Lawson, King role in Brexit

'Irony' of eurosceptics' backing for European policies

by David Marsh in Singapore

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The senior British civil servant formerly at the heart Britain's European Union policies has delivered an unusual forensic explanation of how Nigel Lawson and Mervyn King, former chancellor of the exchequer and governor of the Bank of England, helped pave the way for the UK's EU exit.

Sir Ivan Rogers, until January Britain's permanent representative to the EU, said Lawson – chancellor in 1983-89 – and King – governor between 2003-13 – were 'two of today's most Establishment eurosceptics'. He said it was 'an under-appreciated irony' that both men – today members of the House of Lords – during their periods in office advocated 'key European mechanisms' in currency management and labour markets. These two policy steps, though 'instrumentalised for entirely domestic ends', eventually helped prompt the June 2016 UK referendum decision to leave the EU.

Rogers, a long-time Treasury official who became an adviser to Prime Minsters Tony Blair, Gordon Brown and David Cameron, headed the UK's Brussels representation between 2013 and January 2017. He quit the civil service in a flurry of publicity partly because of mutual recriminations over a leaked memo at the end of 2016 in which he castigated the Conservative government's 'muddled' strategy for leaving the EU.

In a wide-ranging lecture on 25 November at Oxford university, Rogers described the path to Brexit during Cameron's 2010-16 prime ministership, punctuated by the January 2013 referendum announcement and the vote 17 months ago which precipitated Cameron's downfall.

Rogers underlined the links between the Brexit vote and two landmarks in British economics and politics over the past 30 years. These were the 1992 departure from the exchange rate mechanism of the European Monetary System, and the 2004 opening of the UK labour market after the EU's enlargement to central and eastern Europe.

Two months ago, Rogers spoke at the launch of the OMFIF book on the 1992 sterling crisis – Six Days in September: Black Wednesday, Brexit and the making of Europe – which retraced the principal developments leading to and the consequences of the exchange rate upset.

Lawson in the 1980s promoted the idea of Britain joining the ERM (but not the system it was designed to become, economic and monetary union), in a policy consummated in October 1990 by John Major, Lawson's successor as chancellor of the exchequer, in the final weeks of Margaret Thatcher's premiership. Sterling's politically charged ERM exit 23 months later, on many interpretations, lit the fuse leading to the Brexit decision in June 2016.

Lawson wanted to join the ERM 'to anchor UK policy and curb inflation – which it did, but the fall-out of exit in 1992 was a key component in the subsequent sceptic turn in Conservative politics,' Rogers said.

Two decades after Lawson's campaign, Rogers recalled, King as governor championed free movement of people into the UK, under which Britain, unlike any other major EU member, 'opened its labour market without the transitional periods to tap a near inexhaustible supply of labour to address UK needs'. This helped strengthen a backlash against untrammelled immigration that became a strong influence behind Brexit.

Rogers said Whitehall in the early 2000s underplayed the repercussions of the labour market opening. 'The official internal forecasts we saw of the potential numbers of arrivals were, as one looks back, just laughably low, and were discredited within months. We should all have asked ourselves then whether they could possibly be right.'

He said the economic benefits of unprecedentedly large-scale 2004-07 free movement were seen as 'axiomatic' to employers, the economy and public finances.

He categorised as 'the one serious high-level discussion before the decision' a meeting between Blair and King where Rogers took the minutes.

'King pressed the case to open the labour market without transition on the grounds that it would help lower wage growth and inflation, address supply bottle necks in a fast-growing pre-financial crisis economy, and help keep interest rates low. He made the same case publicly in subsequent speeches, when the numbers arriving were vastly higher than had been forecast.'

Rogers underlined the changes in perception over the last 19 years. 'This was an immigration and free movement policy driven by the desire to fuel UK growth, and by the belief that we were stealing a march on EU competitors and further consolidating the advantages of the UK model over that of a sclerotic Germany, which we were all characterising still in 2004 as the decade-long sick man of Europe.'

Afterwards, Rogers said, the mood soured. 'Cameron told us he believed that the decision to open the labour market immediately, especially in circumstances where the other major players had not, had been a big mistake.'

David Marsh is Managing Director of OMFIF.