

## Opinion

# Britain is the natural leader of outer Europe

By championing the creation of a two-track EU, Cameron could strengthen our position

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David Cameron is right and wrong. As the Prime Minister prepares for yet another “make or break” summit in Brussels, he is right to believe, as he wrote in *The Times* yesterday, that “the euro crisis is forcing the European Union to confront fundamental choices”. He does not seem to realise, however, that the choices facing Britain are equally profound.

Angela Merkel and Nicolas Sarkozy’s so-called comprehensive agreement to save the single currency is no more comprehensive than any of its predecessors. Most of the truly difficult issues have been left unresolved, just as they have been in the past. But there is one crucial issue on which all the euro-members truly have agreed: for the single currency to survive, the eurozone will have to be converted into a fiscal federation.

And for such a fiscal federation to be sustainable and democratically legitimate, Germany, France, Italy and the other member countries will have to merge into a single European state, from which Britain, of its own volition, is certain to be excluded.

This week’s deal may not yet explicitly state that the eurozone will become a political federation, but the terms of the deal make clearer than ever before that this is the only way forward if the euro is to be preserved.

A summit deal will leave unresolved

many of the main disagreements that have dogged Europe since the start of the euro crisis. How will fiscal discipline be defined? How it will be policed? What sanctions will be enforced and by whom? What will happen to countries that fail to change their constitutions as Germany and France dictate? And how on earth can additional tax rises and spending cuts stabilise the eurozone rather than pushing it deeper into a deflationary black hole?

Most importantly, while the Merkel-Sarkozy deal meets the German demand for central control over fiscal policy in the peripheral countries, it fails to offer the essential quid pro quo of joint guarantees for national debts and banking systems across Europe. These will unquestionably be needed to reassure investors and savers in Greece, Italy and even France, especially once these countries suffer more German-imposed austerity.

But whereas the details of the “fiscal compact” are nothing more than a

## He must ignore the whines of the Foreign Office and Lib Dems

muddled version of the misconceived and ineffective Maastricht “stability pact”, the political direction it sets for Europe is clear. The eurozone will move towards a full-scale federation or break-up. The choice is between “more Europe” or “less Europe”; the status quo is no longer an option.

Mr Cameron, if he has any sense of history and of long-term national interest, will realise his best option is the one that the Foreign Office is fighting to avoid. The Prime Minister should express support, even



In the fast lane driving slowly? David Cameron must avoid John Major’s fate

enthusiasm, for the federalist project. He should encourage the 17 euro members to agree a separate treaty among themselves, outside the existing EU treaties. Such a new treaty would confirm that euro-membership and political federation is a separate project, distinct from the single market. Mr Cameron should use this opportunity to embed Britain’s semi-detached position outside the euro and the future federation into the legal structure of Europe.

Britain’s negotiating position on issues such as EU-wide financial regulation would be greatly strengthened if eurozone countries were clearly distinguished from other EU members. For example, if Germany and France wanted to impose a financial transaction tax within the eurozone, they should be free to do so, but such decisions would not extend to the EU as a whole.

A new treaty of political federation

among the euro nations would turn the EU back into a primarily economic organisation, creating a community of nations outside the euro dedicated to the integrity of the single market. It could bring in new members such as Switzerland and Turkey that would never sign up to the federalist goals of the present EU. And Britain would be the unchallenged leader of this group.

A mystery of politics today is why Mr Cameron still seems so wary of creating this two-track Europe. The obvious answer is that he faces political obstruction from the Liberal Democrats and bureaucratic obstruction from the Foreign Office. Both are institutionally paranoid about “losing our seat at the top table” or “being left behind in the slow lane” — an attitude epitomised by *Private Eye*’s famous description of EU policy under John Major: “We want to be in the fast lane, driving very slowly.” This tradition has prevented the Foreign Office from thinking constructively about the political and legal separation of the eurozone from the rest of the EU that is now becoming inevitable.

Yet the eurozone, if it survives, is now inexorably moving along a path that Britain and other EU nations will never follow. This summit is the time for Mr Cameron to put aside the childish whines of the Lib Dems and the Foreign Office and take big decisions about Britain’s long-term relationship with Europe.

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