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harsh EU realities and weasel words

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Lewis Carroll, Through the Looking Glass

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What is growth?

There is a vast amount of talk about growth but very little explanation of what it means. Economic growth is not a slogan. It is about economic prosperity and jobs. It comes from the use of private capital and private enterprise turned into profit. This is of two kinds, one of which is in relation to businesses of all kinds, large and small, and the other is of the profitable difference between imports and exports at a national level. Public expenditure of every kind – the payment for hospitals, for schools, for civil servants, for every worker in the public sector and for their pensions and for all manner of defence expenditure, public infrastructure, payments to the European Union – comes from one solid, simple source: the reasonably taxed profits of private enterprise. This is the foundation of growth.

When private enterprise is profitable, public expenditure can be justified. If there is no profitable private enterprise, there is no means of paying any public expenditure, unless of course the printing presses are turned on and money is merely printed. This is a prescription for disaster. By the same token, in relation to our external trading as a nation, there may be trade, but there is no growth if our exports do not exceed our imports.

On both the domestic front relating to the profitability of private enterprise and in relation to our external trading with the European Union, there is no growth because private enterprise is strangled by red tape and overregulation and a lack of tax incentives and on an external trading basis there is no growth because with the 26 Member States with whom 40% of our trade is conducted, we are running a monumental deficit. The problem is therefore simple to perceive, even if the solution is less simple to achieve.

Europe's inability to prescribe growth

Europe is facing its most severe economic crisis since 1945. If the Greek crisis becomes an Italian crisis – Italy being too large to bail out – the entire post war European structure may unravel. The main reason for the failure of the European economy is to be found in its lack of growth and competitiveness. EU economic policies so far have been incapable of generating growth and both the Lisbon and 2020 agendas have turned out to be failures.

Merely addressing the issue of reforming budgets and bad habits will not be enough to stop the present crisis, as budget numbers look bleak because growth forecasts for Greece, Portugal, Spain and now Italy look bleak. Italy's economy has not grown for a decade and even Germany is not immune, with an average growth rate of only 1.5%, with a projection of only 1% for the next 5 to 7 years. That is not a great start for the engine for Europe. Even as markets sky rocketed on 27 October in reaction to the Eurozone deal sealed by EU leaders, the two overriding issues of a strategy for growth and the central role of the European Central Bank were missing.

Europe needs a growth agenda which involves radical reform. The Commission's recent roadmap for stability and growth (21 July 2011) in the Euro area recommends the restoration and reinforcement of public debt sustainability via an appropriate combination of budgetary consolidation and growth enhancing structural reforms under the Stability and Growth Pact (deficit/debt criteria) but the fact remains that European economies – with high wages, generous subsidies and complex regulations and taxes – have become inefficient and schlerotic and are now facing immense pressures.

The European approach of large government spending and rigid economies tend to increase the growth rate of government debt and at the same time lower the growth rate of GDP. As a result, the prospects of rapid growth in most European countries and for getting government debt under control are dim. The rigidities imposed by a single currency, the Euro, and the burden of EU regulation on EU economies are continuing to cause frictions and difficulties for countries in the European Monetary Union.

The European Chamber of Commerce estimates that that the total recurring costs of the EU regulation implemented since 1998 are around Euro 103 bn annually (0.82% GDP) and Euro 1 trl cumulatively since 1998, respectively, Germany (214.9), Italy (168.6), France (168.5), Spain (117.4) and the UK (99.9). For Britain in particular, the British Chamber of Commerce estimates that the largest recurring costs are to be attributed to the Working Time Regulations 1999 with a recurring cost of £1,795m, followed by the Excise Duty Regulations 2000 with £1,225m of recurring costs and the Data Protection Bill with a recurring cost of £667m. Budgetary deficits and reckless borrowing are not the only forces that create tensions within a common currency. Countries will at times also experience severe shocks to their economy that create unemployment and deficits in their foreign trade accounts.

As devaluation is not available to individual countries within the Euro monetary union, they have to adjust to bad shocks to their individual economies either through increased unemployment, reduced wages, or migration. These adjustments are difficult for southern countries like Greece, Italy, Spain and partly France, because their labour markets are inflexible and because many workers in these countries are reluctant to migrate elsewhere and give up generous benefits.

Low growth threatens to condemn the whole continent to a decade of high unemployment and slipping further down the world league, with a rate of growth that is almost one half of the US and one quarter of that of China and India. Despite Germany's success in China, only 8% of European exports go to the fastest emerging market economies that will account for the majority of future growth. Today, European unemployment is stuck around 10%, rising above 20% in some countries and as high as 40% in Spain.

Even Germany, with its huge trade surpluses is not a model for Europe. Despite its economic growth model being vindicated by the strength of its recovery in 2010, the German model cannot be the EU's benchmark. Germany boasts numerous top-class companies producing competitive high class manufactured goods which generate a huge trade and current account surplus. But countries are not companies and trade balances are not profit and loss accounts. Germany does not run large external surpluses because it is more productive than its trading partners but because its current account reflects the difference between savings and investments. Contrary to the UK, Spain, Greece and Ireland, Germany ran surpluses because it spent less than it earned.

Can the profligate countries follow Germany's example? In principle yes but not in practice, as surplus countries and deficit countries are mirror images of each other. This is why the German model cannot be a model for all countries simultaneously and the profligate countries can become more prudent or Germanic in their attitude only if Germany becomes less so. Therefore an unreformed Germany cannot be a benchmark for the Eurozone as it would suffer chronically from weak domestic demand and of external strength. If German consumers had been more confident in the future or businesses and had more reason to invest domestically, Germany would not be running such large trade surpluses.

UK growth cannot improve from a stagnant Europe or where there is such a disadvantage to Britain in the trading relationship. The trade imbalances between Britain and the EU are set out in more detail in my publication 'It's the EU, Stupid!' (see pages 6, 7, and 18).

City of London: simultaneously destroyed and cut out of Single Market

Interpersonal relations between Eurozone leaders have hit an all time low, reflecting sharp disagreements between France and Germany over using the ECB to bailout the Euro and presenting an additional obstacle to finding a comprehensive solution to Europe's debt crisis. An EU already rocked by divisions between France and Germany over how to increase the firepower of the EFSF must now consider many factors, including at one stage the surprise decision of a Greek referendum in February (which has now been revoked).

As well as the breakdown of the Franco-German motor, the EU is facing a rebellion from Italy, Spain and Greece over imperious diktats issuing from Paris and Berlin.

Italy, seen as the lead candidate for contagion among Europe's big economies on account of its government debt, at 118% of GDP, is under pressure from Europe to reduce spending cuts and to introduce tax rises and government austerity. But lower growth and lack of competitiveness make the Italian debt load look less sustainable and it is not clear whether the coalition government will be able to implement further cuts.

Mr Berlusconi himself once described the Euro a strange currency and said Italy's own sovereign debt was under attack largely because of Europe's single currency and observing that, as the ECB is not acting as a lender of last resort, it is impossible for European economies to benefit from the massive issuance of debt and liquidity needed.

Diplomatic incidents with Mr Sarkozy over Mr Berlusconi's choice not to nominate Mr Lorenzo Bini Smaghi as the next head of the Bank of Italy, therefore not freeing up a post in the executive board of the ECB for a French member, has also created a diplomatic rift with France, but was welcomed unanimously in the Italian banking and media sector, as this would have been considered a humiliating concession to France.

Speaking on his way to Perth, the British PM also warned against the 17 Eurozone nations colluding to undermine the EU's free market rules which would lead to anticompetitive regulations. His comments came after the Chancellor said he would not allow the IMF to provide money for a new Euro bail out and pressure from his party to repatriate powers. Foreign Office officials are claiming to be drawing up a blueprint which could seek to allow Britain opt outs from the Working Time Directive and the Charter of Fundamental Rights.

Meanwhile, the German Finance Minister visiting London at the end of October, Wolfang Schauble says the Eurozone crisis is not the time to open up the Treaty with national demands and any change should be narrowly focussed on allowing a common fiscal approach among the members of the Eurozone. The message from Berlin to Cameron is clear: do not repatriate powers at such a delicate time for the Eurozone and refrain from using the veto which adds to justified fears that the currency bloc will gang up against the others and leave London, the centre of financial services in Europe, under the constant attack of Brussels directives. David Cameron is demanding "safeguards" to prevent France and other Eurozone countries distorting the European Union's Single Market in an attempt to shift the financial services from Britain to the single currency area. However, he has already acquiesced in the transfer of the jurisdiction over the City to the EU which is subject to QMV. To change this would require changing the Treaty. How is the protection of the Single Market to be achieved?

There are already signs that besieged Eurozone countries are attempting to discriminate against Member States that are outside the single currency and are targeting the City of London. The PM fears that Euro countries might try to set the rules covering the EU's Single Market, which extends to all 27 Member States, effectively tilting a level playing field in their field and initiating a massive power grab by the Euro group at the expense of the 10 countries outside the Euro. As the Euro moves forward, the PM needs to make sure that it does not impact on the integrity of the Single Market and on the strength of Britain's financial services industry.

A tax on financial transaction proposed by the Commission and backed by France and Germany to help pay the bailout is being vetoed by the Chancellor at the ongoing Nice summit as it would hinder London's ability to compete with New York and Tokyo.

Tough new austerity measures enacted by ex-Prime Minister Zapatero planned to reduce Spain's deficit by 0.5% of gross domestic product by 2010 and by 1% in 2011, totalling 15bn in all have reinforced confidence in the Spanish economy and contributed to the financial stability of the Eurozone. The decision also included a cut to civil servant salaries by 5%, cuts of 6bn in the public sector and ministers taking a 15% pay cut, cuts in public sector investments by 6bn and 1.2 bn in savings by regional and local governments, a 600m Euro cut in foreign aid and savings in the public health system. But the uncertainty surrounding the Greek government has contributed to the surge in benchmark Spanish bond yields.

The premium Spain pays over Germany to borrow for 10 years has recently risen to 282 basis points, creeping back towards a record level of just less than 300 bps hit at the end of November last year. Spain's socialist government has suffered political fallout from its programme of austerity measures to reduce the public sector deficit to 6% this year, with the Socialist party last month succumbing to the worst local election defeat since the post-Franco era. In the latest outbreak of public anger at Spanish austerity measures, Catalan politicians were forced to travel into the region's parliament by helicopter after a large crowd staged a protest and attempted to block a budget debate on Wednesday 2 November. Concerns about the strain on banks of holding Eurozone periphery debt were highlighted by Moody's which warned it may cut its rating on French banks due to their exposure to Greek sovereign debt.

What is to be done? A UK plan for growth, referendum, repatriation and renegotiation

Starting with a plan for growth

First of all, a plan for growth must be pursued and at once. Firstly, as respects private enterprise at home, and to increase productivity, we should give tax incentives related to increases in productivity, even if this means some degree of discrimination in the tax system. Secondly, we must take an axe to overregulation – and not only in respect of UK-derived legislation but also to EU legislation, which the Government refuses to do except by general aspirations and hopeless words about so-called Better Regulation at a European level. The problem affecting particularly small and medium sized businesses is that they do not have the oxygen to grow, make profits and pay reasonable taxation, hence there is no evidence of real growth in the domestic economy, which will continue to deteriorate. The national debt will continue to rise and the economy will correspondingly spiral downwards. This is not only a question of gold-plating European directives.

When 50% of economic regulation comes from the European Union, much of this must be repealed, unless, as it may be safely assumed that the European Union by its actions over the last ten years will continue to refuse to do this itself – by majority vote of the Member States, many of whom have deeply-ingrained socialist and Christian democrat attitudes. For all the words, and the already proposed reforms, nothing will ever happen, so we must apply the 'Notwithstanding' formula to Westminster legislation, thereby overriding unnecessary and damaging European laws by passing legislation at Westminster "Notwithstanding the European Communities Act 1972". The Government has so far refused to employ this device but it can wait no longer.

The Liberal Democrats in the Coalition are an obstacle to this – including Nick Clegg and Vince Cable themselves – whilst the position becomes beyond critical because it will take time even after the European legislation has been overridden for the new spirit of enterprise to stream into the business community.

What kind of legislation does this include? We know that the British Chambers of Commerce calculate that it is costing the British economy approximately £8 billion in European regulation (as I have argued in 'It's the EU, Stupid' and which has now been take up by Open Europe). But the problem is much worse than this and requires a repatriation of social and employment legislation. David Cameron in 2005 described as an imperative necessity, but has since modified this into merely 'wanting' to achieve this, for fear of upsetting the LibDems and other European states. They have a socialist approach to the Working Time Directive, to paternity leave, to temporary agency directives, to trade union protective legislation, etc, all of which, in combination, are strangulating not only British business but European business as well.

Hence, the EU is stagnant except for Germany whose unit labour costs at a mere 2% average over the last ten years, whereas all the other Member States average no less than 24% increase in unit labour costs. The British unit labour costs must be brought into line with those of Germany and we must get real in relation to our competitiveness with the rest of the world, including the BRICs countries. Although we can use new technologies and research and development to make up some proportion of the comparative advantage, we must not be deluded into thinking that these alone will solve the problem of improving and concentrating on domestic manufacture to which we must return as a trading nation. We cannot simply export our manufacturing indefinitely to Asia. We must redevelop our own indigenous manufacturing capacity whilst exploring and exploiting new technologies and methods of manufacture. We must also ensure that we are not outmanoeuvred by false applications of the theory of free trade. We must assert free trade, but we must insist on a level playing field and ensure that countries such as Germany and France do not exploit the international and European trading rules (some of the latter need to be repealed altogether) which underpinned events in relation to the Bombardier contract which went to Siemens.

Equally, with respect to our relationship with the European Union, we are running a trade deficit of £53bn (2009-10), up by £40bn in one year and with the Eurozone up by £34bn, up from £4bn to £38bn with the 17 Eurozone countries in 2009-10 alone. The Single Market does not work to our advantage, although of course we still need to continue to trade with those countries. However, they need us perhaps more than we need them. As respects the rest of the world, our trade surplus is running at £7bn and we must re-gear the whole of our economic / foreign policy to rapidly and immediately re-gearing our trading relationships with the Commonwealth, with the United States, south-east Asia and China and all the BRICs countries. In other words, we need a massive change in our attitudes and in our policies, as we did in the eighteenth and nineteenth centuries.

The world does not owe Britain a living and the public sector in the United Kingdom, as with other part of the European Union, has become far too large and cannot be sustained at present levels without a massive boost in successful private enterprise and the proper use of capital. Banks themselves are an essential tool in the deployment of money, but they themselves have become disreputable in certain respects and there is a vital need to reintroduce the same kind of thinking towards the use of capital as was prevalent amongst the successful Quaker businesses of the nineteenth century, which understood the proper balance between the making of profits and the acquisition of personal wealth.

Ever more regulation is not a panacea if it leads to a lawyers' money-spinning charter with regulations of ever bewildering complexity when a simpler system of blackballing those who misbehave would be a simpler remedy and intensive work needs to be devoted immediately to resolving these questions.

The bewildering complexity illustrates how far away we have moved from the notion of running a capitalist and financial system sensibly and we are now down to formulas. I shall try to quote the recent document on the draft Regulation on prudential requirements for credit institutions and investment firms. The document states:

"Institutions shall calculate the volatility-adjusted value of the collateral (C_{VA}) they need to take into account as follows:

$$C_{VA} = C \cdot \left(1 - H_C - H_{fx}\right)$$

where:

C = the value of the collateral;

As I said in the debate on 8 November, it is "absolute gobbledegook", the text is six inches high, presenting Euclid-like formula as law but that is the manner in which our system is run.

Fulminations from the press and protestors at St Paul's and moralising from Government or the Church is no substitute for specific action.

This has been seriously undermined by, for example, transferring the jurisdiction over the City of London to the European Union, which merely spawns more and more eye-watering legislation, more money for lawyers and accountants and less effective performance. At the same time, as Roland Vaubel has indicated, by the system of majority voting within the European Council of Ministers and through the methods of regulatory collusion and 'raising rivals' costs', the specific objectives of Nicolas Sarkozy and France and Angela Merkel and Germany to wean away the comparative advantage to the United Kingdom of the UK pre-eminence in financial services within the European Union will be achieved, to the detriment of what is approximately 20% of our Gross Domestic Product.

The fatal mistake of the Chancellor of the Exchequer and the Prime Minister pressing for fiscal union of the 17 members of the Eurozone and yet remaining within the overarching legal architecture of the existing European Treaties, including the Single Market, takes us into a hopeless position where, as I have repeatedly said in the press and the media and in my cross-examination of the Prime Minister in the Liaison Committee and on the floor of the House, the 231 votes of the 17 Eurozone members will consistently outvote those not in the Eurozone by way of a critical mass and positioning, even if this is not invariable.

Fiscal union will undermine our position in the Single Market and it is some faint relief to know that the Prime Minister at last recognised this on his way to Australia. As I said to the Prime Minister in the House of Commons after he returned from the G20 summit on 7 November, "Given that the Single Market, including the City of London, is governed by qualified majority voting, how does the Prime Minister propose to achieve a majority to protect our interests in the context of the fiscal union that he advocates?" The question still remains.

The G20 debacle demonstrates that although they will press on with the fiscal union (whilst the creation of a Euro Summit, etc lacks a legal base which the European Scrutiny Committee is investigating), this will not only damage the United Kingdom in relation to the Single Market but simply will not work because the causes, repeat the causes, of the failure of the European Union are derived from the hopeless and predicted aspirations for political and monetary union of 27 diverse nation states and the whole construction of the Maastricht governmental system by stealth and by the creation of a legal framework and the Stability and Growth Pact and impossible objectives all accumulated in a destructive force within the EU as a whole, but will be concentrated into an ever-deeper black hole in a fiscal union with the 17 Eurozone states.

Germany simply will not be able to bail out Italy and Spain. It is the causes, not only the symptoms such as Greece, which are the root of the problem, and these causes can only be solved by a complete restructuring of the European Union Treaties into as association of nation states, of an EFTA-plus character, into trade and political cooperation and no more. The task seems monumental, but the need is greater in the interests of providing stability and democracy which was the aspiration of the European Union but which has itself generated instability and chaos and produced exactly the opposite results to those intended. Angela Merkel is now in this chaotic situation, echoing a genuine fear of disruption and even war which twenty years ago, Chancellor Kohl threatened in times of relative stability.

The entire European project as it stands has failed. Indeed, the architect of the Lisbon Treaty itself, the former legal adviser to the European Council, Jean-Claude Piris (as also Wolfgang Munchau the previous week in the *FT*, who expressed views similar to my own in 'It's the EU, Stupid'), wrote a brutally honest article in the *Financial Times* on Friday 4 November, taking personal blame for the failure of the Lisbon Treaty, all of which should be read with very great care as, paragraph after paragraph, he recognises the failure of the project as delivered by Lisbon, although he makes the fatal mistake of calling for a two-speed Europe to replace the heap of legal rubble which now exists. A two-speed Europe presupposes, as Chancellor Kohl's metaphor of a convoy in the 1990s asserted, some would have to go ahead in the convoy and others would have to catch up, and when he said that the interests of Europe and Germany are two-sides of the same coin.

Angela Merkel speaks now of the end of the Euro meaning the end of Europe but also recognises that the Euro has and remains a great advantage to Germany itself, hence they will not walk away, but yet they will not pay for all the rest. These fundamental contradictions and the creation of two Europe's built on two separate tiers of sand, simply cannot work and the British Government must recognise that. Those such as Jean-Claude Piris still hanker after a European framework of some kind, but it is at least a small glimmer of light that they recognise the failure of Lisbon.

The Conservative Party in opposition, and with my 150 amendments from the backbenches, voted on a united front against the Lisbon Treaty and for a referendum. It is to this that we must return and to take action now. British national interests have been compromised. They did not listen at the time of Maastricht or since (although David Cameron now concedes there should have been a referendum on Maastricht) and they are probably not listening now, even as our national interests are in peril.

The European Union has become a disaster economically and politically and there will be no solution or growth without radical surgery and restructuring of the Treaties and it may be that there will be no alternative but to leave the European framework altogether. However, the British people must have their right to be heard and this requires a referendum to establish in principle and to instruct the Government to pay attention to the views of those who have elected it. Our democracy is at stake.

End the Coalition Disagreements

It is well known the Liberal Democrats have put an end to renegotiation and repatriation of powers. This is a dead-end policy. This will be made even worse if we acquiesce in the creation of fiscal union because the Eurozone will not only fail to grow, it will implode. As I said in my pamphlet "The Coalition Government is continuing the broken promises in compliance with the Coalition Agreement." I cannot stress enough "It is a major strategic failure to claim that the policy of the Coalition is to reduce the deficit when so much of the policy that is needed to achieve this cannot be sustained without having a clear and definitive policy of disentangling our relationship with the European Union without dealing with the problems which it presents to the UK, let alone the EU itself." David Cameron "needs either to put the Liberal Democrats back in a box or disband the Coalition in the national interest" (see 'It's the EU, Stupid', page 7).

The so-called limited Treaty change and the government's position at the table of negotiations will create disagreements within the coalition. Cameron cannot be tightening up by Clegg´s refusal to repatriate powers and renegotiate the Treaties. David Cameron has been telling us, as above-mentioned, about the "opportunities to advance our national interest." But it remains to be seen how he is actually going to achieve that. Nick Clegg and the Liberal Democrats have ruled out repatriation of powers and renegotiation. Nick Clegg, in an interview with *The Evening Standard* said: "I think these ideas knocking about as proposed by Conservative eurosceptics of either pitching the whole country into months or years of uncertainty through some in/out referendum or launching some smash and grab raid across the channel on powers from Brussels - they are neither justified nor in the interests of Britain." [1] In fact, the Deputy Prime Minister, has accused Conservatives who advocate repatriation and renegotiation of committing economic suicide. We are therefore facing not only a disastrous two-tier Europe, but now also a two-tier Government.

David Cameron has recently accepted that the Eurozone crisis "is having a chilling effect on our economy. Every day that it goes on unresolved is a day that's not good for our economic prospects," [2] Why is David Cameron waiting to renegotiate the Treaties? He has to put Nick Clegg in a box and take the lead in negotiating an association of nation states – an EFTA-plus, before is too late and give British people a say.

The importance of repatriation

Repatriation is the process of returning powers back from Brussels to the UK. We talk about repatriation, but there is no repatriation. In 2005, in his speech to the Centre for Policy Studies, David Cameron said "For Britain, the first priority must be the return of powers over employment and social regulation. This would be the strategic imperative of my European policy." Then, in 2009, in his speech *A Europe policy that people can believe in*, David Cameron said "A Conservative Government will address some of these problems by negotiating three specific guarantees with our European partners' guarantees over powers that we believe should reside with Britain, not the EU." In fact, he stressed, "So, yes, I believe we will be able to negotiate the return of the powers I have set out", including powers over social and employment legislation, the Charter of Fundamental Rights and criminal justice.

The Conservative Party Manifesto reads, "The steady and unaccountable intrusion of the European Union into almost every aspect of our lives has gone too far. A Conservative government will negotiate for three specific guarantees on (…) social and employment legislation (…) on the Charter of Fundamental Rights, on criminal justice, (…) with our European partners to return powers that we believe should reside with the UK, not the EU." Then, the Coalition Government came along, and all the pledges were abandoned. Nick

[1] Craig Woodhouse. 'Clegg's tough message to Eurosceptics', *Evening Standard*, 25 October 2011. See http://politics.standard.co.uk/2011/10/cleggs-tough-message-to-eurosceptics.html

[2] See: Robert Winnett, 'David Cameron: 'British economy is getting worse as euro crisis goes unresolved', Daily Telegraph, 5 November 2011. See: http://www.telegraph.co.uk/news/worldnews/europe/eu/8871382/David-Cameron-British-economy-is-getting-worse-as-euro-crisis-goes-unresolved.html

Clegg has ruled out any repatriation of powers. The Conservative Party made a promise in its manifesto with regard to the question of repatriation whereas, under the Coalition Agreement, the Government "will examine the balance of the EU's existing competences…" As I said in my pamphlet 'It's the EU, Stupid', "If the Conservative party abandons the commitment to repatriate powers or to introduce a proper Sovereignty Bill there is no way of stopping the flood of new regulations and directives coming from Brussels" ('It's the EU, Stupid', page 72).

There are only two possible ways to repatriate powers from Brussels – overriding EU regulations or by negotiation of the Treaties, and for this we need the agreement of all Member States, which is unlikely to happen. As I pointed out in my pamphlet, "Using the formula 'Notwithstanding the European Communities Act 1972', would enable us to re-grow our economy and repatriate powers." David Cameron accepted this formula before ('It's the EU, Stupid', pages 72 and 73). There are alternatives that would allow us to renegotiate the Treaties or simply to say no, but the Government are simply not doing that. The coalition agreement determines our relationship with the European Union, and this is the main issue as any opportunity to renegotiate the UK's relationship with the EU is excluded.

Neither David Cameron nor George Osborne have had discussions in Brussels on repatriation of powers over employment and social policy. There has been no serious attempt, so far, to obtain any reciprocal advantage to the UK such as renegotiation of the Treaties or the repatriation of social and employment legislation or any other powers. It is important to note that repatriation as properly defined runs in parallel with renegotiation of the Treaties. Because of the framework of the British national interests they are both important. Cameron wants to concentrate solely on repatriation, which is wrong. A White Paper defining powers that Britain would repatriate from Brussels would be too little too late, action is needed now.

The importance of renegotiation

We want to renegotiate but we are not prepared to renegotiate. They all nibble but won't bite. The EU is not working and the two tier arrangements do affect us. The whole of Europe is trembling and we are witnessing as a result of the Eurozone failure, riots and protests, and action is needed now. The case to renegotiate all the EU Treaties is now overwhelming. As I noted in my pamphlet "The United Kingdom, in its own vital national interests, must take the lead in renegotiating all the European Treaties, combining with other Member States who reject the need for European economic government and fiscal union for the Eurozone." I maintain that it is in our national interest that David Cameron takes the lead in establishing a European Free Trade Area-plus. Thus, those EU Member States who do not want to be part of a two tier Europe would then have a clear choice between the European government or an EFTA-plus arrangement, via the Association of the Nation States. I proposed, in my pamphlet, a framework for renegotiation, which must follow from a Referendum. I reiterate if we want to regain our democracy and economic stability we must return to an EFTA-plus arrangement. As I said in my pamphlet "There is no doubt that in the national interest a Referendum either to leave the European Union or to renegotiate, determined by a simple majority of the electorate as a whole, is now essential" (see 'It's the EU, Stupid', pages 2, 8, 14 -16, 35, 73 -78).

It is obvious that a two-tier Europe is being created, with the UK bound into it by acquiescence, putting us at risk because it creates the aircraft carrier of Europe and we are left in the rowing boat as it is pulled along. David Cameron has already missed an opportunity at the October Summit. It is, therefore, essential the Prime Minister goes to the December summit and set out an agenda for renegotiation of all the Treaties and to make it clear that there will be a UK Referendum for the proposals for economic governance of the Eurozone and fiscal union, before it is too late.

The threat of fiscal union to the United Kingdom

One year ago, we were told that the creation of the EFSF and the ESM would prevent the Greek debit crisis to spread to other Eurozone countries. The EU emergency mechanisms have failed. They are transforming the EU into a transfer and liability union. The EU institutions and EU leaders refuse to admit the failure of Eurozone. If ever any more proof was needed that the bailouts do not work, it is Greece's current situation. Brussels has been insisting that Greece will not leave the Eurozone, but last week, when Mr Papandreou called for a referendum on the bailout package, which was then called off, Merkel and Sarkozy spoke, publicly, for the first time, for the possibility of Greece leaving the Euro. It is important to note that under the Lisbon Treaty Member States may withdraw from the EU but not just the Eurozone. The Treaties provide no exit clauses from the EMU.

As I said in my pamphlet, there will be no money to pay for further bailouts and Germany's conditions will not be met (see 'It's the EU, Stupid', page 6). The money required for all the bailouts is not within the economic capacity of Germany or the political will in the Eurozone countries. When the implosion comes, there may even be a greater probability of the rise of the far right, because the electorates of Germany and other contributors will simply not put up with the burdens of this debt transfer union. It must be accepted that fiscal union within the Eurozone will not work. Member States would lose their sovereignty over fiscal policy, which is a recipe for failure. The citizens of the bailed out countries are not willing to accept more national sovereignty being given to the EU. In fact, they would not accept a fiscal and political union, with an economic policy imposed by Germany.

By advocating fiscal union, the coalition government is creating the most strategic mistake in the British foreign policy history. It is fundamentally wrong for the Prime Minister, the Chancellor of the Exchequer and the Coalition Government as a whole to advocate the idea of a fiscal union, which is immensely damaging to the national interest and our economy. Fiscal union and economic governance creates two Europes, to which the United Kingdom would remain bound by Treaty and law, though they are built on sand (see 'It's the EU, Stupid', page 6).

The Coalition Government must wake up now to the dangers that this grave step to full fiscal union poses to the UK's national interest. We must get ahead of the curve now, although it is almost too late. The situation will get worse the longer that the European Union tries to put a sticking plaster over what is a clear case for complete renegotiation of the Treaties. The only solution is a fundamental renegotiation of the European Treaties. An alternative must be presented to other Member States who reject the need for European economic government and fiscal union for the Eurozone and the want to avoid the implosion. The time has come for David Cameron to take the lead and renegotiate the Treaties and create an association of nation states – an EFTA-plus arrangement.