

The Telegraph

Brexit threat looms over UK election and European fate

David Cameron is perhaps the only man who can ultimately prevent Britain breaking away from the EU



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9:37PM BST 06 May 2015



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Chanceries, political elites and business federations across Europe, regardless of whether they are on the Left or the Right, are hoping the **Conservative Party** loses this week's **general election**.

All the better if a motley **Labour government is strapped to a bloc of triumphant Scottish Nationalists**, guaranteeing a double-lock against any further flirtations with Brexit. Or so goes the argument.

They should be careful what they wish for. David Cameron is perhaps the only man who can ultimately prevent Britain breaking away from the EU, and therefore prevent a fatal body blow to an ailing project that lost its emotional hold over Europe's people long ago and no longer has a plausible claim to economic legitimacy.

Lest we forget - carried away by a short-term cyclical rebound - the eurozone is only just beginning to recover from an economic slump that has proved deeper and more intractable over the past six years than the Great Depression, with four sovereign insolvencies and mass unemployment to match. Nor should we forget either that the second leg of this episode was entirely caused by policy blunders and the unworkable structure of EMU governance.

A Labour-SNP arrangement would be inherently weak and unstable, like the string of Gladstone governments dependent on the swing vote of the Irish Home Rule movement in the late 19th century.

There might be no **referendum on EU withdrawal** in 2017, but that would settle nothing. "While a Labour victory might reduce the prospect of Brexit over the next five years, it could increase them over the next 10," writes the think-tank Open Europe.



A Tory defeat would flush out the last EU dreamers and leave a post-Cameron party with even less tolerance for the posturing of Commission chief Jean-Claude Juncker, who this week **accused the Anglo-Saxon world of trying to destroy the euro** and vowed to stop Britain imposing its "exclusive agenda on all the other member states of Europe".

There is a high likelihood that such a party would let it rip on euroscepticism while in opposition and then come roaring back in five years time, led by Boris Johnson if the bookies are right, fully-immunized against the illusionary seductions of europhilia by his childhood in Brussels.

His economic report on the pros and cons of Brexit concluded that the City of London could continue to flourish in a free-trade world outside the EU. Such an outcome might not be ideal - he argued - but the worst of all worlds would be for Britain to stay shackled to a political construction that failed to reform. This is a warning shot.

The back-and-forth of competing studies on the implications of Brexit leave me cold. It is impossible to quantify the variables, or to model the counter-factuals. The **CBI's claim that EU membership is worth £78bn**, or 4pc to 5pc of GDP, relies on wooden assumptions and random figures plucked out of thin air.

These sort of reports work from the assumption that the EU would carry on much as before if the British walked away but you could equally argue that the whole ideological edifice would start to crumble.



Brexit would play havoc with the EU's internal chemistry, leaving France even more exposed to the ill-disguised power of a reunified Germany that is already uncomfortably dominant, and wants no such hegemony for itself. The small Nordic countries that tuck into UK-led coalitions on free trade and open markets would be left adrift, and might ultimately be tempted away themselves into an emerging Atlantic constellation.

Germany's finance minister, Wolfgang Schauble, warns that Brexit would be a "catastrophe", asking how it would be possible to convince anybody in Asia that the EU has a future when the one member country with a world-class financial centre - and the fastest-growing "E-4" economy - is pulling out in frustration.

My own view of EU fragility is quirky, coloured by my time in Brussels 15 years ago when the project was at its triumphalist peak. It had just **launched a currency** and talked of becoming the world's leading economic powerhouse within a decade. How they must now smile in Washington and Beijing.

It was creating a foreign policy machinery with a rapid reaction force, the embryo of an EU army, navy and air force. It had built an intelligence cell and an EU justice department, all to be under a quasi-sovereign constitution. It was so brimming with moral confidence that it dared to sanction Austria for merely letting Jorg Haider's Freedom Party into a coalition government.

This was an aspirant superpower on the march. Look at it now. The Franco-German joint brigade has been quietly mothballed. Eurosceptics have swept into the European Parliament. Brussels hardly dares to say boo to an authoritarian government in Hungary that has violated the EU's core principles on press freedom and judicial independence.



One big tug on the unravelling strands of the EU fabric could all too easily cause the whole project to fall apart. That is why Brexit is not to be taken lightly, by either camp.

Accounting reports on the costs and benefits of UK membership cannot capture this political ferment. It is, in any case, doubtful whether they carry much weight against the collective emotions of a nation that has learned first-hand over the past quarter-century or more what the EU can mean. The circle of the aggrieved has spread too wide, whether to fishermen embittered by the destruction of the North Sea cod, or to scientists battling unworkable rules for clinical trials, or merely to those irritated by intrusive curbs on vitamin sales.

People saw what happened when **French and Dutch voters rejected the European Constitution in 2005**. They know that an almost identical text was brought back as the Lisbon Treaty and rammed through by executive Putsch without referenda, even though there was no emergency imperative for such high-handed methods. Ireland alone voted - by order of its supreme court - and when Irish voters said "No", they were constrained to vote again.

It was a bald abuse of power by an EU governing machinery acquiring bad habits, and will not be forgotten quickly. French author Coralie Delaume writes in her book *Disunited States* that this "stolen referendum" was a moment of epiphany for France as well. "By ignoring the people's choice in May 2005, France's leaders revealed everything about the Europe we have. What we are seeing today are the aftershocks of this anti-democratic earthquake," she said.

The subject of Europe has barely crept into the current campaign, which is odd given that UKIP's primary demand - and its original *raison d'être* - is the restoration of

British self-government and the end of split parliamentary sovereignty between Westminster and Strasbourg. Yet the inescapable controversy of Britain's dispensation with Europe looms over everything as we vote.

Whoever is elected will almost certainly have to deal a perpetual running sore in the eurozone. It is clear by now that monetary union is fundamentally deformed and will never be stable until there is a fiscal union and an EMU-wide government to back it up, but there is no democratic support for such a Utopian leap forward in any country. It is sheer fantasy following the **Front National's victory in the European elections** in France.



The European Central Bank's Mario Draghi has averted a deflationary collapse - in the nick of time - but the gap in competitiveness between the North and South is wider than ever. The EU Fiscal Compact will force the weakest debtor states to pursue contractionary policies for two decades to come asymmetrically, starving the south of investment and further entrenching the divide.

A recent study by Stephen Jen, at SLJ Macro Partners, found that EMU states have reacted in radically different ways to globalisation and the rise of China. They are now further apart than they were in 1982. Worse yet, the perverse effects of euro itself has set off a self-reinforcing vicious circle.

"The combination of a common monetary policy, fixed exchange rates and limited scope for member countries to conduct their own fiscal policies may have led to weak economies weakening further and strong economies strengthening further. We find these results rather alarming," he said.

The implication is that EMU will lurch from crisis to crisis until the victims of this cruel dynamic rebel through the ballot box, as the Greeks are already doing. Cheap oil, a weak euro and a blast of QE have together lifted the region off the reefs for now, but the deformed structure will be exposed again when the world economy spins into another downturn.

The European elites may imagine that a defeat for David Cameron can extinguish the Brexit threat. In reality it is has become a permanent fixture of the British landscape. They over-reached and brought it on themselves.