



Britain, Brexit and Europe: The Conundrum of Identity

An Interview With Professor Razeen Sally

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What has happened to the British people since it decided to choose Brexit? Is it really possible to have a democracy at a European level? What will happen to the EU, which expects many elections this year? In order to examine this issue, The Liberty Magazine interviewed Professor Razeen Sally, Associate Professor at the Lee Kuan Yew School of Public Policy, who is a member of a Special Trade Commission giving advice to the British Government.

Professor Razeen Sally: Razeen Sally is an Associate Professor at the Lee Kuan Yew School of Public Policy at the National University of Singapore. He is Chairman of the Institute of Policy Studies, the main economic-policy think tank in his native Sri Lanka. Previously he taught at the London School of Economics, where he received his PhD. He has been Director of the European Centre for International Political Economy, a global-economy think tank in Brussels. He has held visiting research and teaching positions at Institut D'Etudes Politiques (Sciences Po) in Paris, the Australian National University, the University of Hong Kong, the Institute of Southeast Asian Studies in Singapore, and Dartmouth College in the USA. He was also Chair of the World Economic Forum's Global Agenda Council on Competitiveness. He is an Adjunct Scholar at the Cato Institute, and on the advisory boards of the Institute of Economic Affairs (UK) and the Centre for Independent Studies (Australia). He is a member of the Mont Pelerin Society.

Razeen Sally's research and teaching focuses on global trade policy and Asia in the world economy. He has written on the WTO, FTAs, and on different aspects of trade policy in Asia. He has also written on the history of economic ideas, especially the theory of commercial policy. His new book on Sri Lanka will be published in 2017.

Leaving Brexit

Interviewer (I): Why did the British decide to leave this powerful, economic block?

Prof. Sally 閉じ: Let me start with a famous speech that Winston Churchill gave in Zurich. I think it was in 1946. It was his famous Europe speech. He said that Britain should be in favour of a United States of European Integration, but (this is the crucial but), Britain would be outside it. Good for Continental Europe to recover from wartime damage, to integrate. But Britain would have a separate role – a global role – if you like – somewhere in between – in integrating Europe and a rising United States.

Historical Perspective

A bit of history here: In the 1950s, starting with an original six, there was integration in Western Europe. Britain stood outside it, as Churchill wanted it to be the case. There was the European Economic Community founded in 1957 with a Customs Union. Then, Britain decided to step inside and join the EEC (the European Economic Community) in 1973. Bear in mind at the time Britain was very Illiberal. It was opting to join something led by Germany in particular, that was somewhat more Liberal. Then, in the 1980s, very much at the instigation of Mrs. Thatcher, the European Community launched its Single Market programme which took economic integration much further. Up until the 1990s, the British were not too unhappy being inside the European Community, which then became the European Union, as long as the European Union fitted, the very British conception – that's also a Swiss conception – of a big Europe. The “Big Europe” is very much about the widening economic space and an integrating economic space, but not about political integration.

The Small Europe

The contrasting vision is, if you like, the “Small Europe”. The idea of a Small Europe is: Yes, you have economic integration, but very much as a means to have political integration and political unity in Europe. To do that, you need more institutions in Brussels, more bureaucracy and more bureaucratic intervention. A famous German economist at the time, Wilhelm Röpke, was the founder of the Mont Pelerin Society, made the contrast between the “Big Europe” and “Small Europe”. This was back in the 1950s. He had great fear that Europe would go in the direction of the Small Europe. Mrs. Thatcher, after she left office, increasingly feared that Europe was going in this direction. More politically centralised ... more bureaucratic ... more interventionist – away from her vision of a Big Europe.

The Reality of the “Big Europe”/“Small Europe” Initiatives

In reality, over the course of 60 years of European integration, we have seen a mixture of the two: Big Europe initiatives and Small Europe initiatives. The Single Market was a Big Europe initiative. The expansion of the European Union to bring in former Communist Countries in Eastern Europe was also a Big Europe initiative. By and large, that's been successful.

However, at the same time, we have seen Small Europe initiatives to further centralise politics and bureaucracy, starting with the project to found the Euro. This is perhaps, probably the biggest single disaster the European Union has had since World War II. That was very much a political project and much less an economic project. In the wave of the Global Financial Crisis, there have been further moves to centralise politics and bureaucracy in Europe: Ideas for a Fiscal Union, a Banking Union, and other measures.

The Effect of the Euro

(I): So, you think that the Euro was a disaster?

Sally: Well, yes, I think so. What Europe had before the Euro came into force was a natural currency zone around the German Deutsche Mark. The Deutsche Mark was a hard, solid currency, essentially run by an independent central bank whose primary objective was price stability.

The Economic Flaws of the Euro Bringing Disunity to Europe

Some other countries that Germany trades intensively with essentially aligned their currencies and their Monetary Policies to the Deutsche Mark. That didn't require any common institutions. The leaders of France and Germany at the time, Chancellor Helmut Kohl and President Maurice Adrien Marie Mitterrand, had a grand idea for a Euro. For then, it was to be an instrument of political integration. They didn't think of the economics of it. However, the economics of it were flawed from the beginning because many countries would join the Euro with weak Fiscal and Monetary Policies, in other words, with a lot of spending, high levels of debt with inflationary records, and with a lot of government intervention in their domestic economies. So, all of these different countries: Germany, France, Italy and so on, were bundled together into the Euro, and it fell apart in due course. The Euro still exists of course, but what the founders hoped for, namely, that other countries would converge on the German norm of price stability, low inflation, budgets in balance, low levels of public debt and also more competitive economies, didn't happen. They didn't adjust. Rather, they accumulated more debt when interest rates were low. Then, things blew up, especially starting with Greece, after the Global Financial Crisis. So, what the Euro has sewn is more disunity in Europe, more division, and it's lost that original core that Germany provided with a hard currency. Germany now no longer controls its Monetary Policy or its currency because it's part of the Euro. So monetary policy is set elsewhere, according to a different norm, with a huge expansion of the money supply, with buying up government debt, propping up corporate debt – all of the things that the old Bundestag would have considered an anathema. Monetary stability has disappeared with the Euro and what it has brought is not political unity, but much more political division in Europe. Just look at what's happening in Greece. It was a very bad idea from the start.

Euro-Scepticism and the Conservative Party

Sally: Coming to Britain now, these tensions have played out within the Conservative Party in particular. By the 1990s, they developed a significant section of the Conservative Party that was increasingly Euro-sceptical and came to the conclusion that they wanted Britain to leave the European Union. Successive leaders have had to deal with that.

The British Referendum

David Cameron, when he became leader, thought this was a distraction because the Conservative Party should be concentrating on other things. However, in 2012, he made a pledge: To hold a Referendum on the European Union. That was a pledge to pacify the Euro-sceptic wing of the Conservative Party.

“Project Fear”

Mr. Cameron won an election in 2015. He announced that a Referendum would be held last year, 2016. He got a deal from the European Union on some reform but it was very minor. Then, the campaign started early last year. The so-called remainers, those who wanted Britain to stay inside the European Union, which was almost all the elite, fought a very weak campaign. They didn't put forward powerful arguments to stay in the European Union. By and large, even they were Euro-sceptics, not fans of the European Union. However, their main message was that Britain would suffer huge losses if it were to leave the European Union – to leave the Single Market in particular. This was dubbed by their opponents as “project fear”. Lots of studies were done. Lots of numbers came out to show that Britain would face a disastrous situation were it to decide to leave the European Union. So, it was a negative argument, not so much a positive argument to stay in the European Union.

The Position for Pro-Brexit: the Liberal View

(I): What about the other side of the argument?

Sally: Those who were campaigning to leave the European Union? Why was it that their arguments eventually triumphed with the British people who voted 52% to 48% to leave? Well, the voters were very mixed and very varied. There was one camp in the campaign to leave, so-called, “Liberal Leavers”. Many of them, very much classical Liberals and Libertarians, well known in wider Libertarian circles, who said: “If we leave the European Union, we will be free for the first time in 40 years to chart a much more liberal future for Britain. Free of these bureaucratic and political shackles of the European Union. That's the main reason to leave: We will regain sovereignty but we will use it for a much more liberal purpose.”

Controlling Immigration

However, there were many others in the “Leave Campaign” who had very different views. Some of them actually wanted, a more illiberal future for Britain outside the European Union. For many of them, the main issue is control of migration. Being in the European Union, there is the freedom of movement of people. Citizens of the 27 other countries have the right to live and work in Britain and vice versa. They objected to this. They played on a kind of anti-immigrant backlash. So, just as there are “Liberal Leavers”, there are also “Little Englanders” who want a less liberal, not a more liberal Britain, outside the European Union. That’s why I said that motives are very varied and mixed in this collective decision to vote to leave the EU.

The New Government in Britain Looks to the Future

(I): So, what’s happened since the Referendum on 23 June, last year?

Well, the government changed. Mr. Cameron resigned as Prime Minister. We have a new Prime Minister in Britain, our second female Prime Minister, Mrs. Theresa May. The leading Brexiters in the campaign those who led the campaign to leave, have become the Cabinet Ministers in charge of taking Britain out of the European Union. The Labor Party is very left wing and is very divided. The Prime Minister made a big speech in November last year – a global Britain speech in which she argued that Britain, when it does leave the European Union, will go not for a soft Brexit, but a hard Brexit. The hard Brexit means that we will be leaving both the Customs Union which has a common tariff around the European Union, as well as the Single Market. We will be truly charting a very different future.

The Single Market Option

The alternative option, the soft Brexit, was to leave the EU but to stay, perhaps, inside the Customs Union and especially inside the Single Market. This is the arrangement that Norway has with the EU. It’s not a member of the EU but it is a member of the Single Market.

The Exit Clause

So, the Government has decided not to go for a soft Brexit but instead, to go for a hard Brexit. Finally, probably on 9 March, The British Government will activate what is called, Article 50 of the European Union Treaty. Article 50 is the Exit Clause to leave. That will launch negotiations with the EU which will have a two year deadline. This means that Britain will leave the European Union in March 2019.

(I): So, what is next?

The Best Case Scenario

Well, the negotiations with the European Union are going to be very complicated, very sensitive and full of tension. There may be some conflict along the way. It will be impossible to do a final deal in two years' time. There are, I think, two scenarios for Britain's exit in two years' time. The positive scenario is that Britain and the European Union, first, will sort out a divorce Bill, and then maybe, have an interim deal for their trading relationship. That interim deal will then allow for negotiations over the next three years or perhaps longer, for a final deal which ideally, would be a Free Trade Agreement between Britain and the European Union. That's the positive scenario. If the negotiations play out that way, then, there will be less business uncertainty; and businesses can plan for Britain's future outside the European Union.

The Pitfalls

The negative scenario is that at the end of two years by 2019, there won't be a deal between Britain and the EU. Britain will leave with a very messy divorce. Then, the European Union will have tariffs, quotas and all sorts of regulatory restrictions against the British. This will have a significant cost on British businesses, on multinational businesses in Britain, and on British consumers because at the moment, the EU Market is Great Britain's large domestic market. It will have to extricate itself from that bond.

The Special Trade Commission

Let me now come to this Commission I'm on. That is, this Special Trade Commission. We had several meetings in London two weeks ago: Many meetings with the Government and with Members of Parliament. We have come up with a set of proposals on what Britain should do to exit the European Union. I'll go through that list of proposals before I conclude.

The Historic Choice

Our general proposition is that Britain now has a historic choice. The Government can decide to be cautious and timid: To perhaps place everything on negotiations with the EU. To be less liberal in some crucial respects, particularly in controlling migration. If we go down that route, then, it will be a disaster because the costs of leaving the European Union will outweigh the benefits of independence, particularly with the breakup of supply chains that link British businesses and multinationals in Britain to the wider European Market. However, what we say is

that if the Government has, from the outset, a broader liberal strategy for a much more liberal Britain outside the European Union and conducts its negotiations accordingly, then, we have the prospect of the benefits outweighing the costs, even an insurance policy in case we don't have a final deal with the European Union. However, it does hinge on a much more liberal future for Britain, now that we have the freedom to chart this course. That's our main point.

A Hard Brexit

I should explain that this much more liberal strategy, involves leaving both the Customs Union and the Single Market. I have to say why that's the case. In other words, why we are saying we have to go for a hard Brexit and not a soft Brexit. We have to leave the Customs Union which is the Common External Trade Policy of the European Union, in order to liberalise trade ourselves and to strike Free Trade Agreements with other countries including Japan at some stage. We have to leave the Single Market because the Single Market essentially commits us to thousands of European Set Standards. Yes, that gives us access to the Single Market, yet many of these standards are set in a very illiberal way. They're set in Brussels. Britain will have no control of them outside the European Union. It will just have to accept them as well as the decisions of the European Court of Justice, and paying into the EU Budget. Outside the European Union, we can set our own standards which could be actually more competitive, more pro-market, pro-competition standards and [arbitrage] in a multiple standards world. That's the reason why we have to leave the Single Market.

The Special Trade Commission Proposals: The Four Tracks

We're now coming to the concrete proposals. We propose a "Four Track" Strategy which is mutually reinforcing between the Tracks. Bear in mind: this Commission, I am one of maybe two or three trade experts. The rest are all senior ex-Trade negotiators. We have long experience in trade negotiations. So, it's Four Tracks. It starts with a Unilateral Track. The Unilateral Track is this:

The Unilateral Track

We have to do liberalisation by ourselves, regardless of what happens in trade negotiations. It's the way the British liberalised in the 19th century, without the GAP, the WTO, and Free Trade Agreements. I call it the "Ninety" Strategy. We just do it! You don't have to go to an international organisation or to use bargaining chips to liberalise trade. Now, for 40 years, we haven't been able to do that. In two years' time, we will be able to do that. So, we should go by the long way in liberalising unilaterally. We can take our manufacturing tariffs down to zero, for example, outside the European Union. Why not? We can reduce some of our agricultural protection, bearing in mind the European Union is one of the most protectionist agricultural

entities in the world. Not as protectionist as Japan, but somewhere in the middle between Japan and the United States.

The Competitiveness Strategy

We can have the Competitiveness Strategy for the domestic economy. We can liberalise standards on energy and the environment. We can introduce all sorts of transparency mechanisms for regulation. We can have proper prosperity analysis before new regulation goes through.

Controlling Standards

We can repeal some of the standards that we've adopted from the European Union. Some we'll keep (which makes sense), but others we can repeal. All of these things we can do by ourselves. We don't have to ask permission from others or to enter into negotiations with others to do that.

Let me summarise the three other Tracks quickly. The second Track is a bilateral one. We need to do new Free Trade Agreements with others. There's a long list but there are maybe, two or three priorities.

Bilateral Agreements

One is a Free Trade Agreement with the European Union. That's vital. The second is a Free Trade Agreement with the United States, which President Trump is also keen on. Some Free Trade Agreements with countries with which the European Union already has Free Trade Agreements. There are many: Switzerland, South Korea and Mexico are the main ones.

A Pluralateral Track

Third, we propose a Pluralateral Track where we actually enter a 21st Century Free Trade Agreement with likeminded members. The ones we are thinking of to begin with are: Singapore, Australia and New Zealand; where we can have a proper Trade and Competition Agreement which could be a kind of open platform that others could join perhaps Japan and others in due course.

Technical Negotiations

Finally, we have to do some technical negotiations in the WTO because we will be leaving the European Union. So, that's the total package.

Two points by way of conclusion:

A More Liberal Future Outside the EU

First point: I'm not sure which way it's going to go. I think there is everything to play for. There are certainly illiberal forces within Britain who could take us in a more illiberal direction. However, I think we have this liberal prospect ahead of us. So, I think it's incumbent on the likeminded to make this argument and to try and persuade the Government and the British public that this is the way to go. In other words, a much more liberal future for Britain outside the European Union.

A Global Viewpoint

My very final point goes beyond Britain and Europe. It's a global point. Going back to some of the observations I made earlier: We have arising liberal times. There is the prospect of this liberal, global order of ours being highly disrupted and possibly overturned. Here, I think, there's an opportunity for Britain, outside the EU, to send a different signal. So, if we do go for this more liberal option, then, firstly, Britain would be reconnecting with its 19th Century liberal history minus the colonialism and the imperialism, of course. It would be sending a signal to others around the world to join a programme for a more liberal future. Britain could set an example here that others could join (or emulate), and help to reverse this illiberal times that we are witnessing at the moment. I'll end on that.

The European Parliament vs. National Parliaments

(I): How do you see the European Parliament? Does it work in a democratic way?

Sally: Well, it is democratically elected. So every four or five years, there is a pan-European vote. However, voters' turnout is usually very low. The average is well below 50%. In some countries, like Britain, it is much lower than that. I think the average was about 30%. To me, it is a kind of democracy – a kind of representation that's very artificial. There is the pretence that in Brussels, for the whole of the 28 member States, you can recreate representative institutions that exist in the member States. That presupposes that people have a sentiment – a sense of patriotic emotion to Europe that is the same or similar to what they have to their individual nations. That is simply not the case. It is a highly artificial construct. People don't feel towards Europe what they feel towards their individual regions or nations. In other words, what makes national Parliaments representative is because there is that common bond that simply does not exist at the European level. So, what you have is a European Parliament that has the outward form of national Parliaments but without the inner substance of national Parliaments. It is not really representative. It is part of this supernational network of institutions that exists in a Brussels

bubble. Members of the European Parliament generally are way out of the mainstream or sentiment among European colleagues within nation States. There's much more Euro-scepticism among ordinary people, not just in Britain, but elsewhere in the European Union than there is in the European Parliament. It's not surprising because they get paid very well. They have good allowances. The only way for them to increase their power is to increase the power, the bureaucratic discretion that exists in Brussels. So, they have common ground with the other institutions in Brussels and are very far removed from the ordinary citizen. I was never a fan of having a European Parliament – certainly not a more powerful European Parliament. The European Parliament is supposed to rectify a so-called democratic deficit in Europe but I think that's impossible. The only way to rectify a democratic deficit in Europe is at the level of nations and regions, not at the supernational level. This is because there is no such thing as a European identity in that artificial political sense. I might feel at least partly European in a cultural sense, if I speak other European languages ... if I have studied at other European Universities ... or maybe worked in other European countries. However, that's not the same thing as having a feeling of European Citizenship along the same lines of British Citizenship, or French or German Citizenship. That's how I would describe it.

Centralisation vs. Decentralisation

(I): Considering the discussion you have spoken about, do you think further political unification will be difficult?

Sally: Yes, I think so, because the European public just don't want it. The fundamental contradiction in the European Union is this: It has elites in Brussels and some of the national capitals who want ever further union. They want more power at the central level: For the European Parliament ... for the European Commission ... for the Councillor Ministers. They want more common regulation in many different areas. However, European peoples: the Germans, the French, the Nordics, the Eastern Europeans and others don't want this. They think that this kind of Europe has gone far enough – maybe gone too far. They want to see more decentralisation, more true responsiveness. So, the more the elites try to centralise power and complete the European Project, the more there's going to be a reaction down below in the member States. That could end up with a much more destructive outcome, in other words, the break-up of the EU in a very illiberal way. It provides fertile ground for populist movements on the extreme left and the extreme right. I think it would be much more sensible to say “enough is enough” and now we need a decentralisation project for the European Union. We need to limit power at the Brussels level and move power and competence further down: Move back towards a “Big Europe” idea and away from a “Small Europe” idea. I'm not confident that's going to happen because I think among European elites there is delusion at work. They keep pressing in a certain direction and deny reality in the process. It's like an Ostrich having its head buried in the sand.