

**The Hands Lecture by the Rt. Hon. Lord Mandelson
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Europe, is it the end of the project?

I want to talk tonight about the future of the EU. I'm not going to delve deeply into the solution for the Eurozone crisis, or the merits of Eurobonds or a more activist role for the ECB.

I want to set out why I think the European project – and a Eurozone Mark 2 – are worth saving. I also want to set out why I think saving the Euro is going to pose a serious problem for Britain, precisely because, quite rightly, British policy is to save it by deepening the integration of the Eurozone core.

Now, I recognise and I want to say at the start, that there are a lot of people out there betting, emotionally, politically - even literally in the Mayfair hedge fund community - on the failure of the Eurozone. I share some of their scepticism. But tonight I want to debate the costs and consequences not of failure, but of success.

In the two years since the British people liberated me from office and gave me the opportunity to spend more time with my ipad, I have travelled a great deal in Europe and beyond and I have been lucky enough to talk to a lot of heads of government, ministers, business CEOs and leading academics. Their views and insights have informed much of what I have to say in this lecture.

It has struck me over the last six months or so, and especially after last December's European Council that when you try to engage in this debate outside Britain, even as a pro-European former Commissioner like myself, people barely disguise their sense that this is not a debate in which a British perspective will account for much.

And that is a sign of where I believe we are headed, which is part of what I want to speak about tonight. The sense that, last December, Britain made a profound choice: to remain in Europe but on detached terms.

Nevertheless for the first part of my lecture tonight I want to speak as a European. When I talk about 'we', I mean all of us in the European Union. When I say European, I mean Britons as well. In the second half of the lecture I will talk more directly about the particular British problem in Europe. But in both cases I want to start with Winston Churchill.

Urging Europe on from the sidelines

Winston Churchill's famous speech in Zurich in 1946 defending the idea of a United States of Europe is often invoked in continental Europe as evidence that there is British intellectual DNA at the heart of the idea of European Union.

But of course Churchill was far from clear that Britain belonged in the United States of Europe. Churchill like many of his contemporaries, including his successor Anthony Eden, believed Britain was an Empire in its own right, not part of someone else's. It had no business in the management of Belgium's coal reserves.

It is an interesting historical fact that Churchill belonged to the last generation of senior conservatives – until those in power now – who would hold these two particular views at the same time. That closer political integration among a core of European states was a necessary thing but that Britain should have no part of it. I want to come back to that point later.

Everything about Britain's relationship with the EU since that time has been marked by ambivalence, Labour and Tory. My own grandfather, acting as prime minister during Attlee's illness in 1950 decided against Britain going into the Coal and Steel Community because, as he remarked to officials at the time, "the Durham miners wouldn't wear it".

But as it became clear that the postwar Churchillian vision of Britain was unrealistic, the view of what was happening politically on the continent became both more complicated and more attractive. Harold Macmillan fretted endlessly in his diary that if a united Europe was established without Britain we would end up with a German-dominated Europe that in the twentieth century we had fought two world wars to prevent. Ironically of course today it is probably Germany that is doing the most fretting about a German-dominated Europe. But, again, back to that in a moment.

Clearly Britain could not join a United States of Europe. But, there were other rationales for cooperation. And what emerged in both Conservative and Labour minds was a very clear and compelling economic case for joining a united *markets* of Europe. In any event, the reasoning in London was, and in FCO circles still very much is, that Britain must shape this process from the inside. And so, eventually, in we went.

And through the 80s and 90s Britain was an intellectual driver of the liberalisation of the single market at the heart of the EU. Certainly Britain's welcome liberal attitude to the single market has left a far deeper – I would say indelible – impression on the European Commission than is generally recognised in this country.

But European states and European voters have never really been explicitly confronted with the need to choose between a more pragmatic European economic union and the idea that it might evolve into a single political community. The fudge on monetary union that gave Europe a currency, but not the fiscal institutions to manage its underlying economic foundations is a symptom of this problem.

Britain signed up to ‘membership’ in Europe. The language is interesting and suggestive. Membership implies being able to come and go as you please and, indeed, leave the club should you wish. Illinois and Texas do not describe themselves as “members” of the United States. The Community formally became a Union in 1991 with Maastricht, a change of name with nothing more than a flourish of the pen.

We have got to a point where the political classes are solving the Eurozone crisis on the op-ed pages of the Financial Times three times a week - and no doubt there are students in this audience doing the same in their tutorials. But we are better at saying *how* to fix the Eurozone than *why* and for what higher purpose. And I don’t mean *why* in the short term, costs-of-failure-are-higher-than-costs-of-fixing-it sense. I mean: why have a Eurozone at all in the twenty first century? Why have a European Union at all? What is it, exactly, we are intent on preserving and for what purpose?

Euro-redeemers and euro-marketeers

Now, back in the 1970s, I cut my campaigning teeth as an undergraduate here in Oxford in Britain’s European referendum. Then, to be pro-European in the UK was about defending a growing single market, a rejection of centuries of European inter-state conflict and British parochialism. This impulse was and is very powerful in many parts of continental Europe. Indeed it is one of the two basic drivers of the EU over the first half century of its life. It sees the EU above all as redemption, an antidote to Europe’s past, and the politics of European Union as fundamentally being about transcending nationalism and national politics in the name of the common European good.

In the 1980s and 1990s a new and different set of liberal economic arguments took centre stage. A network of dozens of exchange rates and divergent regulations is an impediment to trade and economies of scale. And the widening and deepening of the European market gave British advocates of open trade and free markets in particular a strong case for a particular version of the EU – including one based on a form of monetary union.

So we have two trajectories. That of the more political Euro-redeemers and the more economic euro-marketers. But both of these trajectories have become weaker and less potent with time.

The wars are ancient history. The external Soviet threat is gone, or at least has morphed out of all recognition into a very real, but much less tangible, global 'competitiveness' challenge.

A lot of the basic economic and practical advantages of closer integration are no longer seen as linked to any really political project. A generation of younger Europeans have simply banked the single market, the ease of passport-free travel. They do not see these things as being necessarily contingent on fiscal governance from Brussels, or common debt liability underwritten in Frankfurt.

And they are right. These are two different visions of the EU, and we had better be honest about that. Every time we try to explain the EU just in terms of these new conveniences of modern European life we are fudging the matter. Because Europe chose a single currency, and the decision to move into currency union is now demanding a version of the EU based on collective fiscal governance. Something much more akin to a political union than we have openly debated in the past.

Europe can no doubt continue to muddle through for some years to come, as we steer through the next big banking crisis or debt market crisis. But a credible future for the Eurozone, and the basis of a Eurozone Mark 2, will have to rest on some degree of fiscal federalism amongst its members – the German Chancellor, who holds the chequebook at this point, has been clear about that and she is right. To survive, the Eurozone needs to operate more as a single political entity.

So far in the Eurozone crisis, we have seen more reciprocity than anyone probably thought possible but it has not proven, so far, enough reciprocity to save the system. Whether what is ultimately 'enough' falls short of full fiscal union, we will see. But we know for sure that it must involve a huge new step in integration. The passing over to collective decision making areas regarded as deeply sovereign: tax and spending levels, policy coordination, fiscal transfers, banking supervision and regulation.

I think this is the inevitable course for the Eurozone to take and that it will probably work economically. My question, though, is this: whether it is sustainable politically, especially in a period of profound austerity, and whether the European public will understand *why* it is right to sign up to such an advance in federalism and will be willing to do so. As we are already starting to see, German largesse will not feel anything like solidarity in Athens or Madrid. And in Germany and other surplus countries, this solidarity may start to look excessive and politically unsustainable.

It may be that Eurozone citizens are more accepting of the new arrangements than I imagine. But it seems to me that we will never genuinely secure the legitimacy of this step without a much clearer sense among Europeans of why we should be arranging our affairs in this way in the twenty first century.

The case for the EU

I think Europeans understand and accept much of the case for closer cooperation. They see the link between collaboration and their current prosperity and security. The disfiguring of Europe by fascism and authoritarianism has given way to a community of states collectively bound to the world's highest standards of political openness and civil protection, and with one of the highest standards of living in the world. In this respect the EU is arguably the most effective foreign policy the world has ever seen, its soft power immense, conducted by an effective High Representative.

Although Europeans are still ambivalent about many aspects of economic globalisation, we accept the value of rationalising our economic relations through the single market, a common trade policy. We accept that the single market requires quite a high level of regulatory convergence to be effective, and that this means pooling sovereign decisions in areas such as competition policy and consumer protection.

We increasingly, I believe, will come to see not just the value but the necessity of rationalising our energy use through a more integrated single market in energy and approach to developing alternative energy technologies.

We get that we have an unstable regional neighbourhood, which is also a big argument for close foreign and security policy coordination. A complicated relationship at the other end of our continent with Russia. An unpredictable Iran. And a North Africa that is being transformed in exciting but potentially destabilising ways. In all of these cases, a long and very porous border.

We know that our ability to exercise diplomatic influence in any of these areas depends to a great extent on our unity. It is certainly immeasurably greater when we can bring the collective weight of the EU to bear. Around the world, doors are open to Jose Manuel Barroso because the European Commission's decisions matter to the big global players. As EU Trade Commissioner I exercised influence in China, or with the US, or in the WTO only because I represented a combined market of 500 million people. When the use of military force is required on any significant scale, as it was in Libya, even the largest European militaries can exercise power only in coordination, and at this stage, without the support of the US, barely at all.

These are compelling arguments for a single European policy in these and other areas. While I think most Europeans accept them, here in Britain we have often lost sight of them. At the time of the 1975 referendum, it was obvious even to Mrs Thatcher that as the Empire disappeared and the Commonwealth evolved, our influence in the world would be sustained and multiplied through Europe. Europe could be seen not as a sacrifice of sovereignty, but a mutually beneficial pooling of it.

For me and the great majority of Europeans it is simply delusional to think a reversion to a fragmented Europe of relatively small, uncoordinated nation states and national markets would be anything other than a backward step. And that logic applies unequivocally to Britain as well. I think that if the EU did not exist, we would want to invent it. Not perhaps exactly what we have today, but something like it.

From practical Europe to political Europe

The more difficult question is whether this set of common interests and this case for cooperation is the basis for a single European polity. Does it make us a political community, as opposed to a community of interests? I don't think there is a single simple answer to that question.

Can we speak of a single political unit called 'Europe'? Clearly we have a common history full of unifying and fragmentary impulses. I think we can speak of 'European' values. Of a broad 'European' consensus on political protection of personal rights. Of the secularism of political life. A European way of managing personal and social economic insecurity through a combination of open markets and social protections. These ideas make us an intellectual community. Not a closed or impermeable one, but one whose hinterland is clearly the European continent and these islands we live on.

But do they make us a single political community? To a degree. Do we identify with each other as Europeans? To a degree. Perhaps most importantly, do we feel solidarity for each other? Well, again, to a degree. I think we might say that whatever the words in the treaty, we feel like a broad community. We are more ambiguous at this stage about the idea of union.

But what is being contemplated now to secure the future of economic and monetary integration in Europe is a big step in that ambiguous direction. Fiscal union will of course not erase national or regional identities, or the critical role of national government in our lives, but it is by far the largest measure of sovereignty that European leaders have so far contemplated collectivising.

And by its nature it means transfers from one member state to another, something which requires unprecedented solidarity. And what is currently being planned by the European Commission is the re-programming and deployment of community resources across the Eurozone's periphery that dwarfs the post war Marshall Fund many, many times over. This is an order of magnitude greater politically than the current structural funds.

That is in my view right. But if that political case is going to be made and won it will require clear defence. From politicians in Germany it will require an acceptance that the

badly designed Eurozone has brought substantial benefits for Germany in the form of suppressed exchange rates and a massive export surplus, and that bearing the bulk of the cost of correcting the Eurozone's deep imbalances is an acceptable compromise.

From politicians in Greece, Spain, Italy, Portugal and Ireland it will require the courage and discipline to present both painful austerity and structural economic and market reforms for what they are - not something that is externally imposed by Brussels or Berlin, but as a sovereign choice, dictated by national circumstance and necessity. Otherwise the EU risks becoming defined in the minds of citizens simply with bailouts and fiscal discipline: a resentment Union. A kind of European IMF.

And the governance of the EU is going to need to change. I believe that the current Commission should be shrunk and its working methods merged more with the Council to form a full governing board, which includes every member state, and a smaller executive committee of the EU, rather on the model of the European Central Bank.. The status of the Commission needs to be reasserted to reflect its important new responsibilities in relation to the Eurozone's economic governance, but also to protect the interests of those within the EU but outside the Eurozone.

I am also struck by the number of people arguing for a renewed role for national parliamentarians in Brussels alongside the European Parliament. Not least because so many aspects of economic governance like education, industrial policy and scientific research are national responsibilities whilst being essential to Europe's overall economic performance. I also think the case is growing for electing the personality who leads Europe's governance, either directly across the EU or indirectly through the European Parliament.

But from our point of view in Britain these arrangements may be a secondary question. Assuming that this major advance in the Eurozone does take place, then we will have something more akin to a European Union inside a European Community. A Eurozone that will see itself as 'core' Europe, and an outer ring of states either actively working towards eventual membership of the Eurozone, or outside it as a matter of politics and policy.

Implications for Britain: in, but out?

For thirty years, UK European policy has been based on the principle of supporting the widening of the EU as a check on its deepening. In reality, we can see now that the creation of EMU in the nineties probably meant that this policy was living on borrowed time. The UK government itself now argues that the Eurozone's future depends on it following the logic of fiscal and political integration. George Osborne calls this the Eurozone's "inexorable logic". Like Churchill in 1946 we are urging on the unifiers, while placing ourselves outside that circle.

I believe there will be an inevitable gravitational pull of decision making towards the inner Eurozone core. Britain will be invited to support this evolution but if we refuse, we will be ignored. In effect, this is what happened in December. As President Sarkozy put it bluntly but with absolute precision; “we want you to come with us but we are not going to pay you to do so”.

In the years to come, Britain will be faced with a recurring choice of roads to follow. The one of joining with the core and the other of permanent second tier status. Life in a sort of European annex. It is certainly not inconceivable – indeed I think it is likely - that Britain will find itself a decade from now the only state in the EU, certainly the only large state, outside the Eurozone. Effectively the EU will have been rebooted, with the UK on the outside. We must not delude ourselves about this.

At many practical levels this may not matter too much, at least in the short to medium term. Cooperation on defence, foreign and energy policy will have their own centres of gravity that will not be anchored in the Eurozone. But for the running of the single market the implications are obviously potentially serious, as the core group increasingly caucus on matters of economic governance without us.

There is already an active debate in Germany and France about the new political institutional arrangements that need to be developed at the Eurozone level to ensure cohesion and legitimacy. France has long wanted separate institutions and was therefore rather pleased when Britain’s veto seemed to make this inevitable in December. Germany will resist, but, bluntly, who will care that much about the interests of the community of 27 or 28 if all but Britain belong to a tighter inner core?

As is our way in Britain, we will continue to frame the questions in practical rather than political terms. Can a major financial centre like London exist in the Single Market but outside the currency union given that securing the European banking system will need to be done collectively? Can we build more alliances with the Scandinavians and Eastern Europeans who are probably closest to our political outlook?

But ultimately the higher question may be about politics and identity. Our own history as Europeans is complex and difficult. The English Channel is a psychological phenomenon as much as a body of water. We have long tried to believe that the EU would keep getting wider rather than deeper and we would never have to confront our own ambiguous feelings about Union. Events are conspiring to call our bluff.

And for us in Britain this will pose a sharp, for some deeply uncomfortable, choice that we have hoped and sought to avoid. A nation of “reluctant” Europeans will have to confront a choice between taking part in greater integration, including joining the Euro, or an uncertain future.

Having posed the problem thus, I don't think I can really end without some form of conclusion or prescription for Britain. I think my biggest challenge is to the pro-Europeans in the UK. In the version of the future that I have described there are two basic ways of being 'out' of Europe for this country. There is the argument that just says we should be out altogether. The red tape. The bent bananas. The gravy train. What has become the UKIP view.

Then there is the argument that a looser relationship, a place on the second tier is fine for Britain, not out but not fully in. A Hong Kong to Europe's China. Or a Canada to Europe's United States. The second, I think, is where the current government, or the Conservative part of it, probably would be happy to come down.

My view is that both will probably amount to much the same thing. We will still have to meet EU standards to trade with Europe. We will simply have no or little voice in defining them. We will still seek to align ourselves with Europe internationally most of the time, as a matter of political and practical necessity. But we will have less say in Europe's own policy deliberations. For this reason, both outcomes seem badly flawed to me and should be rejected.

But what is the pro-argument? Is it just a version of this basic isolationism, but with more positive rhetoric? A belief that we should focus on being 'good Europeans' by co-operating, for example, on defence, energy, anti-terrorism, but essentially semi-detached. And increasingly accepting that the economic terms on which the wider European market operates will be determined by the core, simply as a function of their number and weight?

Or is it a Britain that ultimately accepts a stronger European political vocation? A Britain that accepts that to rule out ever joining the euro may be – almost certainly will be – to rule out a place in the genuine European Union of the future and its successful currency union. And precisely for that reason *does not rule it out* in principle. Indeed, which anticipates possible membership

Britain's eurosceptics are busy patting themselves on the back for their historical resistance to joining the euro. But it seems to me that assuming that the Eurozone is doomed to perpetual failure is assuming a lot. There is a strong case for a European single currency and in practical respects it has worked well. It is the currency union that is politically and institutionally flawed and the crisis may in fact be the key to its success – by forcing the necessary institutional and political reforms. The economic logic for staying outside the Eurozone can and probably will change, as the euro continues its rise to a global reserve currency. The logic for London and the euro may be the same. Hong Kong's strength is in large part a function of mainland China's weakness, and for all its problems, Europe hardly fits that picture.

Throughout this lecture I have purposefully tried to be as dispassionate as possible but you will have guessed where I stand. I believe in a prospect of euro-membership and closer political union and economic governance. Partly, I recognise, this is an emotional choice – I identify as a European.

But it is also because I believe that – if I can paraphrase Mrs Thatcher – for Britain, the facts of globalised life are European. Just as irrespective of their individual strength and identity, the facts of globalised life for California or New York are American.

Being part of a political and economic European Union would be for me a pragmatic way of asserting British values and interests in the world – actually, the only really credible way of asserting these values and interests.

But it is also because I believe that such a political union would take nothing of value from what matters to me about being British or English. But I fully accept that a majority of British people do not agree with me. In fact, we do not know what the British – or the individual nations of Britain for that matter – think about the European future.

My message is a wake up call for today's generation of political, business and trade union leaders, and the NGOs, for example, who care about the environment and climate change and global poverty. The British public need to engage with what is at stake. The European mandate that the Heath government secured in the 1970s belongs to another time and another generation. I believe a fresh referendum on this will be necessary because the political parties cannot reconcile their own differences and come to a final conclusion on their own, and nor should they. While the Conservative Party is the home of visceral hostility towards Europe, to an extent, negative feelings about Europe are now more present in all the parties..

This referendum should not be held as a panicky electoral response to the rise of UKIP, as I fear might be David Cameron's inclination. It would not be relevant until the new shape of Europe, and the success or otherwise of its Eurozone Mk 2, finally emerges and a considered judgement is possible, something which is likely to be a fair way off. At that stage, a referendum would be a healthy means of re-establishing a consensus – among Britons, and among the nations of Britain for that matter - about Britain's place in the world and the role Europe should play in that.

We need a serious debate on this and it seems to me that the burden is now on the pro-Europeans to make the case. I do not believe that pro-European Labour and Liberal Democrats can leave it to the Conservative ultra-sceptics to make all the running over Europe. The Tory allergy to public debate on Europe for a decade has to some degree let Labour and the Lib Dems off the hook.

To get a sense of how this debate might sound, it is worth considering some polling undertaken by Populus for the think tank, Policy Network, last weekend. Overall, two-thirds (67%) of people support staying in the European Union. A third would simply leave. But by staying, a majority of people mean doing so either in a looser free trade area or as it is, with no further integration. Tonight I have argued that these are not the directions Europe is going in.

80% are against ever joining the single currency. 4% would join now, and given the current euro crisis, you have to wonder who they are! But seriously, I have argued tonight that the consequences of ruling out euro membership in this way could be far-reaching and far from in Britain's interests.

Views on a referendum are more balanced, with 56% favouring one and 44% regarding it as a distraction at this time.

These views suggest people like me have a mountain to climb if we are going to change minds. But my optimism comes from the almost seven in ten people in Britain who cannot imagine a future for Britain without close cooperation with our fellow Europeans. The 50% of Britons who would support further integration if they could be convinced it would strengthen Britain's influence. This group of us, who lean instinctively towards Europe need to understand and debate how the terms of being 'in Europe' may be about to change. I believe there is more to play for.

Conclusion: A fourth crisis?

So let me try and summarise. The uncontested analysis over the last year or two is that Europe is suffering a banking and sovereign debt crisis, whose causes lie in part in a crisis of competitiveness and structural imbalance. My argument tonight is that there is a fourth crisis facing the EU, which is one of political legitimacy.

Nobody can or should doubt the political will amongst Europe's political elite for the Eurozone to survive. But the action that will be required to secure the Eurozone for the future is going to require a significant new step into closer integration in the Eurozone at a time when the EU is already suffering from a degree of integration fatigue and when the underlying sense of European identity and solidarity is uncertain.

While I think this can work economically, I believe for it to be politically sustainable we need a much clearer public debate about *why* this should be so and not just *how* further integration should take place. At the start of the twenty first century there is a strong case for a union of European states that is more than just a loose community of values and interests, and more than just a free trade area.

But the precise scope of that community – the extent to which it is or aspires to become, a genuine political union – is something that needs to be much more actively understood and debated. Even if fiscal union is a destination that has been implicit but dormant in the whole concept of monetary union for two decades, this step needs a clear mandate, and clear debate.

For those states such as Britain who will for the foreseeable future remain outside any new core group the challenge is different but no less acute. Europe may be about to ask us to choose. For three decades we have had the freedom to define the European project on our own terms, even in the knowledge that others in Europe had their own version. We have pursued a strategy of width over depth that has sustained a concept of integration in Europe within our political comfort zone. That strategy may now be defunct. If we choose to stay outside this core – and because we will not join the euro any time soon, then we must – then a part of Europe will have started a clear political journey without us.

What are the implications for Britain if the citizens of this core grouping over time increasingly find themselves answering questions about their European identity, their European solidarity more in the affirmative? It took a century or more for Americans to develop this sense of continental identity alongside their state identities, and they were pulled into it by institutional change as well as pushed by events. The European version of that journey may stall. It may be abandoned. There must be a chance of both. But it may not. And if it does not, then the implications for the UK will be far-reaching. That's what we need to start thinking about.

ENDS