

TRENDMACRO LIVE!

On Cameron's EU Speech

Wednesday, January 23, 2013

Lorcan Roche Kelly

A referendum that won't happen on treaty changes that won't be made.

UK Prime Minister David Cameron's delayed [speech on the UK's position and future in the European Union](#) this morning was long on waffle, but short of substance.

- He promised an in-or-out referendum on UK membership of the European Union -- but only after he wins the 2015 UK parliamentary election. With polls showing Cameron's Conservative party [trailing the opposition](#) Labour party -- who have said they will not have an in-or-out vote -- it is unlikely he will get the opportunity to call the referendum.
- Cameron said that the referendum would be on the UK's relationship with a "reformed" European Union -- making it as much about the reforms as about the UK's status in it. He admitted in the speech that some of the "reforms" he wants would require treaty changes. This is likely to be a major stumbling block for Cameron's plan as treaty changes in the EU -- even if he can [get agreement to start the negotiation](#) -- would require referenda in several member states.
- His criteria for those reforms are merely mom and apple pie. He outlined five vague principles for continued UK membership of the EU -- competitiveness, flexibility, repatriation of powers, democratic accountability and fairness. While this is perhaps intended to hark back to Gordon Brown's five economic tests for UK membership of the euro area (see ["UK: In or Out?"](#) January 17, 2013), the geopolitical differences then and now couldn't be sharper -- Brown was examining impacts in the UK to determine whether it should more deeply join the rest of Europe, while Cameron is outlining standards that Europe must meet for the UK to remain part of it at all.

Basically, Cameron's vision is an attempt to negotiate a looser European Union. But he is unlikely to find many EU members willing to work with him on that -- indeed, the debt crisis of the last three years has propelled Europe's states toward a tighter union in every respect. As we saw last year in negotiations on the banking union (see ["E Pluribus 26"](#) December 12, 2011), the UK found itself alone in the EU on its anti-integration stance.

Update to strategic view

UK MACRO, EUROPE

MACRO: Cameron's speech today was close to a non-event. He promised an in-or-out referendum in 2017 on EU membership -- provided he is re-elected, and assuming successful renegotiation of EU treaties to create a looser union. But other EU members are unlikely to even enter those negotiations, and he is unlikely to win the 2015 election. EU integration will continue apace -- without the UK -- handicapping potential UK growth.

[\[Strategy Dashboard home\]](#)

- So everything points towards Cameron failing on the two main objectives he outlined today. He wants an in-or-out referendum, but he is unlikely to be in power to call it. He wants to renegotiate the EU treaty, but he is unlikely to find partners willing to renegotiate.

What are investors to make of this speech? Since the most likely outcome is a refusal by the other EU-26 member states to engage in renegotiation, followed by a Labour victory in the 2015 UK general election -- and no referendum -- then there should be little immediate fallout.

If -- and there is no reason to think otherwise -- the European Union continues to further integrate while the UK looks for treaty changes, then the UK will find itself isolated from the center of the EU, and without getting any of the changes it desires. In the meantime, EU integration can move forward without the UK. As we saw yesterday at the Ecofin meeting -- the meeting of all EU finance ministers -- [a financial transactions tax](#) was introduced for eleven member states through a process known as "[enhanced cooperation](#)" which can proceed even if the UK objects.

As with the banking union agreement last year (again, see "[E Pluribus 26](#)"), the most the UK can do is to choose not to engage with further integration. It cannot stop it. It therefore will most likely, by default and without treaty changes or a referendum, find itself drifting further and further from the European Union.

So longer term, the question is whether an isolated UK can prosper in an increasingly globalized world economy that values scope and scale -- especially given the UK's comparative advantage as a global financial intermediary. We think the answer is no, and that the UK is consigning itself to relatively poor economic and market performance versus Europe.

Bottom line

Cameron's speech today was close to a non-event. He promised an in-or-out referendum in 2017 on EU membership -- provided he is re-elected, and assuming successful renegotiation of EU treaties to create a looser union. But other EU members are unlikely to even enter those negotiations, and he is unlikely to win the 2015 election. EU integration will continue apace -- without the UK -- handicapping potential UK growth. ▶

Contact TrendMacro

On the web at
trendmacro.com

Follow us on Twitter at
twitter.com/TweetMacro

Donald Luskin
Chicago IL
312 273 6766
don@trendmacro.com

Thomas Demas
Charlotte NC
704 552 3625
tdemas@trendmacro.com

Lorcan Roche Kelly
Sixmilebridge Ireland
212 537 9067
lorcan@trendmacro.com

[\[About us\]](#)