

Listen carefully to the British

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Other than many have predicted the general election in the United Kingdom have not led to a hung parliament but the opposite: An absolute majority for David Cameron and his Tory party. Thus, the way is paved for the EU referendum. Cameron has promised to let his fellow citizens decide whether they would like to stay on in the EU or rather leave. Charles Grant, director of the Centre for European Reform, tells us what this means for the UK and its relation to Germany and the European Union.

What shall we think of this election result? Is the United Kingdom becoming more continental or the opposite?

This election was profoundly important for the UK. The Liberal Democrats (LibDems) have nearly disappeared; the SNP have won almost every Scottish seat; the results endanger the UK (the Scots hate Tory governments in Westminster) and EU membership, because of the referendum that will be held.

Considering Scotland's simmering independence efforts what does this mean for the future cohesion of the Union?

The cohesion will be under strain. The Tories won, in part, by demonizing the SNP, saying 'if you vote Labour, those dreadful Scots will prop up a Miliband government and thus do things that are bad for England'. This partially successful attempt to build up English nationalism is making more Scots question the Union.

What are the challenges and thus should be the political priorities for the new government?

The new government's priorities are to hold the EU referendum; to cut the budget deficit, by slashing welfare payments; and to make various tax cuts to encourage wealth creation.

Do you see chances for a more balanced economic recovery? Would that relax the UK's stance vis à vis the EU for example on the freedom of movement?

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The economy is doing well, with almost no unemployment. But there are big structural problems that the new government shows no interest in addressing: poor infrastructure, poor productivity, rigid planning rules that deter housebuilding, weak skills in workforce. Whatever the economy does, I do not see opposition to immigration diminishing. This opposition is not just about wage rates and economic factors, it is cultural and deep-rooted among a large part of the British population. But, if the eurozone could pull itself out of its economic difficulties that would help in the UK; we would have fewer EU immigrants seeking work here. Then maybe the issue would become less salient politically.

How will the election impact on – as many see it – an overdue constitutional reform? Will we see the introduction of a more representative voting system?

The recent election highlighted the problems of our electoral system – in Scotland the SNP won all but 3 seats with half the vote; UKIP won 1 seat with 13% of the vote. But nobody will move to change this system quickly, given the failed referendum on a new voting system three years ago. We would have to have many parliaments with unfair results before politicians will favour change. And why should the 'Tories' want change? They are running the country with 37% of the votes.

Will the new government be able to stop UK's international marginalization? Can we hope for the UK to become again an active shaping power in Europe and beyond?

If the referendum is won the UK can once again be a significant player in the EU. But the problem is not just the referendum issue. Since the Iraq and Afghan wars, the British people have become less willing to lead and engage in other parts of the world. We are more isolationist. The Tories are cutting defence spending savagely. Possibly the growing menace of Putin's Russia

may lead to some change of attitudes. Another problem is that the country's leaders, notably Cameron and Osborne, are not very interested in the strategic side of foreign policy. They have emphasized a mercantilist foreign policy, eg in their dealings with China (they avoid criticizing China, like Germany's leaders).

What do you think about German leadership of Europe and how is it perceived?

Over the past five years Germany has emerged as the EU's principal leader. For the first time in the history of the EU one country is more or less in charge. Of course this is as much the result of French economic weakness and Britain moving towards the exit as it is of Germany's economic strength. Sometimes, Germany exercises this leadership in a good way, as when it has corralled the other member-states, some of them reluctantly, to accept sanctions on Russia. On this issue, Germany has sacrificed some short-term economic interests – those of the companies which are most heavily involved in Russia – for broader strategic and ethical considerations: the need to maintain European and transatlantic unity, and the need to uphold the principles of territorial sovereignty and rule of law.

I would contrast this with Germany's performance on the euro, where the view in most parts of the world (bar the 'greater Germany' which includes Finland, the Netherlands and a few other countries) is that Germany has at times put short term economic interests – the desire to avoid transfer payments to the south of Europe, or debt mutualisation – ahead of the broader strategic interest of a strong, stable and successful eurozone. Of course, that is not how it looks to many people in Germany, and the Germans are absolutely right to say that southern European states, and especially Greece, must undertake painful structural economic reforms. But Greater Germany is isolated in arguing for the degree of austerity that it has sought to impose on the southern states; most of the rest of the world would say that if you want to achieve structural reform, you have to soften the austerity, because

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cutting public spending when private demand is already shrinking leads to excessive negative growth, raising debt burdens and making reforms harder to achieve politically. What I find scary is not that Germany's financial elite disagree with the IMF, the European Commission and most mainstream French, British and American economists, on these issues; it is that this elite is so convinced it is right and that it has nothing to learn from economic thinkers in other parts of the world.

Germany will also, of course, play a crucial role in helping the British to stay in the EU, Merkel will be the dominant figure in any UK renegotiation.

What if anything can the EU do to help the British in the run-up to their referendum on EU membership?

Some countries in the EU are fairly relaxed about the possibility of Brexit – notably Spain, France and Austria, to name just a few. My line would be that Brexit would have very serious consequences for the EU: the prevailing economic philosophy would be less liberal; the foreign and defence policy would be less serious; the EU-US relationship would be weakened; and Germany would be left even more exposed as Europe's hegemon. So Germany, which sees these potential problems, should encourage other countries to be helpful to the British. That does not mean sacrificing key principles like free movement. It does mean listening carefully to British ideas, when they are sensible, as some of them are (at least in the views of several EU governments), e.g. on safeguards for the single market vis-à-vis the eurozone, or on enhancing the role of national parliaments in policing subsidiarity. Cameron needs a deal that he can present to the British people as showing that something has changed in the EU, for the better. Of course, if Cameron's demands are excessive, he must be told that he cannot have them. But with good will from both Cameron's government and other EU capitals, a deal is feasible.

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Biographical information

Charles Grant is director of the Centre for European Reform which he helped founded in 1996. He is the author of numerous CER publications, including *Russia, China and global governance* (2012) and *How to build a modern European Union* (2013). He works on, among other subjects, EU foreign and defence policy, Russia, China, the euro and global governance

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