

The UK, Euro elections and the future

Personal reflections on the recent AEJ lunch with Brunello Rosa

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The UK referendum campaign dealt a massive blow to the country's reputation as a politically mature, stable small-c conservative country with strong, historically proven institutions and a basically common sense, pragmatic view of life and international relations.

It also revealed the shockingly shallow and amateurish nature of the conservative party leadership in general and former Prime Minister David Cameron in particular. While internal Tory party politics, and a desire to undercut the challenge from UKIP, appears to have been the prominent, essentially tactical motive behind Cameron's apparently personal decision, the deep splits within the Tory party over Europe also reflected deep scepticism about the European venture in the UK electorate generally, especially the key English electorate, and especially in small town and rural England where the Tories are traditionally strong.

I personally, together with all three boys, two daughters and Shelly, voted to remain, but in my case at least with my fingers pinching my nose. The voting cut across normal party lines – partly reflecting the loss of tribal Labour voting in former industrial areas, especially in the north, but also the general lack of enthusiasm for, or knowledge about the EU and what membership has meant for the UK over the last 43 years. Scotland and Wales, both traditional Labour areas, now under siege from the Scottish and Welsh nationalist parties, voted to remain.

So did virtually all the big cities especially London, with its large immigrant population, large and wealthy middle class, skilled working class, heavy dependence on financial and other services and its global status and reputation for tolerance and openness. Birmingham, Bristol, Leeds, Liverpool and York also voted to remain as did Newcastle, but by a thread, while nearby working class Sunderland voted heavily to leave. This was despite Renault/Nissan being the main employer with the Nissan car plant alone making more cars than the entire Italian car industry – and exporting the bulk of them to EU markets.

Ironically, what made the referendum result so bizarre, and so utterly unexpected by the political class and media generally, is the fact that while the inhabitants of the UK have never shown any great enthusiasm, or indeed interest, in the EU and its workings, and much of the popular press has always been viscerally critical and sceptical, the EU has been regarded with indifference, or amused contempt rather than outright rejection and opposition.

Public opinion, poll after poll, indicated that Europe has always come very low down in the average voter's scale of priorities – with the economy, jobs, prices, the NHS, housing and social problems always at the top of the list. A possibly apocryphal story has it that the day AFTER the referendum Google was swamped by people wanting to find out what the EU actually was! True or not, it rings true and reflects the general indifference.

What the politicians and pollsters failed to take on board was the degree of resentment at the vast, apparently uncontrolled level of immigration from economically depressed EU countries – not only hundreds of thousands of Poles and other eastern Europeans but also young Italians, Frenchmen and Spaniards pushed by the high youth unemployment in the southern EU countries burdened by heavy debts, unaffordable welfare states, labour rigidities reinforced by strong trade unions and weak left wing regimes.

The straw which broke the tolerant camel's back however were the nightly TV pictures of crowds of refugees streaming unchecked across European borders, many of them single young men, many of them from Moslem countries engulfed in bitter religio-political conflicts throughout the middle east. The UK, which opted out of the Schengen open borders agreement and the Euro, and was protected, as always, by the channel, was least affected by the inflow which surged across the Mediterranean and the Italian and Greek coasts and into an initially and catastrophically welcoming Germany. But the clear linkage between Schengen type open borders and uncontrollable mass immigration, was manna from heaven for UKIP and leavers generally.

Leavers were promised that leaving the EU would bring back national control over immigration, restore England's historic legal system and parliamentary sovereignty – and free up billions of pounds for increased spending on the NHS which would otherwise be transferred to pay the UK's EU membership fees and obligations. It enabled Tory maverick Boris Johnson to urge voters to "vote for freedom." Which they did by 52 -48%.

(Let us leave aside, but not forget, the tactical stupidity of Cameron firstly in opting for a simple yes/no vote on a subject of historical strategic importance and monumental complexity and secondly for allowing such a momentous decision to be made on the basis of a simple majority vote. Even a 60/40 proviso would have kept the UK comfortably inside the EU – which is what Cameron both expected and wanted when he took the risky and foolhardy decision to neutralise Tory party internal squabbling in this way.)

The campaign itself was of banana republic banality – on both sides. Cameron resigned immediately the results were known. The Tory party's extraordinary capacity to hang together in emergency was demonstrated yet again as Theresa May stepped over the political corpses of Gove and Boris Johnson, who committed hari-kiri shortly after their stunned moment of triumph. Once in power she ruthlessly disposed of the Cameroons, including Osborne and Gove, raised an astonished and grateful Johnson from the political gutter to the foreign ministry and appointed two other rivals for the leadership, the arch-leavers Fox and David Davis, little Englanders both, to ill-defined new jobs supposedly in charge of somehow making a success of the divorce from Europe which they so ardently desired.

Only at this point did a generally stunned UK political and chattering class start to come to terms with the immense complexity of Brexit, its potential impact on the economy and employment and incomes – and hence the ability to finance the NHS and everything else. At no stage during the campaign was there any suggestion that leaving the EU would surely have immense

repercussions on the future balance of power in Europe, on relations with the US and Russia and the wider world, including the commonwealth.

And what about the rest of Europe?

Populism, as measured by the votes attracted to Nigel Farage, Marine Le Pen, the AfD in Germany and others in Europe, to Donald Trump in the US and similar outcomes in many other parts of the globe, reflects anger that ordinary working peoples' incomes have stagnated while asset owners' wealth has been inflated since the 2008 financial crisis.

But, as Brunello Rosa, CEO and head of research at Rosa and Roubini associates, pointed out at the AEJ's Euro-election post mortem, in the last week of May, a higher voter turnout, helped to ensure that the more exaggerated pre-election fears of a populist wipe-out did not materialise.

Even so the European political battle ground post-election is littered with wounded and dying and looking beyond the smoke of political battle, Europe's political future remains as obscure as ever.

Among the most grievously wounded were, as expected, the UK's hapless Tory and Labour parties. Both were beaten into near oblivion by the eruption of Nigel Farage on the hard Brexit right and the switch of leaver voters to the Liberal Democrats and Greens. Farage and his light-blue Brexit party clearly intends to compete head-on with the probable Boris Johnson-led hard Brexit rump of the Tory party.

Despite the light blue Farage landslide, from a standing start only six weeks before the poll, the combined pro-Brexit vote turned out to be less than that of the remain-flavoured cocktail of Lib Dems, Greens, SNP and Uncle Tom Cobley. Once again the Euro poll revealed a deeply divided country – but one in which more of those who turned up to vote in this election, which was never supposed to happen, want to remain in the EU rather than leave, with or without a deal.

Whether this majority will be confirmed in a real election for the Westminster parliament, remains to be seen. It might just if Farage splits the hard-Brexit Tory vote. Another intriguing possibility is that if enough remain Tories and anti-Corbyn Labour voters desert their parties again at the next Westminster election a combined switch to the Lib-Dems just might create a centrist remainer alliance committed to revoking article 50.

But then again, pigs might fly. There is little sign of the emergence of a new type of talented politician able to convert the essentially rural and suburban, middle class Lib-Dems into a credible hegemon in a future reinforced Lib-Dem coalition. The UK's political future remains obscure.

Across the channel, the post-Euro election political outlook is even more confused and confusing than before. This is because German voters deserted the CDU/CSU and SPD sufficiently to put the future of the Grosse-Koalition in question. Marine le Pen's ability to pip Emmanuel Macron at the most, albeit with a smaller margin than once feared, leaves a weakened French leader further reduced in stature after his bruising, and continuing, conflict with the gilets jaunes. But the poor showing of traditional centrist parties in France could work to his advantage.

With both German and French centrists weakened by disappointing election results any remaining hope of a re-invigorated Franco-German reform-orientated duopoly at the core of European policy making has been dimmed.

Similar losses by other centrist parties in Holland, Belgium and across Europe means that the cosy centre right/ centre left EPP and Socialist bloc which effectively called the shots, and horse-traded all key jobs in Brussels, has lost much of its former stabilising and controlling role. The main gainers from this disillusionment have been the Greens across Europe, pushing climate change policies up the “must do” list for European policy makers.

With the elections over, the shift to the Greens is unlikely to affect the usual horse trading for key European jobs, from EU and European Central Bank presidents and EU Commissioners all the way down.

As usual, the main dogs snarling and charming each other in the Soviet-style dog-fight under the carpet of EU high politics will still be speaking French or German. The outcome will have little to do with the superficially democratic process of voting for over 750 MEPs. The UK of course will now have no influence over the outcome. That’s what Brexit means.

In retrospect, David Cameron’s decision to take the UK conservative party out of the centre-right European Peoples Party (EPP) caucus soon after the 2010 general election was arguably almost as effective in diminishing the voice of the UK in Europe as his equally bodged referendum.

Even if the UK actually leaves the EU before Nigel Farage and his phalanx of contemptuous Brexiteers can cause mayhem and insult everybody in the new EU parliament, it remains unclear how functional an over 750 seat multi-lingual parliament will be. It will surely be even harder to either legislate or legitimately speak for “Europe” when so many of the new MPs represent single minded Climate protecting Greens or right wing nationalist and populist parties, and often both at the same time, as in Italy.

Throughout Europe, and especially in Italy, Germany and France, not to speak of the UK, the main impact of the Euro vote will be on domestic politics. The big rise in Matteo Salvini’s Euro vote share eclipsed that of his coalition rival Five Star movement, raising the likelihood of a split in their shaky coalition and raising the likelihood of early general elections. The main political consequences of the European elections however are likely to stem from the rise of the Greens and the collapse in both the CDU/CSU and, above all, the SPD vote in Germany.

The voting outcome weakens both members of the German coalition government, complicates the succession struggle inside the CDU/CSU and makes an early German election a distinct possibility – with right wing votes hovering around 10%, the Greens absorbing votes from the centre so further weakening both the centre-right and centre-left influence in this key European power centre.

What the European election process singularly failed to do was to stimulate a necessary debate on the future course of Europe over the next five years and beyond. Little light was shed in the various nationally-based election contests on how Europe should respond to a rapidly changing International environment where a rising China is now being blocked by a US President who is often mocked, and is indeed very mockable, but has a pretty shrewd grasp, albeit intuitive rather than

informed, of the realities of power politics and can sniff weakness in his political opponents and supposed allies

Whatever the outcome of the Trump trade war against China, Europe, especially export-led Germany, will suffer the fallout. It is equally clear that Europe will no longer be able to rely on the US footing much of the bill for Europe's defence and that the Euro will struggle to compete with a US dollar managed exclusively in the perceived US interest.