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Britain should offer to fund a federal Europe in return for more power

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Cameron must not miss this chance to advance Britain's national interest

The slow-motion train crash in the eurozone is nearing its climax. At this historic moment, Britain must not remain a passive bystander in the most decisive reshaping of Europe since the European Community was formed in 1956.

It is now universally acknowledged that the only alternative to a break-up of the euro is a full-scale political federation built around a centralised finance ministry. This must have the authority to borrow on behalf of the entire eurozone and a power of veto over all tax and spending decisions in member states. The process is only just beginning and will only move forward as long as the financial crisis persists.

But a continuing crisis is more or less assured. The recent Franco-German rescue plan is almost certainly doomed to failure. This is because of the convoluted structure of the €450 billion insurance fund that was designed to deflect attention from German taxpayer guarantees and subsidies granted to debtor countries.

Nonetheless, the direction of travel is clear. With each successive crisis, eurozone leaders come closer to admitting openly that there must be joint responsibility for national borrowing and spending, so national governments must be brought under centralised control. After staring into the abyss of a euro break-up this summer, the German and French political and business elites have now prepared themselves for the leap that full-scale federation involves.

What has not yet been understood is the opportunity created by this for the countries outside the euro — especially Britain. David Cameron has a once-in-a-lifetime opportunity to advance Britain's national interest, earn the gratitude of his European partners and turn himself into a statesman of global stature. But to do so he must tear up the rule book of Britain's European diplomacy.

Since 1945 Britain has followed a consistently unsuccessful four-step policy on unification: deny that it is going to happen; try to prevent it; refuse to join in; and finally be dragged into projects it has tried to avoid. Mr Cameron must have the courage to do the opposite. He should encourage a

new European federation and even offer Britain's financial support.

The obvious reason to assist the project is that this is the only way to prevent a euro break-up — a mess that Britain can ill afford in this period of acute economic vulnerability. But there are also two more fundamental reasons.

The first is to retain influence over the process of unification. Britain still has substantial financial firepower and an unimpeachable credit rating. There could be no better use of this than to withdraw the government veto on the use of jointly guaranteed borrowing by the entire EU to support restructuring by countries within the eurozone. The quid pro quo should be a British seat at the table for financial rule-making and a power of veto when new rules begin to affect the European single market.

Which leads to the second reason. If the euro countries lock themselves into a genuine fiscal union, this will create not one new grouping of EU countries, but two. The countries that stay out of the euro — Britain, Denmark, Sweden and some of the eastern nations — will have an opportunity to reorganise their relationship with the new euro-federation.

A minimal reform, proposed last week by Lord Owen, would create a non-euro group to match the euro group, a committee of eurozone finance ministers that meets in private before every plenary EU summit. But that barely scratches the surface. A federation will build on the structures of the present EU. That means not just the new budgetary and tax agreements, but also foreign and defence policy, the Social Chapter and probably the Convention on Human Rights.

The big challenge will be to keep the commercial issues essential to the single market — trade, competition, environment, free movement of capital and labour — within the structures of the present EU. It might rename itself the European Economic Union. The great opportunity will be to expand it to include countries that will not compromise their national independence, but would co-operate in the creation of a common economic space. This would involve rich nations such as Norway and Switzerland and poor ones, such as Turkey and perhaps even Egypt, Ukraine and Russia.

Switzerland may never allow foreigners to vote in local elections; Turkey may never agree to pool its foreign policy with Greece; Norway may never wish to share its oil wealth. But all would be enthusiastic members of a looser but broader structure built on Europe's two biggest contributions to civilisation — democracy and market economics.

By supporting the transformation of the eurozone into a fully fledged political federation, Mr Cameron could renegotiate existing EU treaties and create a looser and more diverse economic community, with which the British people could at last be at ease. He must not miss this chance.