

CER Bulletin

Issue 149 | April/May 2023

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A British strategy for Europe?

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After nearly seven years of acrimony, the UK and the EU are talking sweetly to each other. The Ukraine war reminded them how much they have in common.

Prime Minister Rishi Sunak and European Commission President Ursula von der Leyen showed a willingness to compromise over the Northern Ireland Protocol, fostering good will on both sides. It also helps that Sunak and President Emmanuel Macron get on well, since friction between London and Paris had undermined the broader UK-EU relationship.

Does all this presage a profound shift in UK-EU relations? The short answer is no, at least not until the governing Conservative Party undergoes the kind of radical transformation that currently seems unlikely. True, only 22 Conservative MPs voted against the 'Windsor Framework' (which revised the Northern Ireland Protocol). And the Democratic Unionist Party's hostility to that revision is futile: though it may boycott the region's executive for a while, in the long run it will have to accept the framework, since nobody is going to offer an alternative.

Yet the Conservative Party remains profoundly eurosceptic. Sunak wants good relations with the EU but is wary of upsetting hard-line MPs in the European Research Group (ERG). The 22 opposing Windsor included three former party leaders – Boris Johnson, Iain Duncan-Smith and Liz Truss – who can make a lot of noise. A further 50 Conservatives abstained in the vote.

So Sunak has refused to withdraw the nonsensical Retained EU Law Bill. This would require ministers to scrap, by default, UK legislation that derives from EU law, by the end of this year, unless they decide to amend or retain it – with almost no parliamentary scrutiny. Nobody is sure how many pieces of legislation are covered by the bill, but the number might be around 4,000.

The civil service lacks the capacity to review so many laws so quickly. NGOs fear that many social and environmental protections will be lost, while businesses worry about an unstable regulatory environment. Furthermore, as [Anton Spisak has argued](#), the bill may undermine parts of the Windsor Framework. Yet Sunak is pushing ahead with the bill, perhaps hoping that the House of Lords will do him a favour by insisting on major amendments (there are also reports that he may accept a six-month extension to the deadline for decisions on scrapping EU-derived rules).

In another bid to placate the hard right, Sunak is prioritising the Illegal Migration Bill, which would prevent those coming to the UK in small boats from applying for asylum. His own government admits that this may well breach international law. And Sunak tolerates a home secretary who in October called for the UK [to leave the European Convention on Human Rights \(ECHR\)](#). Suella

Braverman was apparently unaware that Britain's participation in the ECHR is an integral part of both the Good Friday Agreement and the justice and home affairs provisions of the Trade and Co-operation Agreement between the UK and the EU.

Despite these clouds, the warmer cross-Channel weather should produce some benefits. There may be an accord between financial market regulators, easier trading of electricity across the Channel, and British re-entry to the Horizon programme of scientific research – the EU had blocked all three because of the protocol. But Sunak is hesitating over Horizon, worrying about whether it is value for money.

A more fundamental *rapprochement* will probably have to await the arrival of a Labour government, which opinion polls suggest is likely after the next election (which must be held by January 2025). Keir Starmer, the Labour leader, and his chief lieutenants are instinctively pro-European. He does not have to worry about anything like the ERG. Starmer is nevertheless cautious on Europe, believing that he will not win back 'red wall' seats in the north of England and the Midlands if he appears too pro-EU.

Starmer has made it clear that a Labour government would not seek to rejoin the single market or the customs union, or restore free movement with the EU. What he would do is recognise EU standards on plant and animal health, to reduce friction at borders; seek a deal on mobility, so that Britons could work for short periods in the EU without a visa, and vice versa; and negotiate structural ties on foreign and defence policy that would plug the British into the EU's machinery. The EU would welcome these moves – though none of them would do a great deal to undo the damage that Brexit has inflicted on the UK economy.

In the longer run, perhaps in a second term, a Starmer government might be bolder about rebuilding ties with the EU. This would be easiest in predominantly 'inter-governmental' areas such as foreign, defence and security policy, where the role of EU law is sometimes minimal. The difficulty with closer economic ties is that many EU governments – and the Commission in particular – strongly believe in the 'integrity' of the single market, meaning that third countries should not be allowed to cherry-pick access to parts of it; the market comes as a package, including free movement of people. And if one country, like Britain, were allowed an exception, others would ask for the same and before long the market would unravel. So a Labour government would find it hard to improve the

fundamentals of the economic relationship.

But if the UK adopted a serious and constructive long-term strategy, the EU might at some point see the potential benefits of a more intimate relationship. The evolution of the EU's thinking on enlargement – it talks of giving neighbours access to parts of the single market before they become full members – could help. A Labour government should:

- ★ Make sure ministers treat the EU and its members with courtesy. Avoid provocations and hubristic talk of Britain having 'world-beating' this, that or the other. Politeness and modesty would help to generate good will towards the UK. So would offers to help with, for example, supplies of energy or defence equipment, without insisting on something in return.
- ★ Prioritise plugging the information deficit vis-à-vis the EU. Because ministers and officials no longer turn up to meetings in Brussels, there is growing ignorance in the UK about how the EU works. Set up a new unit to monitor EU legislation, so that the government can take a view on whether it wishes to align with EU rules, and tap into the knowledge held outside government, for example in businesses and think-tanks.
- ★ Strengthen bilateral relations with the member-states, and not just the big ones. Even when the UK was a member it paid insufficient attention to some of the smaller members, thereby forgoing influence. Nor should the UK shun the EU's institutions. Many Conservatives are ideologically hostile to engaging with Brussels, but the Commission, the European External Action Service and the Parliament matter, even when one is outside the EU.
- ★ The UK will be a more appealing partner for the EU if its economy performs better. Despite the damage inflicted by Brexit, much could be done to improve performance (as John Springford writes in this bulletin). Similarly, the UK needs to enhance its diplomatic influence, building ties with middle-sized countries on other continents. But (as Ian Bond points out in this bulletin) that influence is impaired by the under-funding of British diplomacy, defence and development aid. A well-connected Britain, with a stronger economy and the capacity to make a big contribution to European security would be an attractive neighbour – and maybe one with which the EU would wish to forge a bespoke partnership.

Charles Grant
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Where is Britain's growth plan?

by John Springford

The government will have to confront vested interests and raise investment to boost growth. A strategy founded on trade deals with far-off countries and deregulation won't work.

Britain's economy is weak, but there is a strange lack of urgency in Westminster about the problem. Unlike most other advanced economies, economic output has still not returned to its pre-pandemic level. The Office of Budget Responsibility (OBR), the government's independent fiscal watchdog, forecasts that living standards will not reach their 2019 level till 2027-28. But, in the run-up to an election that is likely to take place next year, neither the government nor the opposition Labour Party are setting out bold strategies to fix the UK's economic problems.

Finance minister Jeremy Hunt announced his budget on March 16th. His goal was to raise labour supply through more hours of free childcare, back-to-work policies, and pension changes to give older professionals more incentives to remain in work. However, this would only increase potential output by 0.2 per cent, according to the OBR. Meanwhile, Hunt plans to [cut public investment](#) by £15 billion relative to spending plans set out two years ago. Labour's own economic plan is vague, promising to "secure the highest sustained growth in the G7", but without much detail on how to achieve that goal.

What explains the lack of urgency? One obvious reason is that former prime minister Liz Truss

pursued growth at all costs, and the markets reacted badly. Neither party wants to appear reckless during a period of high inflation and tightening borrowing conditions. Another reason is that Britain's first-past-the-post electoral system means a small number of floating voters in marginal constituencies determines the outcome. On average, those voters are older and more likely to own a house so they are less affected by weak growth than younger people. They are also more socially conservative, and more likely to support Brexit, so both parties are downplaying the economic consequences of leaving the EU.

There are many reasons for the UK's economic doldrums. The country has been hit by a succession of crises since 2008. The financial crisis exposed an indebted economy with a large and globalised banking sector. Successive Conservative-led governments then failed to take advantage of low interest rates to invest in infrastructure and skills. Brexit has reduced the supply capacity of the economy by introducing barriers to trade and depressing investment, which had been recovering before 2016. The pandemic exposed the risks of an underfunded healthcare system. Britain consumes more gas per capita than most European countries, after years of underinvestment in alternatives and in energy efficiency, so it was in a weaker position when Putin invaded Ukraine.

This series of shocks laid bare the weaknesses of Britain's economic model, and demands a comprehensive response. But a Trussite strategy – deregulation and tax cuts – cannot be the answer. The UK is one of the most lightly regulated advanced economies and voters do not want to cut public services. That pushed both Jeremy Hunt and his predecessor but one, Rishi Sunak, to raise taxes. Any growth strategy will have to focus on the economy's real problems, and avoid the student union policies of Johnson and Truss. And it will require a lot of state investment: turning Britain around cannot be done on the cheap.

The first problem is the use of land. The UK's cities are less dense than their European peers, and its transport systems are more congested. Only [40 per cent](#) of the residents of the UK's biggest eight cities can get to the city centre by public transport in half an hour, while 67 per cent of the residents of comparable European cities can. Weak transport limits the labour pool for employers, because there are fewer potential workers who are willing or able to travel to each job. Employers' needs and workers' skills are therefore poorly matched, curbing productivity.

The government will have to face down opposition from NIMBYs (opponents of new buildings, who cry 'not in my back yard') and invest more in commuter transport, while encouraging denser housing, to make local labour markets bigger and more efficient. In his budget, Hunt announced an increase in local transport funding for the biggest city regions from £6 to £9 billion, which is good, but is unlikely to be enough to rapidly reduce journey times. And height restrictions for buildings across UK cities continue to limit density, but reform has been slow.

The second problem is highly unequal education and skills. As a share of GDP, the UK [spends more](#) than the OECD average on education at all levels. But that spending is not distributed progressively enough: pupils from poorer backgrounds need more resources to make up for the gaps in attainment that open up at an early age. In 2010, spending on the most deprived fifth of state primary schools was [35 per cent higher](#) than the most affluent fifth, but by 2020, that premium had fallen to 20 per cent.

Meanwhile, spending on state school pupils stagnated between 2010 and 2020, at around [£8,000 per pupil](#), while private school spending rose from £11,000 to £14,000. State primary school class sizes, at 27 pupils, [are much larger](#) than the OECD average of 20. All this may explain why, while British pupils' numeracy and literacy scores are above the OECD average, [the gap](#) between

low and high achievers is at the OECD average (in reading and maths) or worse (in science).

Third, the energy crisis has hit the UK particularly hard, because it uses [more gas](#) for heating and electricity generation than many of its European peers. The government has only mildly relaxed planning restrictions on onshore wind. Successive governments have not done enough to install insulation and heat pumps, which would reduce gas imports and create savings that households could spend on other goods and services. Only [60,000 heat pumps](#) were sold in the UK in 2022, compared to 500,000 in Italy, 350,000 in France and 280,000 in Germany. Britain's homes are among the least energy efficient in Europe, but only 300,000 out of more than 20 million houses will be eligible for new government grants for insulation.

To its credit, Labour is promising a rise in climate investment of £28 billion a year if it wins the next election. That is around 1.3 per cent of GDP, a sum that is in line with reasonable estimates for how much European governments must raise capital investment to meet 2030 emissions targets. And the sum is four times larger than the Conservative government's current planned climate spending.

Neither party is planning to make big changes to the UK's economic settlement with the EU, which means that one of the simpler methods of raising growth – rejoining the single market and customs union – is off the table. That makes it even more important to raise growth through domestic reform and investment. There is no point pretending that trade deals with far-off countries, deregulation or further tax cuts will do much to improve living standards. Britain's pending accession to the trans-Pacific trade deal, a trade agreement between 11 Pacific rim countries, would raise [output by 0.08 per cent](#), according to government modelling. Raising public investment will not be easy: the tax take will have to rise further to pay for it, at least for several years. Loading all of those tax rises onto workers, rather than the owners of capital and housing wealth, will only make it harder for the country to recover.

It may be politically difficult to raise taxes on older, wealthier people to fund investment that will benefit the young. But Brexit was imposed on working age people by older voters, who benefited most from rising house prices and EU membership. Such a strategy would not only be sensible – it would be fair, too.

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The best national security that (no) money can buy?

by Ian Bond

The UK's 'Integrated Review refresh' is more sober than its 2021 precursor. But the gap between the challenges the UK faces and the resources available to meet them has grown.

On March 13th, the British government [published](#) its 'Integrated Review refresh 2023' or 'IR23', an update of the 2021 '[Integrated Review of security, defence, development and foreign policy](#)' (IR21). The 'integration' does not include the Treasury, however: it has not allocated the money needed to meet the challenges identified.

IR21 stated correctly that Russia would remain the most acute direct threat to the UK, and foresaw that the decade ahead would be marked by growing conflict and instability, but it did not predict that within a year Russian President Vladimir Putin would launch a full-scale attack on Ukraine. IR23 attempts to take account both of the impact of the war on the UK's security, and of China's increasingly unsettling behaviour on the world stage.

On the whole, the new document is an improvement. It ditches some of the bombast characteristic of former Prime Minister Boris Johnson, including references to 'Global Britain', though it still makes the questionable assertion that the UK has "a uniquely diverse range of national strengths". IR23 no longer claims that the UK will be a "science and tech superpower" by 2030 (although the phrase still appears in other government [statements](#)); and it drops the ambition to be "the European partner with the broadest, most integrated presence" in

the Indo-Pacific region. The aim in science and technology now is to "keep pace with strategic competitors" – still ambitious, given low UK [research and development spending](#); in the Indo-Pacific region, the UK will be "working with others and ensuring that we are respectful to and guided by regional perspectives". Following the Franco-British summit just before the publication of IR23, there is a reference to co-operation with France in the Indo-Pacific, including "establishing the basis of a permanent European maritime presence in the region through co-ordinated carrier deployments". Then French defence minister Jean-Yves Le Drian made a similar proposal for co-ordinated European naval patrols in the South China Sea in 2016, before Brexit.

IR23 is also warmer in its language on the EU. Johnson and his ministers and advisers tried to avoid dealing with the EU institutions on foreign, security and defence policy, and [rejected](#) the idea of including these issues in the UK's agreement on post-withdrawal relations with the EU. By contrast, IR23 speaks of entering "a new phase in our post-Brexit relationships in Europe", after the Windsor Framework resolved the dispute between Brussels and London over the Northern Ireland Protocol, and includes the EU (as an institution) among the UK's "European allies and partners". It also speaks of developing

“new forms of co-operation on issues of shared interest” with the EU, including on defence.

The improving relationship with the EU was reflected in the process leading to IR23: there were informal discussions with the European External Action Service – the EU's diplomatic service – as well as those, referred to in the document itself, with “nations of NATO and the Joint Expeditionary Force (JEF); [and] other key European partners including France, Germany, Poland and Italy”.

IR23's assessment of the challenges to the UK is sober. It gives centre stage to the threat from Russia, and the objective in responding to it is admirably firm: “to contain and challenge Russia's ability and intent to disrupt the security of the UK, the Euro-Atlantic and the wider international order”.

In relation to China, described as “an epoch-defining and systemic challenge”, the policy will be to protect the UK against threats from China; to deepen co-operation with like-minded countries, recognising that “we have limited agency to influence the CCP's [Chinese Communist Party] actions on our own”; but also to engage with China where that is consistent with UK interests. IR23 explicitly disavows the division of the world into “democracy versus autocracy” – a contrast with the US National Security Strategy of 2022, which describes democracies and autocracies as “engaged in a contest to show which system of governance can best deliver for their people and the world”.

The document also covers state and non-state threats below the threshold for armed conflict, including from information operations and cyber attacks; threats to supply chains and access to strategic technologies; and threats from organised crime, terrorism and corruption, as well as – inevitably in the current political climate – from illegal migration.

But despite the generally sensible enumeration of threats, there is a hole at the heart of IR23: there is little new money on offer to meet the challenges. Defence gets the best deal, but even that falls far short of what Defence secretary Ben Wallace was looking for in September 2022. Back then, he [told](#) *The Telegraph* that then Prime Minister Liz Truss planned to increase the defence budget to 3 per cent of GDP, so that it would reach about £100 billion by 2030.

IR21 said that defence spending stood at 2.2 per cent of GDP; IR23 says that it is “expected

to reach 2.2 per cent of GDP” in 2023 (with an extra 0.09 per cent for assistance to Ukraine). There is an “aspiration” to reach 2.5 per cent, but no timeline for getting there – and no mention at all of 3 per cent. The defence budget will increase by £5 billion over the next two years – more than half of that going to modernise the UK's nuclear deterrent – and roughly £2 billion per year in each of the following three years, subject to the agreement of the next government. Wallace told the House of Commons Defence Committee in November 2022 that he needed about £8 billion over two years simply to protect the defence budget against inflation and the pound's relative weakness against the dollar when the UK is making major equipment purchases from the US.

Other parts of the UK's international effort do even worse: apart from a doubling of funding to develop expertise on China, there is no explicit increase for diplomacy, although a new UK Integrated Security Fund, worth £1 billion, will be created by merging the existing Conflict, Stability and Security Fund (worth £890 million in 2022-2023) with other, smaller funds to pay for conflict prevention and other security-related projects. The overseas development assistance budget, cut from 0.7 per cent of gross national income to 0.55 per cent, has been reduced further, in effect, because [about one-third](#) of it is now being spent by the Home Office to accommodate asylum seekers in the UK. The BBC World Service will get an extra £20 million over two years, “protecting all 42 World Service language services” – but that will not compensate for the £28.5 million annual savings that the World Service [announced](#) last September that it would have to make.

Johnson may no longer be prime minister, but his philosophy of having his cake and eating it is still present in IR23. The UK cannot achieve everything it aspires to in the review with such constrained resources, and least of all if it tries to do too much on its own rather than in partnership with other powers, including the EU. The government faces a painful choice: it can either keep spending at the current level, and see its hard power questioned and its soft power eroding; or it can invest enough to be taken seriously on the world stage. Neither allies nor adversaries will be impressed, however, by a strategy that is ‘all mouth and no trousers’ – or at best, uncomfortably tight trousers.

Ian Bond

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CER in the press

Süddeutsche Zeitung

17th March

According to Sander Tordoir from the CER think-tank in Berlin, with the [EU Commission's] plans [to facilitate state aid for green technologies], Europe is "sending an important political signal that the EU will not deindustrialise without a fight and that decarbonisation is an opportunity for green industrialisation."

Yahoo News

17th March

"You can only claim asylum if you arrive in Europe," Luigi Scazzieri of the CER, told Yahoo News. "If the thrust of Europe's immigration policy becomes to keep people from arriving in the first place, then that right is being eroded."

Politico

9th March

Charles Grant, director of the CER, said Putin's invasion

of Ukraine has made Sunak and Macron realise "they need to get on better. Britain and France can't be at loggerheads if that's going to make the West weaker vis-à-vis Russia, and potentially China as well," he said.

Euronews

22nd February

Helmi Pillai, Clara Marina O'Donnell fellow (2022-23) at the CER, argues that "Finland should prepare to join NATO without Sweden if Turkey continues to delay Stockholm's ratification process, due to the greater threat of Russian aggression faced by Helsinki."

The New European

18th February

Ian Bond, director of foreign policy at the CER, says Putin can afford to ignore these distant protests. "Putin cares about what happens in Moscow and St Petersburg... everywhere else you can deal with it through a

combination of bribery and coercion," he said. "When things start bubbling in Moscow and St Petersburg, they are ruthlessly suppressed... I don't think demonstrations by soldiers' mothers in the periphery make much difference."

The Daily Express

15th February

The research by the UK in a Changing Europe and the Centre for European Reform think-tanks show that post-Brexit the UK economy is suffering from labour shortages in lower-skilled sectors, including logistics, construction and hospitality, with the lack of free movement "contributing significantly" to this.

The New York Times

14th February

"Among member-states, there is currently no other consensus than on border control," said Camino Mortera-Martínez, the head

of the Brussels office of the CER. "The debate on common asylum policy is going nowhere, so countries on external borders are left to their own devices."

The Observer

4th February

Charles Grant of the CER said the worries in Brussels were real and ran deep. "The EU is getting seriously concerned about the impact of the Retained EU Law Bill on the level playing field. It fears that if the UK abandons high social and environmental standards, its companies will have an unfair advantage over EU firms."

Politico

31st January

"There is a whiff of unrealism and hypocrisy about European complaints regarding the [Inflation Reduction Act] – a matter of do what I say rather than do what I do," writes Zach Meyers of the CER.

Recent events

16 March

CER/AIG Geopolitical Risk Series: Webinar on 'What will Putin do next, and how should the West respond?'
Speakers: Per Brodersen, Sergey Radchenko, Thilo Schroeter and Angela Stent

14 March

Hybrid discussion on 'Delivering REPowerEU: What more needs to be done?', Brussels
Speakers: Matthew Baldwin, Elisabetta Cornago and John Springford

9 March

Hybrid discussion on 'How could the EU-UK Trade and

Co-operation Agreement be improved?', London
Speakers: Catherine Barnard, Stefaan De Rynck, Iain Martin and Ivan Rogers

8 March

Discussion on 'The EU institutions: One year into the war and (just over) one year away from the elections', London
Speaker: Klaus Welle

1 March

CER/Clifford Chance hybrid discussion on 'Industrial policy and the future of state aid', Brussels
Speakers: Roger Coelho, Ben Smulders and Sigrid de Vries

23 February

Hybrid discussion on 'Russia's war of aggression against Ukraine: What has the last year taught us?', London
Speakers: Lawrence Freedman, Timothy Garton-Ash, Olesya Khromeychuk, Iuliia Osmolovska and Richard Shirreff

16 February

CER/Delegation of the European Union to the United Kingdom/European Central Bank Representation in London speech on 'Monetary policy after the energy shock', London
Speaker: Fabio Panetta

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