

A photograph of Jeremy Corbyn, a man with a grey beard and hair, wearing a dark blue jacket over a light blue button-down shirt. He is waving his right hand. The background is a red wall with white text that reads "OUR CHOICE. SHARE THE FUTURE".

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Jeremy Corbyn and the rise of groupthink

By John Springford

Eastern mess: The EU's partners need attention

By Ian Bond

Will the eurozone reap what it has sown?

By Simon Tifford



Jeremy Corbyn's rise to the Labour leadership heralds an era of ideological contest that threatens Britain's membership of the EU – and the United Kingdom itself.

When does cosy consensus become groupthink? According to the social psychologist, Irving Janis, it is when the desire for conformity becomes so strong that alternative courses of action are not even considered, let alone taken.

Jeremy Corbyn, the uncompromising left-winger who has never held ministerial office, surfed from Labour's backwaters to party leader on a wave of groupthink. The British left never fully accepted Blair's Third Way – and his greatest mistake, the Iraq war, provided the pretext for its demonisation of him. Corbynistas disparage the party's centrists as "red Tories" – a process Janis defined as 'stereotyping' opponents as spiteful and biased. The British left has always seen itself as the guardian of political morality, leading to a state of total certainty in which the risks flowing from the group's decisions – withdrawal from NATO might endanger the country's security, for example – are reflexively dismissed. And Janis also pointed out that moral certainty encourages excessive optimism: the British left imagines that the surge of Corbyn backers signing up to vote will be replicated in the broader electorate, despite the fact that no leader from Labour's left has ever won a general election.

The stable liberalism of the pre-2008 period is crumbling, giving way to ideological contest

between three political tribes – a Corbynite left, the Conservatives and the Scottish nationalists – which imperils Britain's membership of the EU, and the future of the UK.

Between 1992 and 2008 there was consensus over the big policy questions of the age: that the state should reflect and nurture the country's social liberalism, and provide more rights and opportunities for minorities and women; that it should intervene in markets only to correct obvious failures; that pro-work redistribution through tax credits and a minimum wage should counter poverty and inequality; and that more should be spent on improving public services. Now, Britain's parties are retreating into ideological comfort zones, ignoring or attacking evidence that contradicts their prior beliefs, and choosing policies less on a careful analysis of outcomes than on tribal orthodoxies.

Corbyn's policies engage in a debate with a spectral Margaret Thatcher: re-open the coal mines that she closed; subordinate monetary to fiscal policy; unpick the privatisation programme that she started. He has no programme of progressive structural reforms – to property, land and retail finance markets, or to the tax system – which would be efficient ways of reducing Britain's

troublingly high level of inequality and raise its weak level of productivity. Confronting past enemies, the left does not notice the alternative roads it might travel.

Labour is not alone. The Conservative policy programme follows party ideology over a careful analysis of the country's problems. The EU referendum will define Cameron's second term, even though Britons still rank Europe below immigration, the economy, health, welfare and housing in importance. They are right to do so: it is hard to find a major problem facing the country that would be solved by leaving the EU. Meanwhile, George Osborne's decision to move towards a budget surplus, reached predominantly by cuts to government consumption and capital spending, is ideological small-statism: higher public investment in infrastructure and housing is needed to cope with a growing population, and investment finance is currently cheap as interest rates are low. The Conservatives' proposed laws to make industrial action harder are simply a political trap for Labour, since Britain's days lost to strikes are half the EU average, and are hardly a major drag on the economy.

As for the third force in British politics, the Scottish National Party's rise lies in the fact that Scots have come to define their political identity against the Tories. The SNP has a tendency to make eye-catching policies to maximise the contrast with those south of the border, irrespective of whether the policies work. Abolishing university tuition fees was a canny political move, since they are hated by the predominantly middle-class students that pay them, and fees in England have risen to £9,000 a year. But abolishing fees led the SNP to cut bursaries for poorer students, to the extent that they are worse off under the new system. The SNP's decision to make medical prescriptions free costs 7.5 per cent of the Scottish health budget – money that could be better spent on hospital and social care, given that Scotland's population is ageing rapidly.

Britain's tribal warfare threatens to undermine the country's political and economic settlement. Jeremy Corbyn is at best equivocal about Britain's membership of the EU: he sees it as an agent of international capitalism. Under pressure from Labour moderates, many of whom said they would quit the shadow cabinet if he did not support EU membership, Corbyn has said that Labour will campaign to remain in the EU. But he also said he would try to reverse any "damaging" reforms David Cameron negotiates, citing an opt-out from EU employment rules as an example – and criticised the EU's proposed trade deal with the US, the Transatlantic Trade and Investment Partnership.

But the threat Corbyn's leadership poses to the UK's EU membership arises mostly in the internal dynamics of the Conservative party. The Tory right, knowing that Labour has little hope of winning the 2020 general election under such a left-wing leader, has less incentive to maintain party discipline. Eurosceptics will be tempted to follow their gut feeling, since a split over Europe will not be hugely damaging with the electorate.

“Britain's move towards the international margins and its inability to confront underlying problems are the result of its widening political fault-lines.”

The pro-EU coalition on the centre ground of British politics is shrinking, as is the opinion poll lead for the In camp. And since the EU's member-states face intractable problems – refugees and the euro's flaws – which aggravate British euroscepticism, the referendum could hardly be held in worse circumstances.

As for Scotland, Corbyn's supporters say a left-wing Labour party will draw voters lost to the SNP back to the fold, and make Scottish independence less likely. There are two reasons why this is doubtful. First, there are not enough left-wing voters in England and Wales for Labour to win the 106 seats needed for a majority in 2020. Scots will have little faith that Corbyn will deliver them from Toryism. Second, Nicola Sturgeon, the SNP leader, has popularity ratings in Scotland that are matched only by Angela Merkel in Germany.

The SNP has drawn up a list of 'triggers' that it says should prompt a second independence referendum. Some of the mooted triggers are unlikely to work – a renewal of Trident, Britain's nuclear deterrent, because a majority of Scots support a deterrant or if the Conservatives take Britain into an illegal war, because illegality is difficult to prove. But if the majority of Britons vote to leave the EU, with a Scottish majority voting to stay in, Sturgeon would justifiably argue that the constitutional settlement that Scots approved in the first independence referendum was no longer in place. And Scotland would probably vote to leave in a second vote.

Britain's move towards the international margins and its inability to confront underlying social and economic problems are the result of its widening political fault-lines. If the country does break up, its failure to rise above groupthink will be to blame.

John Springford
Senior research fellow, CER



Eastern mess: The EU's partners need attention

by Ian Bond

Georgia, Moldova and Ukraine signed EU association agreements in 2014, but reforms are now stalling. The EU needs to push the three governments to do more.

Europe's southern neighbourhood is in such a state of chaos, with civil war in Syria and anarchy in Libya driving migrants and refugees onto European shores, that few EU leaders are paying attention to the Eastern neighbourhood. But Europe cannot ignore the challenges and opportunities there. There are limits to what it can do with Armenia, Belarus and Azerbaijan: it should encourage improved relations with the first two; and do its best to respond to repression and corruption in the third. But its priority should be to re-energise reform processes in Georgia, Moldova and Ukraine, in alliance with populations desperate for better governance and an end to crony capitalism.

In Armenia, progress in relations with the EU stalled in 2013 when Moscow leant on Yerevan to join the Russian-led Eurasian Economic Union rather than signing an association agreement with the EU. Since then, however, the EU and Armenia have started negotiating a new deal, designed to preserve as much of the draft association agreement as possible. Armenia depends on Russia for its security, but the EU should help it to keep what freedom of manoeuvre it can in foreign policy and trade relations.

In Belarus, President Aleksandr Lukashenko will go through the formality of being re-elected in rigged elections on October 11th. In the past, the EU would probably have responded with another round of sanctions, but Lukashenko has been on his best behaviour, releasing all Belarus's political prisoners; and he has played the international statesman, hosting talks on the war in Ukraine. He wants to show Russian president Vladimir Putin that Belarus has European as well as Eurasian options (see 'The slow dance between Minsk and Brussels' by Charles Grant, April 10th 2015). The EU should respond positively, though without illusions: Lukashenko has a long history of hedging his bets between Moscow and Brussels.

Belarus is no longer 'Europe's last dictatorship'. Azerbaijan under President Ilham Aliyev is the unquestioned champion now, locking up journalists and human rights activists and accusing the West of using a 'fifth column' to destabilise the country. Azerbaijan poses a dilemma: on the one hand, it is a crucial element in Europe's strategy of energy diversification; on the other, it is an increasingly paranoid and corrupt dictatorship. The EU is a major purchaser of Azerbaijan's oil and gas, which ought to give

it some leverage. Russia, however, has its own levers: it can offer Azerbaijan more support in its conflict with Armenia (which has occupied almost 14 per cent of Azerbaijan's territory since their 1988-94 war); and it will not raise inconvenient human rights issues. Europe is likely to continue an awkwardly balanced policy of buying Baku's oil and gas while doing the bare minimum to support Azerbaijan's battered civil society.

The credibility of the EU's policy in Eastern Europe, however, depends ultimately on the progress of reforms in Georgia, Moldova and Ukraine, the countries that claim to want to integrate more closely with the EU.

Charles Grant has recently set out the obstacles to Ukraine's transformation (see 'The battle for reform in Kyiv', September 16th 2015). Progress in Ukraine was bound to be slower than people hoped, even without Russia's meddling. The authorities could have used the war to justify more radical reforms, while blaming Russia for the associated pain. Instead, the unpopular coalition government is now fraying as different factions try to blame each other for setbacks. Reformist MPs (including from President Petro Poroshenko's party) are frustrated, and worry that the oligarchs are digging in to defend Ukraine's corrupt old system. The recruitment of new police forces is cutting the level of petty graft; but the new anti-corruption bureau is moving at a snail's pace in the fight against high-level corruption.

Georgia's parliamentary elections are not due until October 2016, but the political situation is already tense. Prime Minister Irakli Garibashvili told a recent international conference that the association agreement with the EU was a "masterplan for Georgia's modernisation", but President Giorgi Margvelashvili warned the same audience that a growing number of people opposed Georgia's pro-Western course. The failure of the EU and NATO to offer Georgia a firm commitment to membership supports Russia's argument that Georgia would do better to accept its place in Moscow's orbit than pursue the mirage of Western integration.

Behind the scenes, oligarch and former prime minister Bidzina Ivanishvili seems to influence every political decision in Georgia. His rhetoric is pro-Western, but many local commentators fear that his major financial interests in Russia affect his real views. The 'Georgian Dream' coalition which he led to power in 2012 is losing support, and there are hints that he is putting together a more pro-Moscow coalition for the next elections, built around conservative and religious groups; that way, even if 'Georgian

Dream' lost power, Ivanishvili could retain influence. The EU and the US worry about the erosion of media freedom in Georgia, and prosecution of Ivanishvili's political enemies, particularly former president Mikheil Saakashvili (now the governor of Odessa in Ukraine).

“Corrupt oligarchic systems are the golden thread that links the problems of Georgia, Moldova and Ukraine.”

Meanwhile Moldova is in chaos. The country has had four prime ministers so far this year. Thousands of protesters have been on the streets of the capital, Chişinău, following a banking fraud which led to the collapse of three banks and a government bail-out which has cost Moldova \$1 billion, about 16 per cent of its GDP. The pro-EU coalition barely held onto power in parliamentary elections in November 2014, when it had the association agreement and visa liberalisation agreement with the EU to its credit; if, as seems likely, early elections take place, there is a high probability that the (more pro-Russian) Communist Party will take over.

The persistence of corrupt oligarchic systems is the golden thread that links the problems of Georgia, Moldova and Ukraine. The EU has to bear some responsibility for the continued strength of crony capitalism in Eastern Europe: perhaps for fear of being accused of interfering in internal affairs, it has allowed oligarchs to pretend to be 'pro-EU', even while their actions have given the concept of 'European values' a bad name. Some EU member-states have even facilitated the corruption: the Moldovan banking scandal involved 48 UK-registered shell companies, many with bank accounts in Latvia. The result is that the EU is being discredited in the eyes of ordinary people.

It does not have to be like this. If the EU made a serious effort to put pressure on the three governments to clean up their acts (and if it put more barriers in the way of dirty money from the region), it would have widespread backing from their populations: the Ukrainian revolution in 2014 showed that people are hungry for good governance. The EU needs well-governed, stable countries on its eastern flank, able to provide prosperity for their citizens; it does not need corrupt, Russian-influenced basket cases whose citizens will join the flow of migrants to Europe.

Ian Bond
Director of foreign policy, CER



Will the eurozone reap what it has sown?

by Simon Tilford

The slowdown in emerging markets leaves the eurozone even more reliant on exports to the US and UK to compensate for its feeble domestic economy.

The eurozone is banking on a weak euro and strong global growth to boost exports and inflation and offset the weakness of domestic demand. How likely is this? China might yet avoid a recession, but there is no doubt that it is set for a period of much slower growth. At the same time, pretty much every emerging market is weakening, partly because of their dependence on China, and partly because of sluggish productivity growth. The US Federal Reserve's decision not to increase official interest rates is welcome: a rise would have prompted further capital outflows from emerging markets. But there is no doubt that the global economy is labouring, and that this poses a threat to the eurozone's anaemic recovery.

The eurozone ran a trade surplus of €125 billion over the first six months of 2015. Over the same period of 2011, it had a deficit of €17 billion. Over the last four years, exports have risen 18 per cent; imports just 2 per cent. The data for net exports (exports minus imports), which measures the impact of foreign trade on economic growth, is striking. Between the first half of 2011 and the first half of 2015, the eurozone economy expanded by 1 per cent. Without rising net exports, it would have shrunk by 1.3 per cent. In

short, without global demand, there would have been no eurozone recovery at all.

The eurozone's rising surplus is down to trade with developed countries, especially English-speaking ones, and commodity producers, not China or other emerging markets. Just 7 per cent of the increase in eurozone exports over the last four years was to China, whereas nearly half of the increase was with the US, the UK and Canada. Moreover, these countries accounted for over 40 per cent of the rise in the eurozone's net exports (as imports from these countries barely rose). Most of the rest of the increase in eurozone net exports was with commodity producers, as falling oil and other raw material prices reduced the value of eurozone imports from these countries. By contrast, net exports to China fell over this period, as the value of eurozone exports to China rose by less than the value of imports from China.

The eurozone will certainly be hit by the slowdown in China and elsewhere. Emerging markets buy over a quarter of eurozone exports, and these are set to come under pressure, while the competitiveness of emerging market manufactured goods will increase as the value

of their currencies falls. Eurozone net exports to these economies, especially China's, could weaken substantially. Can the Anglo-Saxons continue to act as the eurozone's 'consumer of last resort' and offset the impact on the currency union of the slowdown in emerging markets?

Both the US and UK economies are growing relatively robustly and investors are currently sanguine about their rising trade deficits. This may well persist for a while, especially as capital flows out of emerging markets into developed ones. But it leaves the eurozone vulnerable to a slowdown in the US and UK, which are themselves not immune to weakening global growth, especially the UK which is more dependent on foreign trade than the US. They will not be able to sustain a big drag on their economies from negative net exports indefinitely. So far, the US dollar and sterling have been rising in value against the euro, just as US and UK trade deficits with the eurozone have been widening. But this positive sentiment could easily reverse if investors turn bearish about the growth prospects of the US and UK.

Meanwhile, there is little to suggest that domestic demand in the eurozone will be strong enough to deliver robust GDP growth. Domestic demand has picked up over the last year as lower inflation and energy prices have temporarily boosted household incomes. But this is largely a one-off boost to growth. There is no sign of a pick-up in investment in the eurozone as a whole. Fiscal

policy has become mildly expansionary, and should remain so, but there is no prospect of a major programme of fiscal stimulus.

“The eurozone can no longer rely on a weak euro and strong global economy to offset anaemic domestic demand.”

The eurozone's need to focus on boosting domestic demand is as pressing as ever. The currency union cannot rely on a weak euro and strong global economy to offset economic fragility at home. Aside from leaving it highly vulnerable to external events, the eurozone has become a major drag on the global economy itself. Unfortunately, the European Commission is powerless to do anything about the biggest obstacle to stronger growth in eurozone domestic demand: excessive savings in Germany and the Netherlands. Germany's current account surplus is on course to exceed 8 per cent of GDP this year and the Netherlands' 11 per cent. In all likelihood, the eurozone will only adopt the aggressive monetary and fiscal measures needed to raise domestic demand when it can no longer rely on external demand. That time might not be too far off.

Simon Tilford
Deputy director, CER

CER in the press

The Financial Times

22nd September 2015
“It [the refugee crisis] is a real European problem: just looking at the geography makes that clear,” said Camino Mortera-Martinez of the CER. “But the sad thing is that many EU member-states seem to be following just national logic.”

The Wall Street Journal

17th September 2015
“There are some ways to unblock the logjam. Rather than immediately force banks to hold significant capital on their holdings of government bonds, European regulators could set limits for how many bonds from one country a bank can hold,” suggests

Christian Odendahl, chief economist at the CER.

Reuters

8th September 2015
“The more he [David Cameron] makes these concessions and the longer he delays clearly coming out for a ‘Yes’, the more that damages his reputation with his EU partners and the less likely they are to help him get a good deal,” said Charles Grant, director of the CER.

The Telegraph

7th September 2015
According to Rem Korteweg, a senior research fellow at the CER: “[Juncker] knows all these individual leaders and their predecessors, and the predecessors of their

predecessors. He is the grandfather of the eurozone.”

The Daily Mail

1st September 2015
“This has become a humanitarian crisis on a scale we have not seen on our continent since the Second World War. Yet we seem paralysed to respond,” said Yvette Cooper during her speech at the CER.

The Wall Street Journal

27th August 2015
“The assumption has been that the eurozone would be able to piggyback on demand generated in emerging markets plus English-speaking countries,” said Simon Tilford, deputy director of the CER.

Reuters

27th August 2015
“Those who lose most from Google's behaviour are producers, not consumers, at least in the UK,” said John Springford of the CER. “If Google's prioritisation of its own shopping service gave it monopoly power, one would expect prices to be higher in its own service [than those of its competitors].”

ABC (Australia)

26th August 2015
“[EU migrants] actually contribute an enormous amount to our economy. But there's a perception that they are damaging the interests of British workers,” says Ian Bond, director of foreign policy at the CER.

Recent events



Francis Maude

22 September 2015
Workshop on 'The political economy of trade policy', Vienna
With a keynote speech by Francis Maude

15 September 2015
Breakfast on 'A blueprint for the future of the eurozone', Brussels
With Valdis Dombrovskis



Valdis Dombrovskis



Julie Dickson

1 September 2015
Lunch discussion on 'Will the eurozone caucus on financial regulation?', London
With Julie Dickson and Angus Armstrong

1 September 2015
Speech on 'The European refugee crisis', London
With Yvette Cooper



Yvette Cooper

Forthcoming publications

Gain or more pain in Spain?
Simon Tilford

Eurozone governance:
How to square the trilemma
Christian Odendahl

The strategic implications of a deal with Iran
Rem Korteweg

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