance the EU’s legitimacy, the new commission should undertake a radical better-regulation programme to ensure that old laws past their sell-by date are removed and that more is done to test the net benefits of new rules and regulations.

Finally, Britain must work to ensure that the EU focuses more on areas where it can make a genuine difference and less where issues are better left at the national level – what is known as the principle of subsidiarity. Of course, in the immediate future, the EU will need to prioritise economic policy and the resolution of the eurozone crisis. But elsewhere it should refocus its energy on global issues where its collective negotiating position is greater than the sum of its parts. This would encompass what could be termed non-military threats, including climate change, organised crime and terrorism, protectionism and the rise of Asia, and irregular migration. Somewhat surprisingly, our research shows that these are all areas where UK public opinion tends to support closer cooperation.

Britain’s relationship with the EU is not an easy one. Neither the institutions themselves nor successive British governments have done enough to articulate the benefits of the continued relationship, despite

the clear evidence. As a result, a vacuum has been allowed to form where the EU's flaws are magnified and myths accumulate. The time has come for pro-European voices in Britain to make the pro-EU case. This should go hand-in-hand with a realistic account of how Britain's relationship with the EU can be improved, focusing on growth and democracy. With these arguments in place, the case can be made and won for Britain's continued membership of an enhanced European Union.



The report is organised as follows. Chapter 1 examines British public opinion on Europe by examining time-series data, recent polling and the outcomes of two deliberative workshops in order to outline the mainly negative, but sometimes nuanced, views of citizens. Chapter 2 makes the case for an in/out referendum and argues that on geopolitical, economic and cultural grounds, Britain would be better off staying in. Chapter 3 sets out the case for, and means of creating, growth in Europe, with particular reference to the forthcoming debate on the EU's next seven-year budget. Chapter 4 looks at the democratic reforms that Britain should push for in Europe, including in relation to its institutions, regulatory agenda and external role. The conclusion summarises our main recommendations.

1. PUBLIC OPINION ON EUROPE

The UK has always had an ambivalent relationship with the European Union (EU). Even while calling – in the aftermath of the second world war – for the creation of a ‘United States of Europe’ to bind France and Germany together, Winston Churchill made clear that Britain would be a supportive but independent partner of any such entity. Our entry into the European Economic Community (EEC) in 1973 came 15 years after the treaty of Rome was signed (and was challenged by a UK referendum just two years later). We joined the social chapter in 1997, eight years after it was adopted by the other member states. And, of course, Britain has never signed up to economic and monetary union or the Schengen agreement on common borders. In general, political leaders have been cautious and incremental about expanding the UK’s involvement with Europe.

Public polling on the EU

UK citizens have shown a similar lack of enthusiasm for the idea of Europe. Although the 1975 referendum passed with a clear majority of 67 per cent in favour of remaining in the EEC, opinion poll data from the past few decades reveals that the public is considerably more Eurosceptic than their neighbours across the channel. For example, figure 1.1 shows UK responses to a regular Eurobarometer question on attitudes towards EU membership. Since the Maastricht treaty was signed in 1992, there have only been two years in which more people than not believed that the UK benefited from EU membership.

As the chart shows, UK respondents have been significantly and consistently less positive than those in other EU member states about the benefits of EU membership. It shows the difference between the number of people who say that the UK has benefited from membership of the EU and those who say it has not, compared to a similar EU average figure. The gap between the UK and the EU average is wider now than at any time since the mid-1980s.

Interestingly, there is a divergence between those who believe that Britain has benefited from EU membership and those who think that it is a good thing, as figure 1.2 shows. In the 1990s, more people believed that the EU was a good thing than thought that the UK benefited from it. This could be due to a greater appreciation of the individual benefits, such as ease of travel or the ability to own a second home in Spain or France.

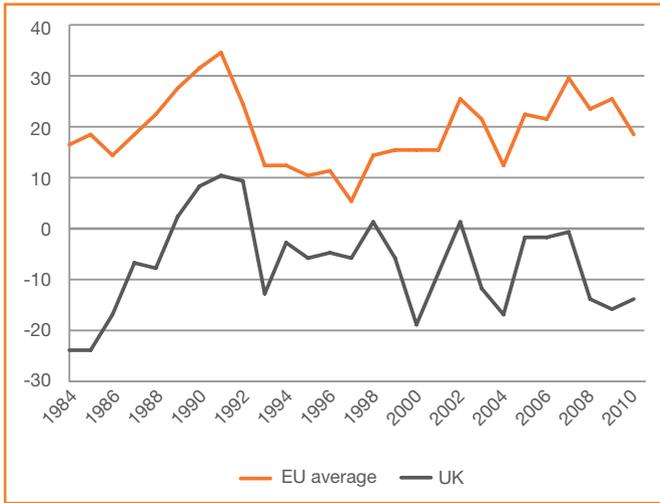


Figure 1.1
 'EU membership is a benefit', 1984–2010 (net % agreeing)

Source: Eurobarometer, Spring wave surveys, 1984–2010¹
 Note: Data for the years 1984–2003 reflects the responses of citizens of the EU-15 countries, data 2004–09 includes post-accession EU-25 countries, and data 2009–10 relates to the EU-27 countries.

Since 2000, the reverse has been true: just 26 per cent of people believe that EU membership is a good thing while 35 per cent still think that the UK benefits. This could be due to a shift in the discourse surrounding Europe and what it means to be a member. Reductions in mobile phone tariffs aside, the number of new, demonstrable benefits of EU membership to individuals in recent years has dwindled.

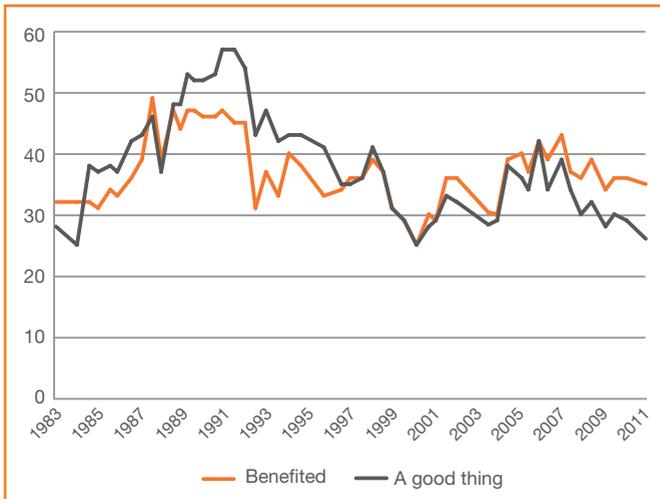


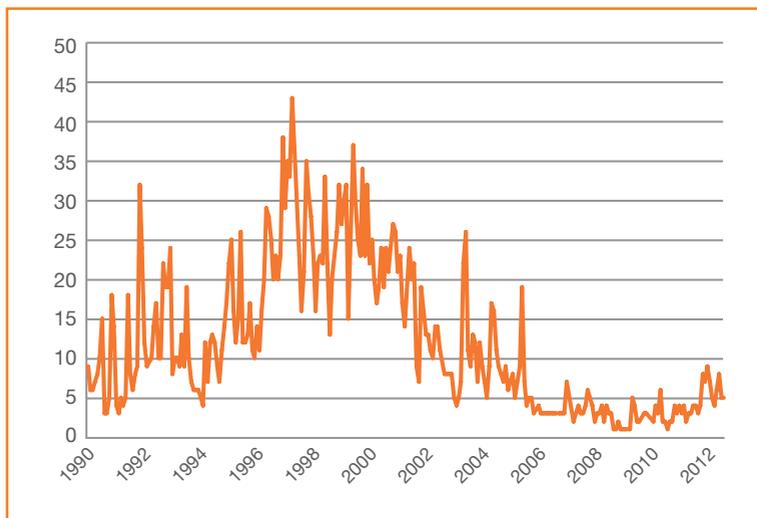
Figure 1.2
 'The UK benefits from EU membership' versus 'it's a good thing', April 1983–2011 (% of UK respondents)

Source: Eurobarometer, Spring wave surveys, 1984–2010

¹ Data is available at: http://ec.europa.eu/public_opinion/archives/eb_arch_en.htm

Despite these doubts about the overall advantages of membership, the UK's relationship with the EU is rarely high on voters' lists of concerns, and its importance has fallen to new lows in recent years (Gottfried 2011). Figure 1.3 shows the percentage of voters who list the EU as among the top issues of concern for them (there is no limit on the number of issues they can list). The chart shows that although there has been a modest pick-up in recent months, voters have rarely been less animated about the EU, certainly compared to the era of debates over the Maastricht treaty or eurozone entry.

Figure 1.3
 'The EU is an important issue facing Britain today', January 1990–2012 (% of UK respondents)



Source: Ipsos-MORI Issues Index²

It is striking how the advent and unfolding of the eurozone crisis since 2008 has barely affected the number of people who think that the EU is a major issue. Nonetheless, the eurozone's troubles have exposed serious weaknesses in the EU's economic model and reopened the debate about the value of continued UK membership under its current terms. Indeed, when asked to form a view, voters have a clear position on Britain's continued membership.

In July 2012, a YouGov opinion poll revealed that 67 per cent of respondents were in favour of holding a referendum on UK membership of the EU within the next few years. Close to half (48 per cent) stated that they would vote to leave, compared to just 31 per cent who would vote to stay (Kellner 2012). Interestingly, when asked whether they thought that Britain would still be a member of the EU in 10 years, 63 per cent of respondents said 'yes' – regardless of their own views on the question. This may simply reflect a belief that current leaders from across the political spectrum have little interest in driving Britain towards a European exit.

² See <http://www.ipsos-mori.com/researchpublications/researcharchive/2420/Issues-Index-Archive.aspx>

Despite the low salience of the issue with voters, sentiment is sharp when people are asked to form a judgment. Recent data highlights a number of key elements underpinning this public discontent.

First, voters are losing trust in the EU and its constituent institutions: just 17 per cent of UK respondents now say that they tend to trust the EU, compared with 73 per cent who do not. This is the lowest positive response and the highest negative response across all member states (Eurobarometer 2011).

Second, the British public feel increasingly disconnected from decision-making processes that take place at the European level. A poll in March 2012 found that 66 per cent of UK respondents thought that their voice did not count in the EU, compared to just 11 per cent who thought that it did (YouGov-Cambridge 2012a). This sets the UK apart from other European countries, where the split in opinions is not nearly as stark, as figure 1.4 illustrates.³

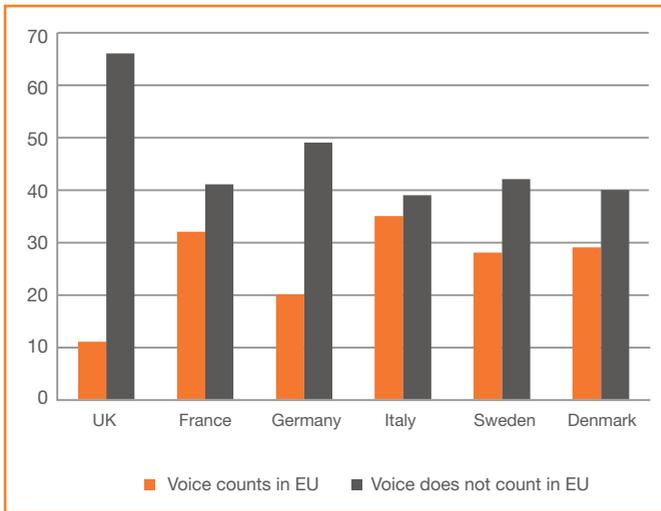


Figure 1.4
‘My voice counts in the EU’ (% of respondents)

Source: YouGov-Cambridge 2012a

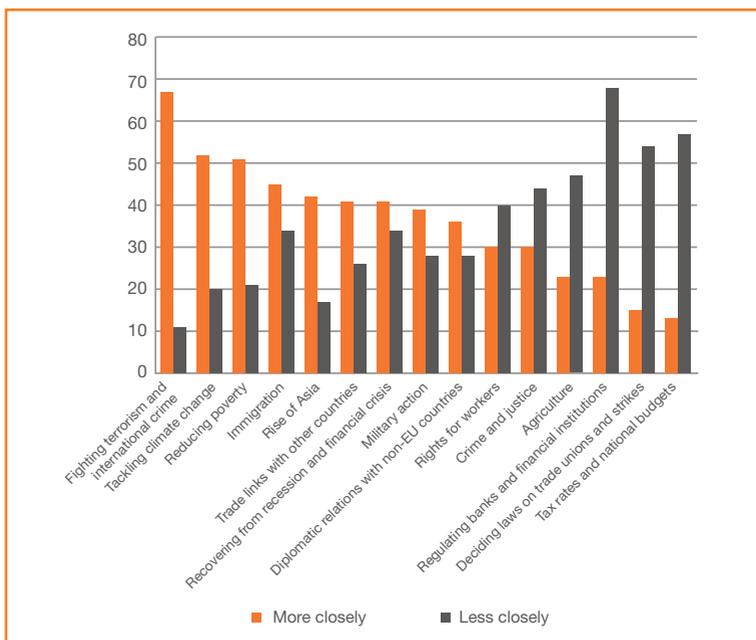
Third, voters are extremely unwilling to give more political power to Brussels on most issues. The YouGov-Cambridge poll (ibid) asked respondents whether they would support turning the EU into a ‘fully integrated “United States of Europe” with a central European treasury that strictly enforces common rules on national budgets and government spending for individual countries’. UK citizens were least keen on this idea, with only 10 per cent of respondents suggesting that they would support it. Similarly, and also outside the eurozone, only 11 per cent of respondents in Sweden and 12 per cent of respondents in Denmark

3 It is striking that of the surveyed countries, Germans have the next-lowest opinion as to whether their voice counts in the EU.

were in favour of this idea, while within the zone 35 per cent of German respondents, 38 per cent of French respondents and 63 per cent of Italian respondents said they would support it.

A more nuanced picture emerges when people are asked – in relation to a set of specific issues – whether they think ‘countries in Europe should cooperate more closely together, or should loosen their links and handle the issue more at the national level’.⁴ Figure 1.5 shows that across a series of non-military threats – such as climate change, terrorism and organised crime, and protectionism and the rise of Asia – there is broad agreement that closer European cooperation makes sense.⁵ However, on social and economic issues – such as rights for workers, trade union rules, agriculture, and tax rates – people believe that more powers should reside domestically.

Figure 1.5
‘Should countries in Europe cooperate more closely together, or loosen their links and handle the issue more at the national level?’ (% of UK respondents)



Source: YouGov-Cambridge 2012b

Finally, it is worth highlighting that, in recent years, public attitudes towards Europe have become more closely linked with highly charged debates about immigration. Much greater than expected flows of immigration to the UK from new EU member states after 2004 focused an already difficult debate squarely on the European factor. Although

4 Of course, the way in which this question is framed makes a difference. Another poll which asked whether a similar range of issues should be ‘controlled’ by the EU received far less positive responses, with majorities of voters in most countries favouring policy being designed and led at the national level (YouGov 2012a).

5 To this list could be added irregular migration – see for example http://www.chathamhouse.org/sites/default/files/public/Research/Europe/0712ch_yougov_survey_0.pdf

EU migration has subsequently subsided (and levels of concern with it), survey evidence suggests that 60 per cent of Britons view ‘too many people from the rest of the European Union coming to work in Britain’ as a disadvantage of the UK’s EU membership, while 57 per cent agree that ‘less safe borders meaning more people come to Britain illegally’ is a disadvantage (Chatham House–YouGov 2012).

Euro-sceptic parties such as UKIP have increased their focus on immigration while extreme anti-immigration parties such as the BNP have increased their focus on Europe, leading some to voice concerns that anti-immigration extremists may join forces with populist Euro-sceptics (Ford 2012). It is beyond the scope of this report to address this issue in detail, but it should be noted that the links between Euro-scepticism and immigration mean that pro-Europeans in the UK have a significant interest in working with those who are seeking a more constructive debate about migration.

Getting under the skin of UK public opinion

To explore some of the headline findings of these polls in more detail, we organised two deliberative workshops in May 2012 (one each in London and Macclesfield) with members of the public to discuss their views on the UK’s relationship with Europe. More details about the methodology are provided in appendix A.

The first exercise in each workshop involved participants writing down three words or phrases that they associated with Europe. In the London session, some positive aspects of the EU were mentioned, such as the freedom for British people to travel and study in other European countries, the EU’s role in keeping peace on the continent, and the innovation and growth associated with the common market. However, more of the group discussion in London and particularly in Macclesfield focused on things that were perceived as negative, such as EU interference in British governance, the opaque nature of decision-making in Brussels, the financial costs associated with EU membership, and high levels of immigration.

‘Britain puts in billions of pounds of money but I don’t think it’s ever a recipient. It’s a contributor. We put in more than we get out.’

London

‘They behave like bullies. We watch the French president going around doing what he’s told by Angela Merkel, and then the rest of us will do what we’re told by the pair of them.’

Macclesfield

‘We don’t have a good understanding of how European politics work in Brussels and the Hague [sic], and no one seems to want to come forward and tell us, probably to suit their own ends.’

London

These findings are consistent with polling data, which shows that greater ease of travel within Europe (49 per cent) and too many European laws and regulations (65 per cent) were the top advantages and disadvantages associated with EU membership (Chatham House–YouGov 2012).

A second session split each workshop group in two and asked participants to discuss the different policy issues referred to in figure 1.5 above. For each issue, groups were asked to deliberate and then reach a decision about whether there should be more, less or about the same level of cooperation between European states.

In London, there were some clear differences of opinion between participants. One group thought that the most important issue requiring more cooperation was recovering from the recession and the financial crisis. They said there should be more cooperation on fighting terrorism and international crime, and that joint military action should be a priority. Consistent with some opinion polls, they also thought that there should be more cooperation on immigration, although this was discussed in terms of managing the EU's external borders to prevent irregular migration into and through Europe, rather than increasing cooperation on migration within the EU for work and study.

'I think we need to keep our border controls otherwise we'll be swamped with people, because there's enough trying to get into the EU as it is.'

London

Some contradictions were evident in relation to climate change and development. One group expressed less enthusiasm for boosting cooperation on widespread, international problems such as climate change and global poverty. These were seen as less of a priority at a time of financial crisis. But a second group thought that climate change was the top issue for increasing cooperation, since it was a problem that could not be dealt with by any one country alone.

The Macclesfield group was much more sceptical overall. While a few individuals recognised the advantages of cooperating with European partners on a few specific issues – including fighting terrorism and international crime, military action, the reduction of global poverty and tackling climate change – most were of the opinion that the UK's interests would be best served by leaving the EU and handling everything at a national level.

'We can improve our trading relationships with [European countries] simply by leaving.'

Macclesfield

In the final session, we asked participants to discuss whether and how the UK should improve its relationship with Europe, and what reforms

could be made to the EU that would help to address their concerns, including perceived problems with bureaucracy, regulations and the democratic deficit in European institutions and practices. In London, there were some suggestions around making MEPs more visible and accountable, and involving UK citizens directly in decisions taken at the EU level through increased use of referendums – although it was acknowledged that people probably would not want to spend a lot of time voting on minor issues. There was recognition on the part of some participants that while the EU is often blamed for economic and social problems in the UK, it does not always deserve this criticism.

‘We wouldn’t be having this discussion if we weren’t in economic crisis ... Six years ago, when we were still in a relative state of integration [sic] ... people could afford to pay for a pint, pay for their houses ... As soon as the hard times come, we’ve started assessing anything we can blame for the state we’re in, and the European Union is a pretty good scapegoat.’

London

The Macclesfield group was significantly less keen on maintaining Britain’s current relationship with the EU. By their own admission, most of the participants in this group started the workshop without a good understanding of the EU and wanting to learn more. Nonetheless, by the conclusion they had reached a consensus that Britain should vote to withdraw immediately. Anger about high levels of immigration and a loss of national sovereignty seemed to be driving these views. It was clear that few existing pro-EU arguments – for example that European integration has helped maintain peace on the continent, or that it has enabled rapid economic growth across most member states – had the persuasive power to change their views.

‘I don’t see any need for us to be part of what appears like a weak system, failing economies.’

Macclesfield

None of the Macclesfield participants felt like they had any kind of European identity, nor did they offer constructive views on how to reform the EU for the better. The language used was framed as being about ‘us’ in the UK and ‘them’ in Europe. As such, there was little interest in the idea of looking for ways to make Europe work better for everyone, including British citizens.

‘It’s not our problem [reforming the EU] ... it’s their problem. We’re alright, we should be independent.’

Macclesfield

‘If you are going to reform it first you have to take away the plutocrats and bureaucrats that are running it through the

commission – it has to be truly elected, it has to be based on population for the number of MPs you get, and financial contribution. If you pay more in you get more say. You'll never get it to happen.'

Macclesfield

Given the small number of participants involved, these workshops should not be seen as representative of UK public attitudes as a whole. But they do outline the depths of antipathy and disaffection with the European project that exists in Britain today and help to illuminate some of the thinking behind the headline figures on public concerns about Europe. Nonetheless, these findings – particularly from the session in London – reinforce the results of opinion polls which show that there is some acceptance that the EU presents benefits to its members and that there is a case for increased cooperation on some issues, particularly in the case of non-military threats such as climate change.



This chapter has demonstrated that there is much work yet to be done to make a positive case for continued UK involvement in Europe. In order to do so, politicians need to acknowledge legitimate grievances with the way that the EU currently works, set out a clear reform agenda to address those concerns, and find new arguments that justify Britain's membership of the EU, however it may evolve. For too long, pro-Europeans have failed to make this case to the British public, leaving myths about the EU to perpetuate. The time has come to take these arguments head-on and make the case for keeping Britain in the EU.

2. BRITAIN IN EUROPE

As chapter 1 showed, British public opinion on the EU is low and falling. Even though the EU does not sit at the top of voters' lists of concerns, they hold strong – and largely negative – views on the benefits that the UK derives from EU membership. Indeed, a majority of voters want a referendum and a plurality of voters currently want to leave the EU (Kellner 2012).

The government's response has often seemed confused and conflicted. The Conservative party's 2010 manifesto set out that a Conservative government would:

'... negotiate for three specific guarantees – on the Charter of Fundamental Rights, on criminal justice, and on social and employment legislation – with our European partners to return powers that we believe should reside with the UK, not the EU.'

Conservative Party 2010

This policy was dropped on the formation of the Coalition government, with the programme for government stating only that:

'We will examine the balance of the EU's existing competences and will, in particular, work to limit the application of the Working Time Directive in the United Kingdom.'

HM Government 2010

The change of policy has led many Conservative MPs to feel squeezed by the UK Independence Party (UKIP). A resurgent UKIP came first in the 2009 European elections and had its best-ever local election performance in 2012, averaging 13 per cent of the vote in the seats it contested. In October 2011, 81 Conservative MPs defied the party whip and voted in favour of a motion calling for a referendum on EU membership to be held before May 2013, while 53 Tory rebels helped Labour to defeat the government on its modest proposal to freeze the EU budget.

In July of this year, David Cameron told parliament that:

'There are those who argue for an in-out referendum now. I don't agree with that because I don't believe leaving the EU would be best for Britain ... But just as I believe it would be

wrong to have an immediate in-out referendum, so it would also be wrong to rule out any type of referendum for the future.'

Cameron 2012a

As such, momentum has been building for a substantive renegotiation of the terms of the UK's membership of the EU, if not for full withdrawal. In November 2011, an all-party parliamentary group on European reform was launched with an explicit mandate to explore each area of EU legislation and assess whether it is better dealt with at the national or European level. Earlier this year, a group of Conservative MPs published a list of recommendations across 11 policy areas (Fresh Start Project 2012).

The foreign secretary has launched a 'review of the balance of competences' with a terms of reference to 'look at where competence lies, how the EU's competences, whether exclusive, shared or supporting, are used and what that means for our national interest' (Hague 2012). The review by the Foreign and Commonwealth Office (FCO) will only conclude 'by the end of 2014' and 'will not be asked to produce specific recommendations' (FCO 2012).

Given the Liberal Democrats' reluctance to countenance the repatriation of powers, speculation has grown that this FCO review will feed into the Conservative party's next manifesto, which could include a pledge to hold a referendum on a new relationship between Britain and the EU. It has been suggested that the favoured option is to propose a renegotiation of Britain's relationship, followed by a referendum on the new arrangements within 18 months (see Forsyth 2012). Yet this approach may prove impossible to deliver.

Following David Cameron's 'veto' at the European council meeting last December, the mood in Brussels has turned against Britain. Indeed, there is very little to suggest that EU member states are willing to negotiate with the UK on a new relationship. One MEP has said that, 'Goodwill towards the UK is rapidly running out in Europe' (Economist 2012). Commission president, Jose Manuel Barroso, has said that there are no supporters on the continent for a British repatriation of powers (see Miliband 2012).

This antipathy is likely to become clear if, for example, the UK government opts out of over 130 police and criminal justice measures later this year and then attempts to opt back into a handful that it likes, including the European arrest warrant, as the home secretary has indicated (May 2012). The Danish government tried a similar approach in the early 1990s and saw half of its requests rejected. Home Office minister James Brokenshire has said that he believes that 'the commission would attach conditions, for instance they might only allow us to join groups of related measures, some of which we might like and others we might not' (Brady 2012). This example highlights the

counterproductive nature of the wholesale opting-out from particular elements of EU law. Chapter 4 examines this issue, and an alternative approach to better regulation, in more detail.

It is possible, of course, that the European Union Act 2011, which created a 'referendum lock' for any future amendments to the EU's treaties, could trigger a referendum on changes to the EU that are aimed at resolving the eurozone crisis. In theory, an integrating core should not trigger a British referendum, but in practice it would lead to growing pressure for one (Grant 2012). A banking union, provided Britain did not veto the notion, would almost certainly trigger a referendum, since Germany has already offered one. That said, a British 'no' vote in this situation would do little to stop the integration taking place: other eurozone countries might simply continue without Britain. It would also be characterised as an 'in/in' referendum by Eurosceptics, since it would not contain a choice to leave the EU permanently. Indeed, a referendum of this nature could end up hardening support for Britain to leave if it was seen as meaningless.

In relation to the UK's relationship with Scotland, David Cameron has said:

'When the referendum on independence is over, I am open to looking at how the devolved settlement can be improved further. And yes, that does mean considering what further powers could be devolved. But that must be a question for after the referendum, when Scotland has made its choice about the fundamental question of independence or the United Kingdom. When Scotland has settled this question once and for all – and ended the uncertainty that I believe could damage and hold back Scotland's prospects and potential – then is the time for that issue.'

Cameron 2012b

There are three reasons why – as with the Scotland – any referendum on the EU must be clear and decisive. First, as outlined above, it is extremely unlikely that Britain will be able to secure agreement from other member states for a significant renegotiation. Second, anything short of an in/out question will fail to satisfy large sections of political opinion and the public that they have been given a genuine say on the fundamental question of Britain's relationship with the EU. Third, it would act as a catalyst for pro-European voices in the main political parties, businesses, civil society and the media to coalesce behind a positive and hard-headed campaign setting out why Britain should remain in the EU.

Given the prime minister's opposition, and the tensions within the Coalition government, it is extremely unlikely that an in/out referendum will take place before the next general election. In any case, it will be important that this referendum is not confused with the ongoing efforts

to resolve the financial and fiscal crises within the eurozone. Once these questions are resolved and the nature of the eurozone's institution are clearer, Britain should be in a position to reach a clear position on its continued involvement in the EU's core institutions, including the single market, common foreign, security and defence policies, and the 'area of freedom, security and justice'.

If there is a referendum in the next parliament, the British people should be asked a straight in/out question.

The case for staying in

If a referendum on Britain's relationship with the EU does take place, there will be a fierce debate about the merits of Britain's continued involvement. We believe there are clear geopolitical, economic and cultural reasons for staying in the EU.

From a geopolitical perspective, Britain's global influence will wane if it is no longer part of a regional group. Britain makes up less than 1 per cent of the global population and its economy contributes less than 4 per cent of global GDP. In 2000, Britain was the world's fourth largest economy. By 2020, as table 2.1 shows, it is estimated that it will be ninth, overtaken by China, India, Brazil and Russia as well as France.⁶

Table 2.1
Largest economies by decade

	2000	2010	2020	2030
1	US	US	China	China
2	Japan	China	US	US
3	Germany	Japan	India	India
4	UK	Germany	Japan	Brazil
5	France	France	Brazil	Indonesia
6	China	UK	Germany	Japan
7	Italy	Italy	France	Germany
8	Canada	Brazil	Russia	Mexico
9	Brazil	Canada	UK	France
10	Mexico	Russia	Indonesia	UK

Source: Standard Chartered 2010

By contrast, the European Union is home to 7.4 per cent of the global population and is the world's largest market, representing 25 per cent of global GDP. Although this will also diminish in relative terms, the size of the EU's economy means that it will remain in the world's top four – with China, the US and India – for decades to come.

⁶ There are a number of other surveys of the global economy in the decades ahead which project marginally different results, but the direction of travel is always the same (see Straw and Glennie 2012: 39).

In relation to defence and foreign policy, Britain currently benefits from its permanent membership of the United Nations security council and senior position within NATO. But on issues like trade policy within the World Trade Organisation and tackling climate change within the United Nations Framework Convention on Climate Change (UNFCCC) process, Britain will lose global influence unless it remains part of the EU.

A recent paper by Open Europe, a thinktank promoting EU reform, examined whether EU membership was still the best option for UK in relation to trade (Booth and Howarth 2012). The paper compared the status quo with four options (summarised in the boxed text over). The authors conclude that 'from purely a trade perspective, EU membership remains the best option for the UK'. All the other options aside from the 'WTO option' would require negotiation with and the agreement of the other member states, which would come with unpredictable political and economic risks.

Some have argued that, in the long run, Britain will gain more from developing its own trade relationships with fast-growing countries such as China and India than from sticking with the 'sluggish' EU. Earlier this year, for the first time since the 1970s, UK trade with the rest of the world exceeded trade to the EU (Corfe and McWilliams 2012). Nonetheless, the UK is much more likely to negotiate favourable trade deals with rapidly growing countries as part of the EU than on its own (Rudd 2012). Following the collapse of the Doha round of multilateral trade negotiations, the trend at present is towards regional trade blocs. The EU, for example, is pursuing new agreements with many Asian and South American economies. Moreover, Britain on its own would be less able to withstand protectionist pressure outside the EU. The US, for example, failed in its attempts to put steel tariffs on UK products because of counter-tariffs from the EU. Size really matters in global trade negotiations and the scale of the EU market provides incentives that Britain alone would not achieve.

From an economic perspective, the evidence is clear-cut. Econometric analysis (Pain and Young 2004) carried out before the global financial crisis estimated that withdrawal from the EU would result in UK GDP being permanently lower by 2.25 per cent, largely due to the decline in the technical efficiency that would result from reduced future inward foreign direct investment. The authors argue that:

'[The estimate is] uncertain, and may be argued to err on the side of caution, but it is broadly equivalent to the gains that other EU economies are estimated to have made from participating fully in the European integration process.'

That said, they suggest that there is no reason to suppose that unemployment would rise significantly if the UK were to withdraw from the EU.

Alternative models for the UK–EU relationship

The ‘Norwegian option’ – or EEA membership: If the UK followed the path taken by Norway, it would no longer be bound by the common agricultural policy (CAP), common fisheries policy (CFP) or EU-wide regional policy, and there would be a reduction in its contribution to the EU budget. However, while the UK would maintain access to the single market in services and goods, outside the customs union, access for goods would be subject to complex rules of origin. Also, Britain would still be subject to EU regulations on employment and financial services but without the ability to directly shape such rules.

The ‘Swiss option’ – or free trade agreement: If the UK chose to model its relationship with Europe on the Swiss government’s approach, it would also give up the CAP, CFP and EU-wide regional policy and reduce its financial contribution. This would mean more autonomy and a reduced obligation to comply with EU regulations. However, the UK’s access to the single market would be dependent on the deal that could be agreed with the EU, and there would be no guarantee that preferential access would be given to goods and, more importantly for Britain, services.

The ‘Turkish option’ – or customs union: The UK could choose to adopt a customs union, which would be similar to the relationship that Turkey currently has with the EU. Under this model, the UK would no longer be bound by the EU’s social and employment regulations or the CAP, CFP and other EU-wide regional policies. The UK would maintain full access to the EU’s single market in goods. However, it would be bound by any future external trade deals that the EU agreed without any formal way of shaping such deals. Moreover, it would need to conclude a separate agreement on access to the market in services.

The clean-break ‘WTO option’: If renegotiation of Britain’s relationship with the EU failed to secure any of the arrangements outlined above, it could instead engage with the EU through its membership of the World Trade Organisation. Market access for goods and services would be much more limited than at present, and tariffs would apply to a number of key British exports: for example, there would be a 10 per cent tariff on car exports to the EU.

Source: Adapted from Booth and Howard 2012

Britain also stands to gain from the completion of the EU's single market. The European commission's own empirical analysis shows that the progress of the internal market between 1992 and 2006 led to an increase in EU GDP of 2.2 per cent and the creation of 2.75 million additional jobs (EC 2007). But a number of barriers inhibit the full potential of the single market, particularly in relation to the service sector, which makes up two-thirds of EU economic activity and is particularly important to the UK economy.

It is estimated that a single market in services would increase EU consumption by 0.6 per cent or €37 billion, by conservative estimates. It is expected that this would result in 600,000 net new jobs, with prices falling and wages rising. Indeed, the UK would see one of the largest welfare gains of any EU country (Copenhagen Economics 2005).

On the flipside, the UK would lose significantly if the rest of the EU liberalised its remaining trade barriers, including in services, while the UK was outside. To illustrate, we can compare a scenario in which the UK takes part in full liberalisation of the single market with a separate scenario in which the rest of the EU removes all trade barriers, but the UK instead becomes Atlanticist and negotiates a free-trade agreement with NAFTA, missing out on the benefits of EU liberalisation. In this picture, the argument weighs significantly in favour of the former (BIS 2011).

Under the first scenario, the UK could expect to see a 7.1 per cent increase in national income by 2020 and a 47 per cent increase in exports, including a 110 per cent increase in finance exports and 34 per cent increase in insurance exports. Under the second scenario, UK output would fall by 0.23 per cent by 2020, with exports rising by only 4 per cent. Finance exports would increase but only by a more modest 22.5 per cent; insurance exports, on the other hand, would fall by 57.8 per cent (ibid).

Culturally, Britain's membership of the EU over the last 39 years has led to increased levels of European integration, with more and more people living, working, studying or holidaying in Europe. A significant proportion of Brits see easy travel within the EU (49 per cent) and the right to work or retire elsewhere in Europe (42 per cent) as benefits of EU membership (Chatham House–YouGov 2012).

There are now 1.4 million Brits living in other EU countries (Migration Observatory 2012), making up the fifth-largest European expat cohort behind Romania (2.2 million), Italy (2 million), Poland (1.9 million) and Germany (1.7 million). Meanwhile, although the net flow of new migrants from the EU has fallen from a peak of over 120,000 in 2007 to just over 80,000 in 2011 (ONS 2012a), there are estimated to be around 2.5 million Europeans living in the UK, making the UK host to the fourth-largest European migrant population in the EU, behind Germany, Spain and France (Migration Observatory 2012).

In 2011, Brits made 40.5 million visits to the EU, making up 71.2 per cent of all their overseas trips. More Brits visited the 12 newest member states (A12) than visited North America. EU residents made 20.3 million trips to the UK (66 per cent of the total).⁷ In other words, for every one European visitor to the UK there are two from Britain to the EU. Meanwhile, 402,000 households own a second home outside England (DCLG 2012). Although a breakdown is not available, it can be assumed that the majority of these are in the EU.

As chapter 1 showed, the link in the public mind between the EU and immigration has arguably harmed the case for the UK's ongoing membership of the EU. Nonetheless, the economic and cultural benefits of free movement within the EU have been substantial. Britain also has proud and overlapping traditions with the Commonwealth, the United States and other Anglophone countries, but geographically and culturally we remain closest to Europe.



Britain clearly has much to gain from remaining in the EU and much to lose from leaving. But the currents of public opinion outlined in chapter 1 cannot be ignored. A referendum now looks inevitable, but it is critical that this addresses the fundamental question of Britain's relationship. The geopolitical, economic and cultural arguments summarised in this chapter will be important in helping a pro-European campaign to 'win' a referendum, but Britain must be wary not to defend the status quo. A new reform agenda for the EU and a new narrative for the continuation of Britain's relationship with the EU are clearly needed. This should be predicated on fostering growth and democracy. Chapters 3 and 4 look at these issues in turn.

7 Of these, 2.6 million came from the A12, fewer than the 3.6 million visitors from North America (ONS 2012b).

3. GROWTH IN EUROPE

Chapter 2 set out the case for holding an in/out referendum on Britain's relationship with the EU and the hard-headed geopolitical, economic, and cultural reasons for remaining in. Nonetheless, it is critical that pro-Europeans understand the depth of antipathy about the EU set out in chapter 1 and articulate a realistic reform agenda for the EU. We believe this should be predicated on growth and democracy. This chapter examines the first of these arguments.

Growth across the European Union is anaemic. Real GDP fell by 0.2 per cent in both the eurozone and EU during the second quarter of 2012 following stagnant growth in the first quarter. The IMF (2012) is projecting a contraction in 2012 of 0.4 per cent in the eurozone compared to a rise of 2.2 per cent in the US, 2.2 per cent in Japan and 2.1 per cent in the newly industrialised Asian economies.

In March 2011, attempting to address this lack of growth, all eurozone members as well as Bulgaria, Denmark, Latvia, Lithuania, Poland and Romania adopted the 'Euro Plus' pact. This set out a series of strategic goals that included fostering competitiveness and employment. This programme will no doubt focus on the important business of completing the single market, particularly in services,⁸ making further progress on the digital agenda for Europe,⁹ and finalising free-trade agreements with a number of countries. But the new ambition must be greater than a return to these old policy areas, important though they are.

The negotiation around the EU's next seven-year budget, the multi-annual financial framework (MFF), is an opportunity that should not be missed to ensure that the EU is focused more than ever on growth and supporting the painful transition being undertaken by countries on the periphery of the eurozone.

David Cameron (2012a) has outlined Britain's policy on the MFF as being for 'a budget that is focused on growth, not a focus on growth in the budget'. He has also stated that he is unwilling to contemplate putting Britain's rebate on the table to achieve his aims.¹⁰ This approach

8 For more details, see http://ec.europa.eu/internal_market/top_layer/services/index_en.htm

9 For more details on the planned actions, see http://ec.europa.eu/information_society/newsroom/infopillar.cfm?pillar_id=43&pillar=Digital%20Single%20Market

10 The rebate on the UK's contribution to the EU budget was worth €3.8 billion in 2012. It was negotiated by Margaret Thatcher in 1984 to compensate the UK for the high level of common agricultural policy payments, from which the UK did not benefit.

differs from that of Tony Blair who – in 2005, the last time the MFF was negotiated – was willing to consider reform of the rebate in exchange for meaningful reform of the economically inefficient common agricultural policy.¹¹

The commission's current proposal contains some reforms to the previous MFF, which runs from 2006–2013. The main points of interest to the UK are the proposals to expand the overall amount that will be given for measures to enhance growth and innovation from €55 billion to €80 billion over seven years, as well as modest cut-backs to agricultural subsidies and structural funds. The net effect, however, is that payment appropriations – the amount paid by individual member states – will increase from €126.5 billion in 2011 (EC 2012a) to €146.9 billion by 2018 in 2011 prices (EC 2012b). This is equivalent to an increase of 16 per cent.

If it continues to refuse to put its rebate on the negotiating table, the UK government's room for manoeuvre is limited. Short of persuading all other member states to cut back on their favoured items in the budget, the only option available to the prime minister is to veto the commission's proposal. However, this would result in the current, inefficient budget simply rolling over. While this would have the benefit of ensuring that the overall budget did not increase in real terms, it would also eliminate the positive reforms to enhance growth. Moreover, it would further isolate Britain within the EU.

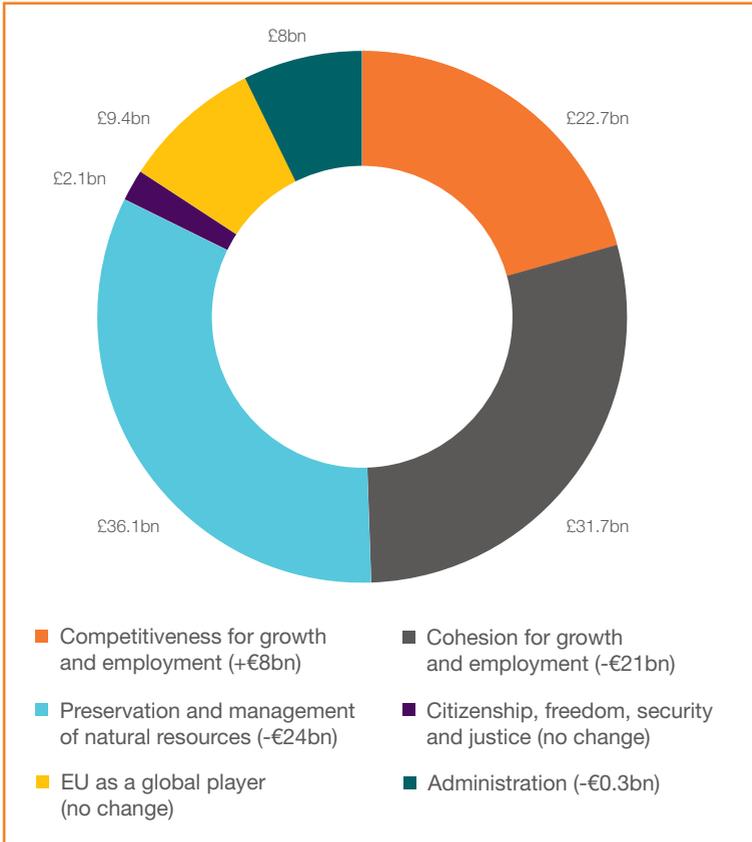
Open Europe has argued that 'Britain has scope to be far bolder than simply pushing for a freeze' (Swidlicki et al 2012). This logic is sound.

Britain should attempt a 'grand bargain' – offering to give up its rebate, but only in return for a much smaller overall budget, meaningful reform of the CAP and structural payments, and greater measures to enhance growth. To ensure that giving up the rebate was palatable to the British public, it should be contingent on a reduction in the overall size of the budget so that Britain's contribution to the EU becomes smaller than it is today.

Figure 3.1 gives an indicative guide as to how the commission's proposal could be amended to achieve these objectives. The overall size of the EU budget would fall by 25 per cent from €147 billion in 2012 to €110 billion – this is the level that is consistent with Britain making a modest gross saving while giving up the rebate. Every country would make a smaller contribution to the budget, which would be focused more closely on fostering growth. Appendix B explains the methodology behind this breakdown and sets out the gross saving for every country. The exercise shows that a more ambitious outcome is possible. The section below sets out these reforms in more detail.

11 See for example Tempest 2005

Figure 3.1
The reformed
annual EU
budget, 2011
prices (total =
€110 billion)



Source: European commission, IPPR calculations

Changes to enable an EU budget for growth

In 2003, the Labour government suggested limiting EU structural funds to EU member states with GDP at or below 90 per cent of the EU average – in practice, the 12 most recent member states aside from Cyprus. Open Europe has shown this would mean that 23 out of 27 member states would ‘either pay less or get more out of the EU budget, as the funds would no longer be transferred between richer member states’ (Swidlicki et al 2012). The only countries that would lose out are Cyprus, Spain, Greece and Italy. These countries would, however, make net savings across the entire budget, as shown in appendix B. Nonetheless, it would be appropriate to use the new and enhanced growth and innovation fund to compensate these countries until their economies are stabilised.

It is estimated that the UK would make a net saving of €4.6 billion from this reform. However, Britain’s annual structural fund payments

of approximately €1.5 billion, which have historically benefited regions outside London and the south-east, would be lost. For this reason it would be appropriate for an equivalent amount of the savings to be ringfenced for regional economic development. This would have the advantage of reinvigorating regional policy in England.

Farm payments, in the form of the common agricultural policy, should also be reformed. Open Europe proposes reforms to replace the current CAP structure with a system of agri-environmental allowances. Payments would be made where environmental gains are greatest. In addition, they propose cutting direct payments by 30 per cent to create a combined saving of €23.9 billion per annum (ibid).

The main loser from these reforms would be France, which received the greatest allocation of CAP direct payments from 2007 to 2013. But France is now a net contributor to the scheme so might be prepared to consider reform in the budget size, particularly since the commission is already planning to reduce the payments that France receives in favour of poorer countries. The UK putting its rebate on the table might be the most effective way of persuading the French to rethink (Peet and Tindale 2012). Meanwhile, Germany, Italy and the Netherlands are, along with the UK, the biggest net contributors and therefore might also support a cutting of the CAP budget. Among new member states, the Czech Republic, Slovakia, Slovenia and the Baltic states are not significant beneficiaries from the current framework and may be supportive of the move (Swidlicki et al 2012).

In addition, at least €300 million could be saved from the administration budget of European institutions through moves such as abolishing the farcical second seat of the European parliament in Strasbourg, in favour of a single seat in Brussels, and some cuts to the administrative budgets of EU quangos.

While these savings should be used primarily to reduce the overall EU budget, some of the cash should be used to increase EU funds for growth. Our proposals would allow €8 billion per annum to be added to this budget heading.

These new funds should be put towards three objectives.

First, in recognition of the particular pressures on crisis countries, temporary funds should be put aside to help these countries to make structural reforms to their economies. These could be focused on driving fiscal sustainability, full employment and competitiveness, with funds aimed primarily at Cyprus, Greece, Italy and Spain, in recognition of the revenue these countries would lose as a result of the reforms of EU structural funds.

Projects that deserve merit include:

- tax reforms to encourage greater diversity in the tax base and higher collection rates in countries like Greece (see for example Aglietta 2012)
- better-quality apprenticeships, skills training and other high-quality routes to work to help reduce youth unemployment (Lanning and Rudiger 2012)
- greater provision of childcare – as in Denmark, Iceland and Sweden – to help women return to the labour market, reduce child poverty and improve literacy and numeracy at an early age (Ben-Galim 2011, Skinner 2006, Melhuish 2004)
- measures such as single open-ended contracts to limit the continuation of ‘dual labour markets’ in countries like Spain where temporary workers make up around a third of the labour market (Bentolila et al 2012)
- active labour market policies and a renewed focus on family and child poverty to reduce income inequality which, according to the IMF, is associated with shorter growth spells (Berg and Ostry 2011, Rhodes 2006); and
- reforms of pensions systems to bring their costs into line with those of other member states.

Second, in recognition that Europe’s future prosperity will depend on staying at the technological frontier, there should be increased resources for joint research and development projects, particularly focused on encouraging a transition to a low-carbon economy across the EU. A number of technologies including carbon capture and storage, high-efficiency solar coating, geothermal power, hydropower, highly fuel-efficient combustion engines, and hydrogen fuel cells are all early-stage technologies that would benefit from large-scale demonstration projects at the EU level. Meanwhile, targeted government intervention should redirect production and innovation towards clean technologies, particularly in the energy, transport and telecommunications sectors (Aghion et al 2011). Other sectors that are worthy of attention include healthcare, tourism and the food industry.

Third, as set out by the German politician Frank-Walter Steinmeier (2012), these funds should be coupled with a new industrial strategy to ensure that they are put to the best use for the long-term prospects of the EU. Recent decisions at the EU level have included an additional €10 billion in equity for the European Investment Bank and new funding for project bonds,¹² the latter of which aims to revive and expand capital markets to finance large European infrastructure projects in the fields of transport, energy and information technology. Nonetheless, a clear

12 For details see http://ec.europa.eu/economy_finance/financial_operations/investment/europe_2020/index_en.htm

strategy should be put together by the European Commission, with input from the UK government, on the specific areas in which these funds should be targeted. Meanwhile, funding for project bonds should be rapidly increased, since the initial pilot project is backed by just €230 million.

In order to coordinate these budgets and ensure that they are being used appropriately, the next European commission should include a commissioner for growth.

Ideally, this commissioner would be part of a smaller commission and bring together portfolios such as industry and entrepreneurship, competition, and research, innovation and science. But if the commission remains at its current size, with 27 members, it would make sense for this role to become a vice-president position, perhaps absorbing the responsibilities of the industry and entrepreneurship portfolio. This new commissioner would assist countries on the periphery with their competitive transition, coordinate new R&D projects, and design an EU industrial policy. Britain could have greater impact within the EU – on what is, domestically, an issue of strategic national importance – if it lobbied to hold this role.



The strategy set out in this chapter to focus the EU's next seven-year budget on growth is critical to giving the EU a new sense of purpose. But if public trust in the EU is to be restored, it will need more than a return to prosperity. Chapter 4 sets out how the EU's institutions should be reformed to make them more democratically accountable and sets out the role that Britain can play in ensuring that this happens.

4. DEMOCRACY IN EUROPE

Chapter 3 set out a positive role for the UK in helping the EU to refocus on growth. But returning prosperity to Europe would only address some of the concerns that British people, and those in other EU member states, have about the EU. Vital to returning legitimacy to the EU is ensuring that its institutions are more responsive to public opinion, its officials more accountable, and its agenda more relevant. Indeed, Europe's inability to resolve its economic problems is, in part, due to its lack of democratic legitimacy, which has paralysed executive decision-making (Veron 2012).

This chapter sets out three necessary steps to achieve a greater level of democratic legitimacy and accountability. This includes an agenda focused on reform and subsidiarity which includes:

- reforms to the EU's institutions, including the composition of the European commission and role of the European parliament
- a radical agenda to reform and repeal the stock of commission regulations and directives that are no longer fit for purpose and to enhance the flow of new rules
- ensuring that closer cooperation only takes place where public opinion supports it, as it does in relation to non-military threats.

Reforming the EU's institutions

An 'ever closer union among the people of Europe' is one of the stated aims of the treaty of Rome. But it is a concept whose time has come and gone. The polling discussed in chapter 1 shows that across Europe, and particularly in the UK, there is little appetite for the pooling of further powers in Brussels.

That said, the EU economic governance 'six pack' and fiscal pact represent the biggest transfer of power to the European commission since the Maastricht treaty,¹³ while the proposed banking union among eurozone states and those aspiring to join may yet see further transfer of power to Brussels. Britain need not fear these changes. An EU of 'variable geometry' is critical to ensuring that different countries are able to sign up to only those areas of integration where there is popular legitimacy (Miliband 2012). This has been the basis under which Britain

13 For more details see http://ec.europa.eu/economy_finance/articles/governance/2012-03-14_six_pack_en.htm

and others have stayed out of the eurozone and Schengen agreement on common borders.

Nonetheless, a fundamental realignment of power within the EU is needed to ensure that intergovernmentalism forms the foundation of the EU's core institutions and that greater checks and balances are put in place to ensure that the principle of subsidiarity is properly honoured.

The 2007 Lisbon treaty sought to create a more efficient set of European institutions. It did so by establishing a larger role for the European parliament through the co-decision process and by ensuring greater continuity in the council through the creation of a permanent president and a high representative for foreign affairs and security policy. But the European commission, arguably the most powerful of all European institutions, was in its overall structure left unchanged. The time has come to enhance the democratic accountability of the commission.

While there is no evidence that there is consistent popular demand across the EU for a directly elected European commission president,¹⁴ it is now appropriate for there to be greater democratic oversight of the appointment. One proposal gaining momentum is for each party grouping in the European parliament to hold an internal primary election to decide their candidate for commission president. The party grouping which gained the most seats following the European elections in June 2014 would then have the right to nominate their candidate, with the expectation that this would not be blocked by the European council (Hix 2011).

There is an argument in favour of making the eventual winner the president of the European council as well, where currently these are separate appointments. This idea was raised by commissioner Michel Barnier last year and has gathered momentum since.¹⁵ The idea is seen to answer the famous question (wrongly attributed to Henry Kissinger) of 'who do I call if I want to call Europe?'

Although no silver bullet, the two ideas would be an improvement on the status quo whereby the public across Europe has absolutely no say over who should be the head of the European commission or council. Ideally, each national grouping of MEPs would consult the wider membership of their parties in order to gain a mandate for a particular candidate. Once the candidates have been selected, they should be encouraged to take part in debates around Europe setting out their respective positions. This should act to force media and political leaders to take the elections more seriously.

14 Although popular in some countries (61 per cent in Italy, 46 per cent in Germany and 41 per cent in France), there is little support for a directly elected EU president in the UK (25 per cent), Sweden (22 per cent) or Denmark (19 per cent) (YouGov-Cambridge 2012b).

15 As proposed by European parliament president, Jerzy Buzek. See for example www.euractiv.com/future-eu/barnier-wants-single-president-e-news-504706

But while there is a case for increasing the democratic accountability of the individual at the apex of the EU's institutions, it is important that Britain only supports such reforms if they go hand-in-hand with a diminished role for the commission. The commission's remit should be limited to carrying out the wishes of the elected representatives in the European council and European parliament. Rebalancing power in the EU away from the unelected commission is the best means of ensuring that the EU's institutions are rooted in greater democratic accountability, since voters have the ability to boot out their national government and MEPs.

A single figure from the party grouping gaining most votes at the 2014 European election should become the next president of the commission *and* council. This reform should go alongside a rebalancing of the EU's institutions away from the commission, with the power of initiation residing in the council and parliament.

New measures should also be adopted to enhance the accountability of individual commissioners. Given the rebalancing away from the commission, there is little merit in directly electing individual commissioners.¹⁶ Nonetheless, they should be held to account by their national parliaments for the commission's work. This already takes place in a number of countries, although not the UK. In practice, it would mean that the UK's next nominee for European commissioner should have their appointment approved by an EU liaison committee made up of the chairs of relevant select committees, including business, innovation and skills, environment, food and rural affairs, energy and climate change, European scrutiny, foreign affairs, home affairs, and the Treasury. The individual should be asked to appear before that liaison committee twice a year to account for the actions of the entire commission. This would help to ensure that parliamentary time was more focused on developments within Europe as well as ensuring that commissioners were not isolated from public opinion on European issues, as distilled through national parliaments.

New commissioners should be held to account by their national parliaments for the commission's work.

Culling and improving regulation

The European social and employment legislation is a key tenet of the EU. It ensures that the EU's focus on competitiveness and growth is tempered with a concern for its workers and a gradual extension in their rights to paid holidays, maternity and paternity pay, and working conditions. This common backstop has made it easier for people to work abroad, which is one of the EU's most popular attributes, as is shown in chapter 1.

¹⁶ See for example www.euractiv.com/future-eu/buzek-suggests-electing-eu-commi-news-369789

As discussed in chapter 2, there has been some discussion about repatriating powers from the EU but this is a non-starter as far as other member states are concerned. In the case of social legislation, rather than opting out, Britain needs to ensure that there is a level playing field for Brits working abroad and push hard for reform of the existing stock of legislation where current rules no longer do what was intended. Similarly, the costs on business must be taken into consideration so that regulations are only introduced and maintained if the societal benefits clearly outweigh the costs.

Since the 1990s, successive commissions have undertaken efforts to simplify or improve regulations in Europe. Most recently the commission published a document, *Smart Regulation in the EU*, which called for measures to improve the stock of EU legislation, ensure that new legislation is the best possible, improve the implementation of EU legislation, and make legislation clearer and more accessible (EC 2010).

As the commission's document makes clear, the global financial crisis has outlined the need for regulation in some markets. Indeed, claims about the burden of red tape are often overplayed, while costs cited by pressure groups rarely take into account the benefits of regulation. Nonetheless, businesses have legitimate grievances about the volume of regulations emanating from Brussels. Indeed, the number of new regulations adopted annually has risen rapidly in recent years (Persson et al 2009).

Regardless of the debate about compliance costs and societal benefits, any new regulation carries administrative costs to business – relating to understanding and reporting on the new requirements – which should be kept to a minimum.

Unless there is a risk that divergent implementation would undermine a level-playing field, new legislation should avoid being overly prescriptive and allow national regulators to work with industry bodies to implement the regulation's principles in the most effective way to deliver the desired outcomes. Old regulations that are no longer fit for purpose should be removed from the statute book.

Unfortunately, these outcomes are infrequently achieved. This is, in part, because incentives on commissioners encourage the initiation of new legislation rather than the abolition of existing rules. More grit should be placed in the wheels of the system to ensure that any new regulation is genuinely needed and has consent around Europe. Measures should include the introduction of a proper consultation process, independently audited impact assessments, and sunset clauses in new legislation.

Meanwhile, the rules about removing old legislation are too onerous. The OECD (2007) has stated that 'because reaching political agreement can

be difficult, substantive legislation often remains untouched for a long time once put in place.’

There should be a lower threshold for the removal of legislation. For example, the European council should examine whether it would be possible to introduce a rule to abolish legislation if a simple majority of member state governments want to do so (Persson et al 2009).

National parliaments should be given an enhanced role in relation to European legislation in order to ensure that the principle of subsidiarity is honoured. Open Europe has suggested that national parliaments should have a ‘red card’ mechanism to stop unnecessary or counterproductive regulation. This would ensure that ‘if two-thirds – or in particularly sensitive areas half – of national parliaments express concerns about EU legislation breaching subsidiarity principles, then the EU would have to abandon the legislation.’ They also recommend extending the period within which national parliaments can lodge complaints about EU legislation from eight weeks to 16 weeks (Browne and Persson 2011).

The European council should encourage its member states to hold national consultations to devise lists of legislation that its citizens would most like to remove or significantly amend. Care would be needed to ensure that these consultations did not unnecessarily raise expectations about the removal of legislation which ultimately has a societal benefit. If organised judiciously, however, such consultations could allow a national debate to take place on the costs and benefits of specific pieces of EU legislation and encourage politicians to engage in the detail. Indeed, it is possible that the FCO’s review of the balance of competencies could achieve these ends. The party groupings in the European parliament could be encouraged to carry out a similar exercise.

Closer cooperation on non-military threats

Although chapter 1 set out a largely negative public view of Britain’s relationship with the EU, it also showed that with regard to a series of non-military threats – such as climate change, organised crime and terrorism, protectionism and the rise of Asia, and irregular migration – there was some support for closer cooperation. This is a key nuance in public opinion and shows that the British public recognise that, in a globalised world, Britain is stronger as part of a club than on its own. Put another way, ‘if your neighbour’s house is on fire, then your house is on fire, so it makes sense to work together to prevent fires in the first place’ (Miliband 2012).

Indeed, at the diplomatic level, the EU is increasingly credited with major policy breakthroughs. The European commissioner for climate action, Connie Hedegaard, has been widely praised for fostering the timetable

agreed at the United Nations climate meeting in Durban for global carbon emissions reduction targets to be signed by 2015 (Harvey 2011). Despite a difficult start fraught with internal bureaucratic rows, the high representative for foreign affairs and security policy, Cathy Ashton, has won plaudits for her handling of the conflicts in Libya and Syria and for her approach to continued reconciliation in the Balkans. Meanwhile, the EU has extended its 'soft power' by increasing its development aid. Although it has not yet met the promises it made at the Gleneagles G7 summit in 2005, EU aid has contributed to a transformation in fortunes in Africa over the last decade. From 2000 to 2010, 46.5 million more children enrolled in primary school, more than 5 million HIV-positive people gained access to antiretroviral treatment, and 12 sub-Saharan African countries saw child mortality rates decrease by 4.3 per cent a year or more (One 2012).

The EU's increasingly competent international role should be seen in the context of a shift away from multilateralism at the global level. Global governance reached a high-water mark during the 2008–09 financial crisis, but there is currently a power gap – dubbed the 'G-zero' (Bremmer 2012). Relative US power is declining as its government deals with the fiscal legacy of the Bush years. Following wars in Afghanistan and Iraq, US citizens are increasingly reluctant to sanction further foreign policy incursions. Although China may well overtake the US as the world's largest economy at some point in the next 20 to 30 years, its GDP per capita is only expected to be a quarter of the United States' in 2050 and its growth path is by no means assured. If the world is to meet the challenge of preventing a rise in global temperatures of more than 2°C, prevent a rise in protectionist sentiment and put in place global regulations to reduce the volatility of capital markets, then leadership from the EU will be needed.

This does not, by any stretch, mean that the EU should pursue a foreign policy with more decisions made without national vetoes, as 11 foreign ministers have recently proposed (Future of Europe Group 2012). Nor does it mean that the EU should have a single defence force; European countries have different traditions and alliances that they will rightly want to preserve. But in many areas where global agreement is necessary, success will only be achieved if the EU can agree a common line and club together. Without EU cooperation there is little prospect that major powers such as the US and China will come to a common understanding.

By the same logic that EU economic policy should be refocused on growth, **the EU should refocus its diplomatic energy on non-military threats, including climate change, organised crime and terrorism, protectionism and the rise of Asia, and irregular migration.**

5. CONCLUSION

The democratic and economic crises facing the EU are greater than at any time in its history. Public opinion in the UK is stark and is becoming increasingly so in other member states.

The status quo is clearly untenable but the simple solution – the UK exits the EU – would not leave our country better off. Indeed, on geopolitical, economic and cultural grounds there are strong reasons for remaining in. But the EU is far from perfect, and its institutions need to be reformed more than ever before towards growth and democracy.

Instead of disengaging from EU decision-making processes and retreating to carp from the sidelines, Britain should lead efforts to reform the EU. The UK should countenance putting its budget rebate on the table as part of a ‘grand bargain’ to leverage a smaller overall EU budget focused on growth. Meanwhile, Britain must lead efforts within the EU for further institutional reforms to increase its accountability and democratic legitimacy.

The recommendations made in this report set out a new approach to EU reform. This balances the logic of continued EU membership for the benefit of Britain’s economy and standing in the world with the critical need to create a more democratic institution that enjoys greater support from its citizens.

We recommend:

- If there is a referendum in the next parliament, the British people should be asked a straight in/out question on EU membership.
- There should be a vigorous ‘stay in’ campaign, with a clear proviso that the EU is reformed to enhance growth and democracy.
- The UK’s rebate should be put on the table as part of a ‘grand bargain’ to achieve a smaller EU budget focused on growth alongside meaningful reform of the CAP and structural funds.
- Growth funds should be increased using the savings from the reform of CAP payments and structural funds. These should be designed to assist countries on the periphery with their competitive transition, coordinate new R&D projects, and design an EU industrial policy.
- A new commissioner for growth to carry out these tasks should be created. Britain should lobby to hold this post.

- A single figure from the party grouping gaining most votes at the 2014 European election should become the next president of the commission *and* council. This should go hand-in-hand with a rebalancing of the EU's institutions away from the commission, with the power of initiation residing in the council and parliament.
- Individual commissioners should be accountable to their national parliaments for the work of the whole commission.
- A renewed focus on improving the stock and flow of EU regulation should be undertaken, with old regulations being scrapped on a simple majority council vote.
- National parliaments should be given an enhanced role in blocking new legislation and identifying old legislation that could be amended or repealed. National consultations should take place to devise lists of EU legislation that citizens would most like to remove or significantly amend.
- Diplomatic energy should be focused on non-military threats, including climate change, organised crime and terrorism, protectionism and the rise of Asia, and irregular migration.

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APPENDIX A

METHODOLOGY FOR DELIBERATIVE WORKSHOPS

Deliberative workshops are not intended to produce a definitive account of what the public thinks, since they cannot involve enough people to be genuinely representative. Nor are they designed to test the popularity of particular policy ideas. Instead, they offer a valuable opportunity to hold in-depth conversations with members of the public and to see how people respond to new information and arguments. They can also help to scratch beneath the surface of ‘what’ people say they think and generate a better understanding of ‘why’ people hold the views they do and what kind of information underpins those opinions.

These workshops were conducted in two UK locations (London and Macclesfield) in May 2012, with a total of 31 participants. Participant recruitment was designed to ensure an equal number of men and women and a mix of ages and ethnic and professional backgrounds. We also used a screening survey to try to recruit participants that reflected the ‘middle ground’ of public attitudes on Europe, rather than those that sit at either extreme end of the debate, since these individuals are most likely to be open to the presentation of new and different messages.

Each session lasted around two and a half hours and involved open-ended discussions about various aspects of the UK’s relationship with Europe. A range of written prompts were used to stimulate (but not direct) discussions within the whole group and in smaller breakout groups. One particular aim was to identify how this information influenced the nature of the discussion, and to track any shifts in attitudes that occurred over the course of the workshop.

APPENDIX B

METHODOLOGY FOR CALCULATING THE 'EU BUDGET FOR GROWTH'

There are so many moving parts in the EU budget and so little transparency that it is difficult to make accurate estimates of the dynamic effects of changes in different budget headings. What follows is an approximation of the effects of changing some budget headings. Although there will be a margin of error, this exercise shows that Britain can get a better deal for itself and for the rest of the EU by giving up the rebate. Other than vetoing the commission's proposals, a range of other options is certainly available to the UK that would go some way towards the IPPR proposal.

Since a budget has not yet been agreed for 2014–20, we used the 2012 EU budget as our baseline.¹⁷ From this, we cut €21 billion from structural funds, €23.9 billion from farm payments and €0.3 billion from administration. We also increased the growth budget by €8 billion. This resulted in a budget which is 25 per cent smaller than the 2012 budget. Table A.1 sets this out using the commission's preferred budget headings.

	EU 2012 budget (€bn)	IPPR proposal (€bn)	Change (€bn)
Competitiveness for growth and employment	14.7	22.7	8
Cohesion for growth and employment	52.7	31.7	-21
Preservation and management of natural resources	60	36.1	-23.9
Citizenship, freedom, security and justice	2.1	2.1	0
EU as a global player	9.4	9.4	0
Administration	8.3	8	-0.3
Total	147.2	110	-37.2

Table A.1
IPPR's proposed budget

¹⁷ See http://ec.europa.eu/budget/figures/2012/2012_en.cfm

Existing country contributions are taken from the EU's draft budget for the financial year 2013.¹⁸ We use column 10 of table 7 to calculate each country's share of the 2012 budget, shown in table A.2.

IPPR's proposal assumes that rebates for the UK as well as the Netherlands and Sweden are removed. To calculate each country's share of our proposed budget in a world without rebates we added together columns 5 and 6 from table 7 and divided by the total from the two columns to provide a percentage. This is shown in table A.2.

As expected, the share in gross contributions falls for each country aside from Sweden, the Netherlands and the UK, which each have lost their rebate. But because the overall budget is 25 per cent smaller, every country – including the UK – makes a gross saving.

The shortfall in the contributions of member states is made up with the €18.2 billion annual contribution from the commission, which is derived from custom duties. This figure is taken from the 2012 EU budget.

It should be noted that these savings are gross. Changes to the budget headings shown in table A.1 will have a differential effect on different countries. But the gross savings can be used by individual countries to compensate for lost payments. For example, Britain's gross saving of €1.5 billion should be ringfenced for regional economic development to compensate for the loss of structural fund payments, which have historically benefited regions outside London and the south-east.

18 See <http://eur-lex.europa.eu/budget/data/DB2013/EN/GenRev.pdf>

Table A.2
A new proposal
for the EU's
2014–20 budget

Member state	Share with rebate	EU 2012 budget (€bn)	Share without rebates	IPPR proposal (€bn)	Saving (€bn)
Austria	2.4%	3.1	2.3%	2.2	0.9
Belgium	3.2%	4.1	3.0%	2.8	1.4
Bulgaria	0.3%	0.4	0.3%	0.3	0.1
Cyprus	0.1%	0.2	0.1%	0.1	0.1
Czech Republic	1.2%	1.6	1.1%	1.1	0.5
Denmark	2.1%	2.7	2.0%	1.8	0.9
Estonia	0.1%	0.2	0.1%	0.1	0.1
Finland	1.7%	2.2	1.6%	1.5	0.7
France	17.6%	22.7	16.5%	15.2	7.5
Germany	19.9%	25.7	19.5%	17.9	7.7
Greece	1.6%	2.1	1.5%	1.4	0.7
Hungary	0.8%	1.1	0.8%	0.7	0.3
Ireland	1.1%	1.4	1.0%	0.9	0.5
Italy	13.0%	16.8	12.2%	11.2	5.6
Latvia	0.2%	0.2	0.2%	0.1	0.1
Lithuania	0.3%	0.3	0.2%	0.2	0.1
Luxembourg	0.3%	0.3	0.3%	0.2	0.1
Malta	0.1%	0.1	0.0%	0.0	0.0
Netherlands	3.8%	4.9	4.3%	4.0	1.0
Poland	3.3%	4.2	3.1%	2.8	1.4
Portugal	1.3%	1.7	1.3%	1.2	0.6
Romania	1.1%	1.5	1.1%	1.0	0.5
Slovakia	0.6%	0.7	0.5%	0.5	0.2
Slovenia	0.3%	0.4	0.3%	0.3	0.1
Spain	8.5%	11.0	8.0%	7.4	3.6
Sweden	2.8%	3.6	2.9%	2.7	1.0
United Kingdom	12.2%	15.8	15.6%	14.3	1.5
Total (members)	100%	129.0	100%	91.8	0.0
Commission		18.2		18.2	0.0
TOTAL (ALL)		147.2		110.0	37.2



Britain's relationship with Europe is at crisis point. The number of people who think that European Union membership is a good thing has fallen to new lows. Neither the institutions themselves nor successive British governments have done enough to articulate the benefits of the continued relationship, despite the clear evidence.

A referendum of some kind on Britain's relationship with the EU now looks inevitable. Just as with Scottish independence, any referendum on the UK's relationship with the EU must be clear and decisive: the British people should be asked a straight in/out question.

The time has come for pro-European voices in Britain to make the pro-EU case. This should go hand-in-hand with a realistic account of how Britain's relationship with the EU can be improved, focusing on growth and democracy. With these arguments in place, the case can be made and won for Britain's continued membership of an enhanced European Union.

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