



**CITY LIVERY CLUB LECTURE  
BY THE RT HON THE LORD OWEN CH  
WEDNESDAY, 22 SEPTEMBER 2004  
THE GUILDHALL**

**“THE UK – A SELF GOVERNING NATION?”**

We in the UK are still a self governing nation in the true sense that though we are active members of many international organisations not least the EU, NATO, the UN, IMF, WTO and the Commonwealth and many others, our UK government decides through collective responsibility in Cabinet and the Westminster Parliament controls and monitors those decisions so that the key levers of our foreign and economic policy are democratically accountable. We do not have a Presidential system. It is important to recognize that this pattern of self government is not accepted by many of those who see themselves as post-modernists in international terms. Whereas religious post modernism presents a greater threat to atheism than to Christianity, the danger of political post modernism is that it presents a greater threat to democracy than to the nation state. Post modernists want more power to the European Commission, the European Council of Ministers, the European Parliament and many have been content for Cabinet government to be eroded and the Westminster Parliament devalued.

The *Financial Times*, which has been in the past the most influential newspaper in the City, has day after day championed the earliest possible entry into the eurozone and even now seems incapable of facing up to the reality that if we had not continued to float our exchange rate and their advice had been accepted then Britain's economic position would not have shown the steady growth and dramatic improvement of the last 11 years. We would not have overtaken France in 2000 to be the second largest economy in Europe inside the eurozone. The *Financial Times* now seems to have adopted largely the same uncritical acceptance of the new EU Constitution with little recognition of the threats implicit within it to many of the market reforms of the 1980s. That world market competitiveness is essential to maintain if the UK is to overtake by 2020 Germany as the biggest economy in Europe. We could achieve this if Germany's population shrinks on current projections and their productivity performance struggles to keep pace with that of the UK.

Fortunately, for the quality of debate here in the City the Economist has been far more astringent on both the issue of the euro and the new Constitution than the *Financial Times*. I deliberately use astringency not scepticism because that has come to be understood as embracing hostility to our membership of the European Union. I note with interest and pleasure too that at last a significant number of Labour and Liberal Democrat MPs are voicing criticisms of both the euro and the Constitution and do not share the enthusiasm of their leaders who want quick entry on political grounds as soon as public opinion allows after the next election and appear to have no qualms about the economic consequences of euro entry or of the constitutional constraints on foreign and economic policies in the Treaty.

I believe that had it not been for the “Yes to Europe, no to the euro” campaign, Tony Blair, after the 2001 General Election, might well have been able to swing public opinion and to hold and win a referendum on joining the euro with very adverse consequences to the UK economy. It is particularly important that if a somewhat similar campaign were ever needed to be revived in the future it should have an even stronger Labour Party and Liberal Democrat element within its cross party mix. The torch must now pass on this issue from my generation to a new wave of politicians whose political future will be made in the years after the 2005-6 General Election.

Ensuring that the British public view remains self confident and ready to run counter to government propaganda on the EU it is essential that the UK succeeds in maintaining its economic growth performance. Having our own currency is but only one factor in a growth agenda for Britain but it remains as far as the eye can see a vital ingredient. Also the objective of a social Europe, that the political Right – particularly in the UK – dislikes, can, if well judged, reinforce industrial stability and competitiveness. Ever since 1981 I have spoken out in favour of a Social Market economy for the UK based in part on the Thatcher government trade union and market reforms and on the SDP’s progressive social agenda. I went on to establish the Social Market Foundation in 1989 which, without any present input from me, is doing good work with credibility across the party political divide. The essential task for the new Commission under the former Portuguese Prime Minister, Jose Manuel Barroso, will be to demonstrate the inner coherence and the confidence to concentrate on the all important Lisbon agenda for economic and market reform which does aim for a rational balance between social and competitive agendas. It will not be helpful in fulfilling this mandate if they are saddled with the Charter of Fundamental Rights within the Constitution. It is simply not correct for the Government to say in its White Paper that it “showcases key social and economic rights and principles”. It carries far more implications for future EU activity and legislation than that and could adversely affect the efficient working of a social market economy. The Charter will undoubtedly be used to push the integrationist political agenda and the European Court of Justice judgments are likely to further that cause.

One of the major successes of Labour in government since 1997 has been its record of sustaining the economic growth which it inherited and which restarted so quickly after Norman Lamont, as Chancellor, dug out enough space for export led growth following the debacle of our forced exit from the exchange rate mechanism in the autumn of 1992. In large part sustaining that growth record has stemmed from the Labour Government's first big decision to retain the ability of the government to set the inflation target while granting a Bank of England Monetary Committee with outside members the power to set interest rates. Wise heads will never exclude joining the euro at some stage in the future but it should only be contemplated if the euro zone economies have come very close to converging and with convincing evidence that all the nations within the eurozone are irrevocably committed to policies which will allow any such convergence to be maintained. Hopefully the eurozone countries will improve their economic growth record. There is already some welcome sign of improved economic activity in France, Spain and Italy. But there is a long way to travel before the eurozone economies converge.

The July 2004 Report of the European Commission, *The Euro Five Years On*, says, "The available evidence is in line with a positive impact of monetary union on cyclical convergences". That is a conclusion based on little evidence. It was rubbished only a few weeks later by a Deutsche Bank research note, saying, "Contrary to what the European Commission says, we do not see that the euro economies have converged". The note went on to say, "There are currently no signs that growth differences across the region are narrowing" and that in fact "there have even been signs of greater divergence". It goes on to question implicitly the very concept of the eurozone by saying, "Economic instability in the euro area is likely to be higher and trend growth lower than it would have been without monetary union".

The German Bundesbank cut interest rates during five periods responding to recession in 1967, 1975, 1982-3, 1987 and 1994-1996. It is only because the European Central Bank (ECB) has to target inflation in countries in very different stages in the economic cycle that interest rates have not been lower in the eurozone and this inability to have lower interest rates in Germany has been very damaging. Some have calculated that to help the German economy grow faster over the last five years, the interest rate should have been nearer 1% than 2%.

Five years ago I used to argue that though the UK should stay out of the eurozone there was too much political capital invested in it by other eurozone countries for there ever to be any question of some members withdrawing from the zone. I am no longer so sure of that. I can imagine the eurozone collapsing under the weight of its own economic contradictions. I am strengthened in that view by an article in the *Financial Times* by Wolfgang Munchau (6 September 2004) warning that even “with the reformed stability pact, EMU will be more like an eccentric club than an economic union”. He goes on to say that, “No matter whether the trigger is high inflation, a banking crisis or some other channel, one common cause underlies the failure of all monetary unions: the lack of a political union with the authority to enforce economic and financial policy among its members”. I am not sure whether the ECB will go along with even some of the Commission’s sensible suggested changes to the Pact. The eurozone countries can and should agree to a far tougher regime to increase its effectiveness but they are not entitled to impose that regime on other non-eurozone EU nations. On 13 September 2004 the ECB’s Chief Economist, Otmar Issing, commenting on the Commission’s attempt to relax the existing rules, said, “Without the existence of a credible threat of sanctions, the pact is losing its bite. As a result the current situation is intolerable.” The Eurogroup did not wait for the proposed changes for a Mr. Euro in the Constitution but in September 2004 appointed one of their number, the Luxembourg Prime Minister, to chair the Eurogroup for two years. This immediately provoked the French Chairman of the ECB to hit back saying, “I am evidently Mr. Euro”. The tension between the eurozone’s political and banking leadership could well prove a fatal flaw.

The public suspect, correctly, albeit in a vague way, that to make EMU work political union is necessary. They suspect also that their politicians are misleading them when they pretend that this new European Constitution does not carry within it some paving techniques to bring about political union. The public are right to be suspicious. Take Article IV-7.a – the proposed new simplified Treaty revision procedure. This allows the European Council by unanimity to adopt Qualified Majority Voting or certain legislative procedures without going through the present mechanism for Treaty amendment. Its political effect will be to avoid having referendums in those countries that have this procedure. Instead as long as all national parliaments do not make known their opposition within six months the Treaty is changed. This proposal is a typical example of the dominant elitist tendency within the European Union trying to constrain the popular demand to have more said in limiting the intrusion of the Union into their daily lives. It is indicative that this Article was accepted by Tony Blair who only very reluctantly accepted a referendum on the euro before the 1997 General Election and who, despite criticizing a referendum on the Constitution, only conceded one as a means of diverting attention from the issue in the next General Election.

On the face of it euro membership and the new Constitution are different issues on which it is possible to take different positions and that is one reason why New Europe has kept to the euro as the core campaigning issue and while commenting on the Constitution as in a recent pamphlet by Geoffrey Fitchew, *Economic and Monetary Union and the European Constitution* ([www.no-euro.com](http://www.no-euro.com)), but not embraced the campaign against the Constitution.

The Constitution is like the “curate’s egg”, parts of it are excellent but that does not make it anymore edible. Overall it neither simplifies nor clarifies. If the UK is to avoid creeping political union it is vitally important that we retain the sinews for the independent conduct of foreign policy as a means of determining our sovereign status in international law. In that context it is relevant to the conduct of our economic policy too to consider carefully the proposed new Constitution.

In my judgment the Constitution will not fully protect our ability to conduct an independent foreign policy over the next few decades. Using the governmental term “Minister” for the first time in the suggested post EU Minister for Foreign Affairs is a symbol of small textual changes all designed to constrain the way in which the governments of the Member States currently conduct a common foreign and security policy. It makes it harder for governments to maintain their own independent judgment in organizations like G8, NATO, the UN, and the IMF.

For example, I do not accept that in Article III-206:2 that “when the Union has defined a position on a subject which is on the United Nations Security Council agenda, those Member States which sit on the Council shall request that the Union Minister for Foreign Affairs be asked to present the Union’s position.” The value of our retaining permanent membership of the Security Council depends on maintaining our right to express our views in the context of a common EU foreign and security policy in our own words based on our own history and experience.

If the Constitution establishes an EU Minister for Foreign Affairs it will pave the way for eventually establishing an EU Minister for Economic Affairs. The Constitution also fails to make clear a precise delimitation of competence between the member states and the European Union over economic policy as well as over foreign policy. The Commission will undoubtedly make renewed attempts to give the EU power over the social security and tax policies of the Member States and they will be helped in this by the EU being given in the Constitution the power of coordination over employment policies as well as social policies.

The biggest single risk in the proposed new Constitution relates to the new post of a President of the European Council. The Government bluntly asserts in their September 2004 White Paper, p.21, that this is “the most important change in the Union’s institutional arrangements”. And they go on to say, “Nor can the President also hold the job of President of the Commission” as if this is not already a controversial issue. The British government knows that the Dutch government specifically told their Parliament on 31 March 2004 that “the possibility should be kept that in future the President of the Commission can also be the President of the European Council. The text before us leaves this possibility open”. The Dutch legal department added that Article I-21:3 “The President of the European Council may not hold a national mandate” should be read explicitly as only excluding national mandates and not other European mandates. I stress this serious division of opinion because if it was judged by the European Court of Justice as being legal to double-hat the two posts, all that would be needed under the Constitution is a Qualified Majority Vote, then by the backdoor in one step a political union would, to all intents and purposes, be achieved. The Government knows too that their interpretation is disputed by senior European politicians. The initial draft before the Convention explicitly ruled out double-hatting and yet that form of words was deliberately expunged at the Convention and many of its leaders told journalists and others that this left the way open for double-hatting. The President of the Commission is already a full member of the Council so it is easy to argue that double-hatting would not involve any new mandate. When I come to make up my mind on how to vote on the Constitutional Referendum, I may well decide that on this issue alone the Constitution should be rejected. It would certainly come very high on my agenda for renegotiation were the Constitutional Treaty to be rejected.

It is perfectly reasonable to argue that the Treaty of Nice did all that was vital to handle the greatly-to-be-welcomed enlargement. The weighted voting formula agreed in Nice is changed in the new Constitution. And we were told this was an attempt to create fairness. We are now told it had another cynical objective with Giscard d’Estaing making no secret that its adoption was pursued in order to make it less likely that other countries would vote for Turkey to enter the EU when the negotiations were complete given Turkey’s large and by then even larger population. It is one thing to make a political judgment that Turkey should not be a member of the EU, quite another to manipulate a Convention on a new Constitution to strengthen that position.

Turkey presents one of the biggest political choices open to the EU on whether to start negotiations. Politicians talk rightly about tackling al-Qaeda at its roots and helping the moderate Muslim majority overcome the fundamentalists within their midst. In my judgment no single EU decision would do more to help the moderate Muslims counter their fundamentalists worldwide than if we were to be seen to be welcoming Turkey as a member of the EU. I look back with pride to the decision we took in principle at Leeds Castle at the meeting of Foreign Ministers which I chaired in 1977 to admit as soon as possible Greece, Spain and Portugal, despite considerable anxieties about their capacity for economic adjustment from the European Commission. We did this because we wanted to buttress their new found democracies having just emerged respectively from the rule of the Hunta, the dictatorship of Franco and that of Salazar.

At a time when the 25 European nations have still to develop their working relationships and are facing the political imperative of further enlargement to include Romania, Bulgaria, and hopefully Turkey, it would be better to concentrate on making the existing Treaties, which the new countries have spent some years getting to know, work more effectively. We have just lived through a traumatic division within the European Union over whether or not to invade Iraq. We are not even agreed, if the truth be faced, on whether America and its allies should stay with troops on the ground to restore law and order and quell the insurgency, as I believe is essential. Let alone are we agreed on whether it is desirable – again as I believe it is – for the EU to progressively help the Muslim countries in the region to move towards full democratic government.

A new Constitution, extending the EU's competence into many new areas, including delicate ones like defence, foreign policy and energy, is wildly premature. To tie ourselves up in knots in the EU over tax and social policy is absurd. All the evidence is that most Member States are failing lamentably to create enough new jobs to grow the European economy sufficiently fast and to build its competitiveness. Without economic success the EU will not have the economic muscle to support an ambitious foreign and security policy. The eurozone countries should be developing their own budgetary disciplines and monitoring their own tax and spending policies while letting those outside the eurozone grow at their own pace and to compete with other Member States without the necessary constraints that have to apply to members of EMU. The way forward for the EU is to allow the pattern of working together in the EU on foreign, defence and economic policy gradually build its own pragmatic consensus from the ground up. Instead we are being urged to accept a new, more highly centralized and uncertain constitutional model for an already strained and unsettled Union in which many of its citizens are already showing their political discontent.

For us in the UK there is another dimension to this discontent. There is still considerable anger about the personal nature of the Prime Minister's decision to invade Iraq, albeit that it was voted for by the House of Commons, and this relates to what was said in particular about weapons of mass destruction. I supported the invasion because I believed that with the Americans ready to use force to topple Saddam Hussein, the UK should be involved as well to uphold successive UN Resolutions relating back to the 1991 ceasefire. Of course I, like most people, have been shattered by the sheer incompetence and ineptitude that followed a successful military invasion. There are structural deficiencies in the decision making machinery in 10 Downing Street which have contributed to how quickly the British, not just the Americans, have come to be seen as an occupying force rather than liberators. We now know that the Foreign Secretary warned the Prime Minister in March 2002 about the difficulties in establishing a credible government after Saddam Hussein was removed. Also that his own Foreign Affairs adviser warned about the lack of planning in Washington for the aftermath of an invasion. Why was that advice not acted on? Why was the handling of the aftermath of the invasion so shambolic? The Butler Report made clear that Cabinet government was not operating over Iraq and that it was not acceptable to scapegoat civil servants when the prime responsibility for the mess we are in over Iraq was that of the Prime Minister. It was the incompetent handling of the Suez crisis with all the decisions being taken by the Prime Minister that led to Eden resigning. It may well be that Tony Blair too will not be able to recover his personal credibility. We hear talk from No 10 that a General Election will revalidate his position but while that is possible in a Presidential system it is not necessarily the effect in our system.

Any Prime Minister elected in 2005 in the UK will face considerable difficulty in holding public opinion to a military decision to stand firm in Iraq. It is also clear that whoever wins the Presidential Election in the United States – President Bush or Senator Kerry – has no intention of removing US troops quickly; for example Kerry is only pledging to be out in four years. Pulling together the people of this country will not be easy in the run up to a divisive referendum on the Constitution and while facing international terrorism, a possible deteriorating security situation on the ground in Iraq and continued fighting amongst the Palestinians and Israelis, quite apart from what is to be done about the threat of Iran becoming a nuclear weapon state.

At the very least, I hope that the leaders of the “yes” campaign will stop trying to pretend that in the referendum on the Constitution the question is whether we wish to stay in or leave the EU. This tactic was tried for years when trying to rally support over the euro. But it backfired then as it will backfire again on the Constitution, only encouraging the United Kingdom Independence Party. The Constitutional referendum in the UK may come in 2006 only after 24 other countries have attempted using their own Constitutional procedures to win support for the Treaty. Hopefully before then one or more country that is likely to hold a referendum, whether it be France, Holland, Denmark, Sweden, Poland or the Czech Republic, will have voted no, making it far less disruptive for the UK to do the same. When our referendum comes I for one will make a careful judgment as to how a British ‘no’ vote might impact inside the EU and I will want it to be very clear that the “no” campaign is not about coming out of the EU. People are not prepared to be bullied into voting yes because of a spurious argument that to vote “no” to the Constitution is to come out of the EU. We will split our country from top to bottom if the government campaigns on the basis of whipping up false fears. The truth is that we will need all the mutual respect and unity we can over the next few difficult years.

END