



Treasury Committee

Oral evidence: [The economic and financial costs and benefits of UK membership of the EU](#), HC 499

Tuesday 1 December 2015

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Members present: Andrew Tyrie (Chair); Mr Steve Baker, Mark Garnier, Helen Goodman, Stephen Hammond, George Kerevan, John Mann, Chris Philp, Mr Jacob Rees-Mogg, Wes Streeting

Questions 322 - 434

Examination of Witnesses

Witnesses: **Rt Hon Mr George Osborne MP**, Chancellor of the Exchequer, and **Mark Bowman**, Director-General, International and EU, HM Treasury, gave evidence.

Q322 Chair: Thank you very much for coming to see us this afternoon. We have a double bill. We will start with the cross-examination on Europe, and then we will take a short break and go on to discussing the Autumn Statement. This is an unusual arrangement, because we normally see the Chancellor at the end of our hearings, but I understand you have a very heavy schedule between now and the end of the year, and that that may be very difficult. I think I should put down a marker now that the Committee would like to go back to the arrangement that has been in place with successive Chancellors, over many years.

In a speech on 10 November the Prime Minister said, at any one time, around 40% of all European Economic Area migrants are supported by the UK benefits system. Do you recognise that figure?

Mr Osborne: Yes.

Q323 Chair: Do you know how it was put together?

Mr Osborne: It is a calculation of administrative data from DWP on benefit collection as a proportion of the Labour Force Survey estimates of the number of EU migrants.

Q324 Chair: Do you think that that is a good way to go about putting out data? After all, what we are using here, as I think most people would agree, is very close to bogus. We have a numerator collected on one statistical basis and a denominator collected on another.

Mr Osborne: The truth is that you are more likely to get an accurate number of the people seeking and claiming benefits from your benefit office, from the DWP. Equally, there will be people who are not in receipt of benefits who are not picked up by DWP or HMRC, so they are more likely to be picked up by the Labour Force Survey. In both cases, we are using the most accurate measure available.

Q325 Chair: Are you aware that Sir Andrew Dilnot, the Chair of the UK Statistics Authority, has described this process as “clearly unsatisfactory”?

Mr Osborne: From memory, what Andrew Dilnot was complaining about was the fact that we then produced the evidence for the fact in the Prime Minister’s speech after the speech, in a DWP data release. It is one of those cases where you are damned if you do and damned if you don’t. Journalists were interested in the origins of the number, so we released the details of how the number had been arrived at, and then Andrew Dilnot said, “You should not just produce statistical releases like that,” so you cannot please everyone all the time.

Q326 Chair: I do not think you pleased anybody at all, because it is clearly bogus, is it not? It is a figure that is effectively plucked from the air, if you use apples and pears as the basis for the calculation.

Mr Osborne: If you take a step back to the fact that six out of 10 families who were in receipt of in-work benefits, it would not therefore be too surprising to find out that 40% of EU migrants were in receipt of in-work benefits.

Q327 Chair: It might not be surprising, were it not for the fact that other estimates have been done and published by the NIESR, for example, which suggest that the figure is half that number, not 40% but 20%. Those are apparently based at least on having a denominator and a numerator.

Mr Osborne: The NIESR number uses the Labour Force Survey. The problem with the Labour Force Survey is that it might be quite a good way of gauging who is in the population, but it is not necessarily a very good way of gauging who is in receipt of benefits and who is in contact with the DWP or HMRC. When we have had discussions about welfare unconnected with this European issue and migration issue, use of the Labour Force Survey has been something that has been criticised in this respect. It is not the first time I find myself disagreeing with Mr Portes.

Chair: I do not think it is only Mr Portes you are disagreeing with, but you are quite right that he is at the NIESR.

Mr Osborne: He was.

Q328 Chair: The 40% figure has had quite a resonance, has it not? It was designed to, which is why the Prime Minister used it. It does not give you any concern, as Chancellor of the Exchequer, that such an unreliable figure should end up in the bloodstream of British political debate.

Mr Osborne: No, because it is the most accurate estimate we have available to us.

Q329 Mark Garnier: Chancellor, I would quite like to ask some questions of you about financial services, as regards Europe. Before I do, perhaps you could indulge me with a question about the debate tomorrow regarding Syria. Have you made an assessment of how expensive the war is going to be with Syria and where the funding is going to come from?

Mr Osborne: We are already undertaking air action in Iraq and we are also supporting the moderate forces in Syria. That operation costs the Exchequer just over £200 million a year, and the estimate of extended air action over Syria would be in the low tens of millions of pounds. That would come out of the special reserve, which is what we establish for the purposes of military action like this.

Q330 Mark Garnier: That is very helpful. Thank you very much. Back to financial services, as part of the renegotiation for membership of the EU, we are seeking safeguards to ensure for non-euro members “financial stability and supervision is a key area of competence for national institutions like the Bank of England”. Chancellor, are you worried that, as a result of some breaches of the principles of subsidiarity and proportionality, the powers of the Bank of England and the Financial Conduct Authority to regulate the financial sector have been undermined?

Mr Osborne: Let me say first of all that the single market in financial services is of real benefit to the UK financial services industry. Let me also say that UK consumers and indeed UK taxpayers benefit from certain common European standards, because they protect us from the poorly regulated and poor national standards in some other jurisdictions.

With that said, we do have concerns going forward, particularly as the eurozone continues to integrate and creates a financial and banking union, that the essential national role of protecting financial stability, backed up by the resources of the nation’s taxpayers, could be put in jeopardy. That is why we have raised the issue. That is why we have put forward proposals to make sure that, while we have a single market in financial services, we understand that, just as the European Central Bank has responsibilities for financial stability and financial supervision in the euro area, so the Bank of England and other regulators here should have responsibilities for financial stability and supervision here.

Q331 Mark Garnier: One of the examples of, in my opinion, just how absurd some of this European legislation has been is regarding the stability of banks with regard to the bonus cap. Certainly with the banking commission and in

the debates that have been going around about this, it has been absolutely crucial that we do not cap people's bonuses, because what we wanted to do was avoid the situation where people were being paid higher base salaries and lower bonuses. At the end of the day, if you are going to pay a banker a £1, you should want to pay 90p of the £1 by way of bonus, because you can claw it back or you can withhold it. That in itself drives far greater stability within the banking system and prevents bankers from taking unnecessary risks, and yet we have had this bonus cap imposed on us, which is having the opposite effect to driving financial stability within these institutions.

Mr Osborne: I broadly agree with that. The bonus cap, to my mind, has been entirely counterproductive. It has led to higher base pay in the banks. It has not reduced overall remuneration. It has just meant that, if things go wrong, it is more difficult to get the money back, and heads in exactly the opposite direction to the direction of travel we all agreed in 2008, 2009 and 2010 that needed to be undertaken. Now, the UK made its opposition to that very clear and I voted against it in the Ecofin council when it came up for discussion. We took the matter to the European Court of Justice, where unfortunately we lost. That is an example of unfortunately not getting everything you want in the European Union.

I would make a broader point that it was not just green Belgian MEPs and others who promoted this idea. In our own political system, it was contested and opposed. I do not think it is an example where you can heap all of the blame on to some other group of politicians on the continent of Europe. There are some people here at home who must also bear responsibility.

Q332 Mark Garnier: I certainly made that clear to the individuals concerned at the time. Nonetheless, it is an important point, given how much we are trying to do to make sure our banks are stable. There are a number of other issues, such as the deposit guarantee scheme, which is calculated in euros. Of course, as the euro goes up or down, so the sterling amount that is paid to people goes up or down. We are pretty good at this in this country. We have spent an awful lot of time developing a banking system and we are regarded as the world's leading centre for banks, and yet there seem to be an awful lot of directives that are coming from Europe, which are driving outcomes that are opposite to what we are trying to effect. I am really trying to get to the bottom of how we can, or in this particular case how can you as a lead negotiator in this area, drive to get better results for the UK.

Mr Osborne: There is always going to be a tension between wanting to have a single market in financial services, where British companies are some of the biggest beneficiaries of that, being able to sell their financial products in European markets, and at the same time making sure we are internationally competitive vis-à-vis places like New York, Hong Kong and Singapore, as a global financial centre, and making sure that our own regulators have the tools at their disposal to make sure that financial stability is assured in Britain.

That does not mean that we are always pressing for lighter regulation. On the Capital Requirements Directive, we wanted the flexibility to impose slightly tougher regulation and higher standards, reflecting the fact that we were an international banking sector

particularly exposed to bank failures. In that case, we won our argument and, in many of these cases, although it is not how the directive appears in draft, through hard negotiation and good argument, we often get things changed and improved for the better.

Do we win every argument we make? No, we do not. What we are seeking in this negotiation is to enshrine some principles, which I can go through in detail if the Committee wants, but they are set out in the Prime Minister's letter to the Council President, around non-discrimination for businesses located in a country whose currency is not the euro, through the integrity of the single market, through the recognition of the national supervisor's role in financial stability and the like. We think that these principles would help that relationship between the euros and the non-euros thrive and be successful.

Q333 Mark Garnier: Chancellor, if I might ask one last question. Is this really your judgment or your gut feeling? Do you have any sense that Brussels and the EU in general are envious of our dominance, in terms of the City and the banking industry we have here, and that, even if it is below the surface, there is a move to try to curb the dominance of the City within Europe?

Mr Osborne: There is always going to be a bit of French people who wish there was more banking activity in Paris and Germans who would like Frankfurt to have more of the action. I have to say, amongst the senior European decision-makers, amongst the finance ministers, the central bank governors and the officials in the European institutions, they all understand that actually London's competitor or the UK's competitor is not really Paris, Frankfurt or anywhere else in the European Union. It is these international banking centres outside the EU.

There is broad recognition in most countries, and again amongst the senior decision-makers, that it is massively to the European Union's advantage that its financial centre is located within the EU. We trade more euros than the rest of the eurozone put together, but it is to the whole European Union's advantage that that happens in a financial centre within the EU rather than, as I say, in some other financial centre somewhere else in the world.

Q334 Chair: Is the central problem not that, whatever you negotiate, over time, you are going to end up with attrition from the EU clawing back parts of what you think you have achieved? Is not what is really required some kind of institutional mechanism that means that the subsidiarity and proportionality principles are kept under constant review, so that there can be a constant public debate, a running public debate and EU debate, about what should be part of the EU's sphere and influence and competence, and what should be those of the member states?

Mr Osborne: Let me answer both parts of those questions. First of all, it is important for us to distinguish between the kind of day-to-day, month-to-month negotiation you are going to get when you have 28 member states arguing about a particular directive, just like Members of Parliament argue about the laws that pass through Parliament, and the broader debate about the rules of the game, essentially the constitutional arrangements—in other words the relationship between the euro ins and the euro outs, and the fact that we are

currently committed to ever closer union in the treaties, and we want to address that. Those are the changes we want to make that are irreversible and legally binding.

Q335 Chair: It is the latter that I am talking about—the ever closer union commitment—because changing a few words in a treaty is not going to change very much at all. What is required, is it not, is something that gives substance to any attempt to try to bring that drive to ever closer union to an end, bearing in mind that the whole institutional structure of the EU is integrationalist, understandably, bearing in mind where they started in 1957. It is integrationalist in nature and there is no counterweight to that pressure for ever more regulation.

Mr Osborne: I will come specifically on to the point you make about broader regulation issues. If you take the relationship between the euro ins and outs, the current treaties did not really envisage a situation where one major economy, the second-largest economy in the European Union at the moment and possibly destined to be the largest in the coming decades, was not in the eurozone. The treaty never really provided for that. We are seeking changes, which in this case may well require treaty changes, essentially to create permanent arrangements that the institutions and the law-making bodies then have to abide by.

On the proposal that you have put forward, which of course is the proposal that you have expanded on in your pamphlet, you make a powerful case for creating some kind of permanent mechanism or some kind of permanent arrangement where there is deregulation, looking at what the European Union has undertaken and whether that can be reducing. There is now a much stronger discussion happening amongst most of the member states and indeed the institutions of the Commission and the like, about what we can do to try to bring that kind of thing about—in other words, constant deregulation as a downward pressure on expansion.

Q336 Chair: Is it not the case, though, that it is going to need some focus, some body, some group, some high representative, an individual who can act as a spokesman for this. Setting aside the question of the ins and outs, these are questions that come on from the questions that Mark was alluding to a moment ago, most of which are not concerned with the ins and outs. Some of them were, but most of them were concerned with single market regulation, which has come to us in a way that we had not envisaged at the time when we agreed to the Single European Act?

Mr Osborne: Before you get on to how you deliver the objective, you have to get agreement to the objective. I would say that, just in the space of the last few weeks, we have got the great majority of European Union member states, representing 80% of the European Union's population, to collectively write a letter saying, "Let us have now targets for deregulation and a determined effort to reduce the total cost of regulation." Now, that is not the place we were in just a few months ago, and I would suggest that that is an example of the UK starting to win some of these arrangements. We can get on to how we actually implement it.

Q337 Chair: Now I am on to that in these exchanges. I agree that the fact of the renegotiation has created some space. The question is what we fill it with. I am making a proposal to you, in a personal capacity, one might say, about that which I have published. I am asking you whether you think that there is merit in obtaining a body, a high representative or some focus, beyond merely saying that the Council of Ministers will look at how a permanent running process of review of the *acquis communautaire* can be achieved.

Mr Osborne: I think there is merit in a permanent drive towards deregulation and possibly some permanent institutional arrangements that deliver that. You have put forward a very developed plan.

Q338 Chair: You do think that would be a good idea.

Mr Osborne: I do. I would not necessarily agree with every detail of what you have proposed, but I think the principle is the right one. The question now is whether we can get 27 other member states to agree to this and where this body would sit that you have put forward, in between the Council and the European Parliament. Could you ever get them to agree?

Chair: It would be attached to the Council.

Mr Osborne: At the moment, our approach in this space is to get the European Union committed to permanent deregulation and then have a discussion on how that is delivered to sequence the discussion.

Q339 Chair: If we are going to get national parliaments back in this process, it seems axiomatic that it has to be national governments that enable them to be put there. That is why the card system can only be of some limited value, because it requires cross-border negotiations between parliaments, which is unlikely ever to take place much. What I have put on the table for you to examine is something that can empower national governments to refer issues back to their national parliaments, on the basis of subsidiarity and proportionality, and can enable national parliaments to make suggestions to a body that will take those proposals forward.

Mr Osborne: As I understand it, you are proposing additional clout to the European Council, because the Council is where the member-state governments sit, rather than the Commission and the Parliament. There is quite a lot of concern, in lots of member states, about the gradual diminishing of the power of the Council vis-à-vis the other parts of the European Union architecture. That is why you get 18-odd member states all agreeing that something needs to be done about the regulatory burden and that we need to try to impose, through the Council and hopefully with the support of the Commission, regulatory targets.

Chair: You have said that you are considering institutional solutions to the problem that we are discussing, and that is a step forward.

Q340 Mr Baker: Chancellor, how would you describe your role in the renegotiation process?

Mr Osborne: Look, I am the country's finance Minister, and a lot of what we are talking about involves financial matters, currency and so on. That is a strand of the discussion that I undertake with my fellow finance Ministers and others, and then of course I am a member of the Government and a member of the Cabinet, and support the Prime Minister in his negotiation efforts.

Q341 Mr Baker: Would you say you have a good grasp of the overall position and where we are driving towards?

Mr Osborne: We have quite a few discussions about it, as you might imagine.

Q342 Mr Baker: I just want to put to you something that the Foreign Secretary said. He said, "The Charter of Fundamental Rights is enshrined in the European Union architecture. We have no proposals in the package we have put forward that would disengage from that." In opposition, the Prime Minister said a complete opt-out from the Charter of Fundamental Rights was something he would renegotiate. Where do you see us on this issue of the Charter of Fundamental Rights today?

Mr Osborne: We have set out, in the Prime Minister's letter to the Council President, the priorities for our negotiation and of course broader issues like questions of fundamental rights sit in that discussion we are having, not least in the House of Commons, about the application of the ECHR and of course the relationship between the EU and the ECHR.

Q343 Mr Baker: The Foreign Secretary is right, is he not, that on something like prisoner voting, which the Commons rejected and which the Prime Minister expressed strong views, we will just have to put up with whatever the ECJ determines under the Charter of Fundamental Rights, will we not?

Mr Osborne: At the moment, the European court has, in the case of a French prisoner, broadly delivered the kinds of verdicts we would be happy with. You are certainly right to draw attention to the complicated relationship that is developing between the EU and the ECHR.

Q344 Mr Baker: Back in 2007, which I appreciate was a while ago, the Prime Minister said, "It will be a top priority for the next Conservative Government to restore social and employment legislation to national control." Is there any prospect of doing so?

Mr Osborne: We have just been talking about deregulation, which can involve deregulation in that space. On the case of the Working Time Directive, what we are seeking is to ensure that the guarantees that were given to the British Government are guarantees that hold. We are in close touch with the employer organisations about what they want to say, and they were not particularly keen that we sought to open up the whole

issue, because they thought that the UK was in a relatively good position and wanted to protect that position.

Mr Baker: We do not plan to repatriate those powers.

Mr Osborne: We have set out the priorities we want in the letter.

Chair: Just for clarity, was that a no?

Mr Osborne: Inasmuch as it sits within, and of course it does, the competitiveness bucket or item 2 in the Prime Minister's letter, of course we are looking for competitive employment regulation, but are we seeking to put the Working Time Directive front and centre of our renegotiation? No, we are not. We are seeking to ensure the guarantees that were provided to the UK are adhered to.

Q345 Mr Baker: Just to quote the manifesto on which I first stood, we said that the European Parliament must end its absurdly wasteful practice of meeting in Strasbourg, as well as Brussels. Are we going to end the practice of meeting in Strasbourg?

Mr Osborne: I certainly hope we do.

Mr Baker: That is marvellous. What progress have we made towards that objective?

Mr Osborne: Slow.

Q346 Mr Baker: Just to come a little bit more up to date, in 2014 the Prime Minister said that we want EU jobseekers to have a job offer before they come here and that, if an EU jobseeker has not found work within six months, they will be required to leave. I understand there have been relevant ECJ judgments. Do you think there is any prospect of meeting those pledges?

Mr Osborne: You will be glad to know that this is an area where we have made a lot of progress, much faster progress than people might have expected. It is absolutely clear that we do not have to pay unemployment benefit to EU migrants who cannot find work, and indeed that does have an impact on their ability to remain in the country if they consistently fail to find work. We have also been able to deal with questions of people who find themselves homeless, for example, and do not appear to be making an effort to find work. They can be asked to return to the country they came from. That is something that we have succeeded in.

Q347 Mr Baker: Congratulations, Chancellor, on those things. In the event that you do get all those things through and they are agreed to in full, will the national living wage not constitute a substantial pull factor that might trump all of those benefit reforms?

Mr Osborne: It is perfectly reasonable for a country to want to have its employers subsidising and paying towards higher wages, rather than the Exchequer and the welfare system, and that is what the national living wage is about. We are also seeking to do is

make sure, as set out again in the Prime Minister's letter, that migrants newly arrived do not receive for a period of time—and we stated four years in the manifesto—those in-work benefits. We are addressing the issue of the in-work benefits, but I do not think that the national living wage is fundamentally going to change the attractiveness of the UK to overseas workers.

Q348 Mr Baker: In my experience, most people who come here from Eastern Europe are hardworking and wish to come here for higher wages. You are putting in place a national living wage. Are you saying that it will not be relatively more attractive for economic migrants from Poland and Bulgaria to come here, in the context of the national living wage?

Mr Osborne: As I say, first of all, quite a few of the migrants will earn way above the living wage. Second, the thing we are tackling, where there is definitely a pull factor and the UK is particularly attractive, vis-à-vis other more prosperous EU member states, is the generosity of the in-work benefit system to newly arrived migrants.

Q349 Mr Baker: Can you tell us if you think it is still possible for us to be on the hook for eurozone bailouts?

Mr Osborne: That is something we want to absolutely ensure in this negotiation. The answer is, to date, we have not been. The Prime Minister secured an important Council conclusion a number of years ago to take us out of the eurozone bailouts, which the previous Labour Government signed us up to, literally in its last two or three days in office. That was challenged by aspects of the European Commission earlier this year. There was a lot of support in the Council for resisting that and we stopped the EFSM, the stability mechanism, being used for the Greek bailout that the eurozone was putting together in July. Now we want to make sure that that remains a permanent feature, to come back to the earlier discussion we had, by enshrining in the rules of the European Union the fact that non-euro member states and their taxpayers do not bear the costs of eurozone bailouts.

Q350 Mr Baker: With that in mind, is it not the case that article 122(2) of the Treaty on the Functioning of the European Union allows the Council of Ministers, by QMV, to grant ad hoc bailouts to insolvent eurozone states, secured on the whole EU budget?

Mr Osborne: There is a balance of payments mechanism, but these days, because of the creation of the ESM, that is available to non-euro members like Romania. The provisions in the treaty have been superseded by subsequent treaty revisions, like the creation of the European Stability Mechanism. That is the principal bailout mechanism for the eurozone. There are these legacy systems like the EFSM, where we have secured the political agreement that they should not be used. Now we want to make sure that that is enshrined in the permanent rules of the European Union.

Q351 Mr Baker: Thinking about the conversations we had about the rebate and whether or not it applied in the various conversations that happened, I am most concerned about whether this applies in law. I appreciate that there is a political agreement, but is there any plan to repeal article 122(2) from the Treaty on the Functioning of the EU?

Mr Osborne: First of all, as a result of the discussions in July, we did achieve new legislation in the European Union that made sure that, if ever European Union mechanisms were used to bail out eurozone countries, a separate escrow account would be created, so that non-euro members would be insured, essentially, or guaranteed, against the failure of the recipient country to repay. We want to go further than that, good though that legislative change is, with the proposals in the Prime Minister's letter, to enshrine in the rules of the European Union, in a permanent and legally binding way, the fact that we do not bear the costs of eurozone bailouts.

Q352 Mr Baker: So I think I can expect that article to change at the end of the process.

Mr Osborne: As I say, what we are seeking is, in the permanent rules of the European Union, which might well involve treaty change in this respect, arrangements that make sure that the British taxpayer is not responsible for the bailout or assistance provided to a eurozone country.

Q353 Mr Baker: On Twitter in response to the BSE campaign to remain in the EU, the Business Secretary said that he was clear that currently the costs of the EU "outweigh the benefits. Unless we get major reform, nothing's off the table." Do you agree with the Business Secretary?

Mr Osborne: I do agree that nothing is off the table. The Prime Minister has said that. I also agree that the reason why we are seeking these changes is we are not happy with the arrangements as they are. We think they can be better. We think they can work better for British business. I also agree that one of the arguments that will be made is whether the EU is an economic good for the UK. With the changes we are seeking, it will be.

Q354 Mr Baker: Finally, Chancellor, in evidence to the Lords EU Committee, the Minister for Europe said that there are certain times of the year when we would be rather ill advised to hold a major electoral event. It also seems unlikely that the Government would hold the referendum while we are also holding the presidency, in the second half of 2017. Do you have a preferred date for the referendum?

Mr Osborne: I know the end date by which it has to have been held. The discussion we have had in Parliament means that it cannot be held on the local election, Scottish parliamentary and Welsh Assembly election days. It would be a brave person who held the referendum on Christmas Day. On the point you make about the British presidency of the EU Council, I do not see that as an obstacle. That comes towards the end of the period

allowed by the law that is passing through the House of Lords at the moment, so that is the back end of 2017. As we made clear, we are going to try to negotiate this as soon as we can, provided we get the agreement. We have two years in which to do it but, if we have to have the referendum in the latter part of 2017, we will do so.

Q355 Chair: You are not going to try to wrap this up at the end of the year.

Mr Osborne: Basically, we have given ourselves, and Parliament has given us, two years in which to get the best possible deal for Britain. If we get a good deal that we feel we can recommend to the British people, there is no point waiting, is there? However, it depends on getting a good deal.

Q356 George Kerevan: Good afternoon, Chancellor. There are some areas where the regulatory burden, if I can use that phrase, in the labour market in the UK exceeds that in the EU as a whole. I will give you a couple of examples, just so that we are clear. The maternity leave arrangements here in the UK are more generous than under the Pregnant Workers Directive, and annual leave here is greater than the minimum stipulated in the Working Time Directive. Given that, and given that you are committed to a constant deregulation process, once there is general agreement with the other member states to constant deregulation, are you prepared to give away some of those higher standards in the UK, which could be interpreted as a greater regulatory burden, as part of those negotiations?

Mr Osborne: The short answer is no.

Q357 George Kerevan: So it is a one-way street, is it not?

Mr Osborne: I would give those as examples of where we are afforded flexibility, whether it is maternity rights or holiday pay entitlements, which go beyond the minimum required by the EU. If you are in a single market, there are going to be certain standards, but what we would like is maximum flexibility. Many cases, of course, have probably a more competitive and lighter regulation than many of our neighbours in Europe but, in some cases, as indeed the examples you cite, we go beyond it. I would add actually, as mentioned earlier, banking standards and capital standards, where we fought hard for the right to have slightly tougher capital standards than required by the European directive.

Q358 George Kerevan: Under no circumstances, during this constant deregulation regime that emerges from your negotiations, would you ever trade away any standards here, if asked for as part of the package by another member state.

Mr Osborne: Certainly no one has put that idea to us and we have not had the idea ourselves. You are the first person who has mentioned such a possibility. I can safely say, in all of the discussions we have had, that it has not been raised.

Q359 George Kerevan: Both you and the Prime Minister have talked about targets for deregulation. How do you define targets, quantitatively or qualitatively?

Mr Osborne: The UK has deregulatory budgets. In other words, individual Government Departments either have pressure to reduce the overall burden of regulation or, at the very least, make sure that new regulation being introduced replaces existing regulation that is reduced, in order to stop the burden rising. We are not alone in that; quite a lot of member states have those domestic arrangements. As Mr Tyrie was saying earlier, it seems only reasonable that you might have those arrangements at a European level as well.

Q360 George Kerevan: So one in, one out.

Mr Osborne: This is the discussion we are having with the Commission. In the last week, the various member states all wrote to Vice President Timmermans about it, so the various finance Ministers and others who signed it, including myself, said, “We now need to establish targets for reducing the burden of regulation in particularly burdensome areas, in line with the conclusions of the Competitiveness and European Councils.” This is just the opening salvo in the discussion.

Q361 George Kerevan: You must have some idea of what you mean by a target that you can take to these negotiations.

Mr Osborne: The UK mechanism has actually gone a bit further than one in, one out, under this majority Conservative Government. It works for us, so I am sure it would work at the European level.

Q362 George Kerevan: Which directive do you want taken out?

Mr Osborne: We have not got to that discussion yet. We are trying to get agreement to the principle.

Q363 George Kerevan: You do not even have an inkling of which of the directives. The Working Time Directive?

Mr Osborne: There are plenty of pieces of European law. I remember dealing with a constituency case that Jack Straw brought to me from a factory in Blackburn that was being put out of business by the REACH directive, which struck me as a particularly unnecessary piece of European law that was costing jobs in Blackburn.

Q364 George Kerevan: You think that would be one you would want to remove.

Mr Osborne: As I say, what we are trying to establish in this discussion is a permanent approach. What we are trying to do in this negotiation is distinguish the day-to-day discussion about individual directives, or indeed individual acts of deregulation, from the broader and more significant, in the long-lasting sense, of changes to the rules of the game.

Q365 George Kerevan: I appreciate that and am genuinely not trying to be difficult but, if we now have, and you have just read out on that paper, broad agreement from member states—

Mr Osborne: Well, not all of them.

Q366 George Kerevan: The important ones, right? Everyone is signing up to motherhood and apple pie. There is a legitimate question, therefore, to ask where we go next. You have talked in your speeches about having a robust and powerful mechanism to undertake continuous deregulation. What thoughts have you on what that powerful mechanism might be?

Mr Osborne: As I say, regulatory budgets are one mechanism. Mr Tyrie has proposed permanent institutional changes and additions to the Council as another mechanism.

Q367 George Kerevan: Do you agree with Mr Tyrie?

Mr Osborne: As I was just saying, that is one method we can look at. If I can make a broader point, the UK has been arguing that European regulation is too burdensome and that the European continent, ourselves including, risks pricing itself out of the world economy. We make this argument. First, you have a new European Commission and, in particular, Vice President Timmermans and actually the Commission President Jean-Claude Juncker, who have made deregulation a big initiative of theirs. It is generally accepted that new regulation from the Commission is down 80% under this new Commission, so the first thing you need to do in this space is stop new rules, and that is happening.

Second, you need to get agreement from other member states, because it is obviously an arrangement where 28 countries join together, to push this agenda. Again, people have said that Britain is isolated; Britain's argument will never be heard. Here we have 17 other member states joining with us in a letter sent within the last few days to the Vice President of the Commission. There is an example of Britain winning its argument and having its case heard.

Q368 George Kerevan: Do you agree with the OECD, the World Forum and the World Bank that Britain has one of the least onerous regulatory regimes in products and markets of anywhere in the G7?

Mr Osborne: I do, and that is due to the hard work of Conservative Governments over the last 30 years.

Q369 George Kerevan: If that is the case, what is the issue here about pursuing deregulation?

Mr Osborne: We want to keep this as the place where businesses come and locate, invest and create jobs in the world. It is good news that we are winning our arguments in Europe, but we have to go on winning them and make sure that the European Union delivers the economic goods, not just for us but for other European Union citizens. We are not particularly helped as a country by the fact that, frankly, some of the other European Union countries are not seeing the kind of growth and jobs that we would all like to see, because that hinders our exports to those countries.

Q370 George Kerevan: The real argument is that you want to deregulate Europe, so that their economy can grow, so we can have a market.

Mr Osborne: I want to have a competitive low-regulation successful economy.

Q371 George Kerevan: You just said we had that.

Mr Osborne: I am trying to think of the William Pitt speech. We have saved Britain through our exertions and we will lead Europe and save Europe by our example. I think that is it. I defer to Jacob Rees-Mogg to see if I have got that one right.

Q372 George Kerevan: It was just to get a general sense of what the scale of Government thinking was. If it came to a Brexit, the standard argument in favour of Brexit is that we get to keep all the money that goes to Europe, but clearly there would have to be some rethinking about a domestic regime for farming subsidies and farming support. I just wonder if any thought has been given to that within Government.

Mr Osborne: We are fighting to achieve what we have set out to achieve, which is a renegotiation in Europe that allows us to stay within the EU. You make a very reasonable point, which is that those who advocate our exit, without setting out to try to improve arrangements as they are, need to explain what the alternative is, not just support for farmers, but also the trade agreements that the EU has signed with numerous other countries, some of which we would not be party to if we exited from the European Union. This is going to be, I suspect, the subject of the discussion over the coming months and potentially years.

Q373 Mr Jacob Rees-Mogg: Chancellor, to come back to the protections for the non-eurozone countries, first of all, in the overall hierarchy of our demands, where does this come both in your view and where do you think it comes in the view of the public?

Mr Osborne: I personally think that this is very important, because this is about the UK having a long-term successful relationship in a European Union where many of the countries have decided to create their own currency. You can be the most ardent pro-European and still believe that this is extremely important. I think it is important. I also think it sits alongside the other things that need to be achieved on ever closer union, on migration and on the role of national parliaments, which are a more Eurosceptic agenda, which I am also happy to sign up to. I do think the governance arrangements between the euro ins and the euro outs are particularly important for the UK.

Q374 Mr Jacob Rees-Mogg: You have called for a simple mechanism to operate between the euro ins and outs. How do you envisage that working?

Mr Osborne: You are perfectly reasonably asking me about the substance of the negotiation, which is being undertaken at the moment. We are first of all seeking to get agreement to a set of principles and those are the principles set out in the Prime Minister's letter about the fact that the EU has more than one currency, there should not be discrimination, the integrity of the single market and so on.

Then we are saying that, once you have these principles and you have enshrined them in the laws of the EU, you have to have some mechanism for making sure that they are enforced. There are a number of different precedents you can use and different mechanisms that have been created in the past, but we do not want to jump to saying that this is exactly how it needs to be done. It is quite proper when you are conducting negotiations with 27 other countries, which are our allies and friends. I am hoping that, in a couple of days' time or whenever the action takes place, we will be flying jets alongside the French military. These are our friends and allies, and our whole approach to this is to go into this negotiation saying, "This is what we want. We are prepared to talk about certain things, but these are the absolute key parameters of the discussion, as far as we are concerned."

Q375 Mr Jacob Rees-Mogg: I absolutely see why you are saying that, but it is quite helpful to get an idea of what you are looking at, even without expecting you to give the precise details. Are you looking for a veto for the euro outs?

Mr Osborne: What we are looking for is a mechanism that will ensure that these principles hold. We are open to discussion about how that is achieved, but the objective is clear.

Q376 Mr Jacob Rees-Mogg: How will it be structured? Would it be a firm part of the treaties or would it be a political agreement like the Luxembourg Compromise?

Mr Osborne: We are looking for things that are legally binding and irreversible. In this space, again we are open to discussion, but one is led to the conclusion that treaty change looks like the most obvious route. If others have better proposals, they can put them to us.

Q377 Mr Jacob Rees-Mogg: Is that because treaty change is bankable in a way that a political agreement is not?

Mr Osborne: Essentially, if you are trying to change the architecture of the European Union and deal with this relationship between euro ins and outs, you have to go the foundations of the architecture, and that is the treaty.

Q378 Mr Jacob Rees-Mogg: How often do you think the interests of the euro ins and the euro outs will be clearly identifiable, rather than it being something where the British have a strong interest and other people do not necessarily? I am thinking back to the bankers' bonus cap, where Ireland supported us, but none of the euro outs did. Are we going to find that this is a key mechanism to help protect the British interest more narrowly than simply the euro out interest?

Mr Osborne: What we are seeking here is not to give Britain a veto in the single market. We are a big supporter of the single market and of course it was Margaret Thatcher who signed the Single European Act that helped to create the single market, partly through the operation of QMV on certain single market measures. We are not trying to tear up the single market; in fact, if anything, we are trying to preserve the integrity of the single market.

We draw a distinction, both in financial affairs and in other issues, between single market issues and things that are clearly eurozone issues. I will give you an example: the banking union was an arrangement that was clearly born out of the desire of the eurozone to try to create greater financial union. Now, they invited other member states to take part and some other member states have chosen to take part, but it is clearly something that Britain should never be forced to join. I would draw a distinction between financial markets legislation that is single market and arrangements that are about eurozone integration, which should not be foisted on the UK.

Q379 Mr Rees-Mogg: Drawing attention to my Register of Members' Interests, can I ask you about how the financial transaction tax might fit into that, through enhanced co-operation? If we are in the European Union, even if we do not sign up to enhanced co-operation, we will be expected to collect tax on continental transactions taking place through London, whereas, if we are not in the European Union, we will not have that obligation. How do you think that will help the competitiveness of the City of London?

Mr Osborne: Personally, I think the financial transaction tax, as proposed, is not a very good idea for the member states that want to introduce it. Ultimately, that is their business. We are very clear that the whole purpose of the enhanced co-operation route is

that it does not have a discriminatory effect or an adverse impact on member states that do not take part. This is not really to do with the eurozone. In fact, there are some eurozone countries that do not want to take part in a financial transaction tax. This is to do with the enhanced co-operation within the single market and within the treaties, and we are making it very clear that we are not going to be burdened by this thing. If they want to go ahead with it, good luck to them.

Q380 Mr Rees-Mogg: We would have to collect it on transactions.

Mr Osborne: To be honest, there is not actually much of a proposal on the table at the moment. Although I have sat through interminable meetings with my colleagues, where they all discuss that they are going to introduce one, it does not seem to be seeing the light of day. It may be good sense is prevailing in the Councils of Europe.

Q381 Mr Rees-Mogg: Let us hope so. One wonders whether that is the triumph of hope over experience. Coming back more specifically to the eurozone issue, and protection for the non-eurozone, I am aware that there are political realities that may overcome the legal requirements. In terms of the legal requirements, only the UK and Denmark are exempt from joining the euro, and all new member states are obliged to join, if there are to be any further members. Is it realistic to expect that there will be an emergency brake, a veto or a protection for two countries out of 28 and, therefore, do you see anything that you negotiate in this area as being a temporary measure or does it ultimately become, in your hope, a Danish/UK veto?

Mr Osborne: In practical terms, we are going to find that there are more than two non-euro members for the foreseeable future. One of the reasons that we have gone for these principles that I have described, and a mechanism to enforce these principles, is precisely to future-proof it. If you look at the banking union, we negotiated a good deal there with the double-voting system, but the double voting system is reviewed, from memory, if the number of non-euro members falls to four or fewer than that. We are still some way off that, but that is one of the reasons that we did not put forward a double-voting mechanism. This approach of principles that are enforceable protects the UK from a situation where, in theory, every other member state could sign up, but I have to say that I do not think that that is particularly realistic at the moment, because lots of member states are not going to be part of the euro.

Q382 Chris Philp: Good afternoon, Chancellor. I would like to return to the question of in-work benefits, which the Chairman touched on at the beginning of the meeting. Could you comment to the Committee on the desired outcome were the four-year qualifying period for in-work benefits to be achieved?

Mr Osborne: In what sense?

Chris Philp: What consequence would you like to see following from that? What was the reason for asking for it?

Mr Osborne: The objective is, as you well know because we both sit on the same manifesto, to get net migration down to the tens of thousands.

Q383 Chris Philp: Has the Treasury made an assessment as to the likelihood of the four-year qualifying period to achieve that objective?

Mr Osborne: Our assessment is that that would be an effective mechanism for making the UK less attractive to people coming to this country to claim more generous benefits and that being their primary motive. There is quite a lot of evidence that, for some migrants, that is the principal draw.

Q384 Chris Philp: Do you think that would have the effect of reducing EU migration to the tens of thousands, which is where it would have to go down to?

Mr Osborne: As I say, there is of course also non-EU migration and things like the family route, but this would help a lot in delivering this target.

Q385 Chris Philp: Could you update the Committee on how this particular element of the negotiation is going? As you have raised this particular proposal with heads of government and your fellow finance Ministers around Europe, what sort of reception are you getting and what is your assessment of how likely we are to get this important agreement?

Mr Osborne: I would say two things. First of all, there is widespread understanding of why this is a particular British challenge, because of the numbers of people coming into the UK. I would say that migration issues, if I can put it like that, have certainly shot up the EU agenda. Now, the other European member states tend to have a challenge with non-EU migrants, at the moment, Syrian refugees or Afghan refugees, and economic migrants from the Middle East, Africa and so on. There is certainly an awareness that this is a challenge, which is broadly helpful to our discussions.

It is also helpful to remind everyone that we do control our own borders when it comes to non-EU migrants, and we do not have to receive the numbers of people that are being received in some of these other countries, because of the Schengen agreements that they are in. We can make conscious choices to, for example, take Syrian refugees from the Syrian refugee camps directly.

Q386 Chris Philp: What is your assessment of the likelihood of getting constructive agreement on this point?

Mr Osborne: I would not say that we are at the beginning of the negotiation, because we have been having discussions for some weeks now, but we are getting into the substantive part of it now. We have had discussions with each member state. The European Council presidency has had discussions with all the member states now. We are essentially waiting for the response from the European Union member states and the Council to the

proposals we have put forward in the letter that the Prime Minister sent to the Council President. Broadly speaking, things are much more positive than people anticipated and indeed you could have perfectly reasonably asked me a year ago, at this Committee, “How are you ever going to persuade 27 other member states to embark on a discussion and a negotiation?” But we have. We are making pretty good progress, but challenging days lie ahead, in the best sense of the words.

Q387 Chris Philp: I am sure you will be equal to them. If, heaven forbid, we were not able to persuade sufficient of our European partners to agree to this particular measure, some people have suggested that we could reform UK law to make 18-to-22-year-old UK citizens not eligible for in-work benefits. The objection some people might raise is that it somehow discriminates against EU citizens. One could potentially get around that by exempting 18-to-22-year-old UK citizens from in-work benefits, so then everyone would be treated equally. Is that something the Treasury has given any thought to and do you think that might be an effective workaround, should it be required?

Mr Osborne: We would only introduce changes to our domestic welfare system if we thought they were of benefit to our domestic population, as well as people coming into the country.

Q388 Chris Philp: It is not a change you would look to introduce simply to circumvent a logjam on the European side.

Mr Osborne: As I say, we are looking for changes that are achieved at a European level. That is why it is in the proposals we have put to the Council. We would only make welfare reform at home if we thought it was good for the UK.

Q389 Chris Philp: That is understood. You said a few moments ago that the most obvious vehicle for enshrining whatever it is you negotiate in this area and others into irreversible law would be treaty change, which obviously makes sense. Do you think it is likely that we would achieve treaty change prior to the referendum, which will be December 2017 at the latest? If that is not possible, just because of the mechanics of the time it takes to negotiate, do you think the British public would be happy taking a post-dated cheque from our European colleagues?

Mr Osborne: First of all, on treaty change, we were talking about the relationship between the euro ins and outs. We are talking about a series of principles around non-discrimination and the like, which lend themselves to changes to the treaty, but we are open to other mechanisms.

The mechanics of how we deliver the agreement are to be decided. I would suggest that the most important thing is to get the substance right and then find the vehicle right for that. When the referendum comes, we do not rule anything out. If we have a good package to recommend, we will put that package to the British people and they will have to make their own decision between the package we offer and its enforceability, and what the alternative is and its practicality.

Q390 Chris Philp: Assuming there are some areas of the renegotiation where treaty change is the right vehicle to enshrine it in European law, is there any realistic prospect of getting any treaty change by December 2017 or is that, in your experience and your view, a bit of a challenging timetable?

Mr Osborne: Treaty changes have been enacted relatively quickly. I remember that the changes to the ESM treaty, for example, happened relatively quickly, but we will just have to wait and see what the best mechanism is for delivering what we agree.

Chris Philp: If you could persuade our European colleagues to enact whatever it is you negotiate in treaty change, prior to the referendum, it would strengthen the hand of those wanting to stay in.

Q391 Chair: Chancellor, have any other countries stated support for restrictions to in-work benefits?

Mr Osborne: A number of other countries actually have versions of the same problem. A good example is the new Danish Government.

Q392 Chair: I am just wondering whether we had had anybody come out and be prepared to say that they support us.

Mr Osborne: There is a pretty broad understanding of Britain's challenge and there is a willingness to try to help us.

Q393 Chair: Is that a no or a yes? Have we got some allies?

Mr Osborne: I cannot remember the question. Has anyone come out? Yes, lots of countries are seeking to be helpful.

Q394 Chair: Have other countries come out supporting restrictions on in-work benefits? That was the question.

Mr Osborne: A number of countries operate variations of restrictions on benefits. They too have had questions about whether the European Union allows this. I will give you an example. The Dutch are a good example of a country where their proposals to restrict in-work benefits were curtailed by the European Union, and they therefore share some of our concerns.

Q395 Chair: Are they supporting your attempts to obtain restrictions to in-work benefits?

Mr Osborne: There is broad support for what we are trying to achieve. Now we are getting down to the detail and I am sure it is going to be a pretty tough discussion.

Q396 Chair: The answer to my question is “yes”, and you have named the Netherlands.

Mr Osborne: I have pointed to a couple of examples, Denmark and the Netherlands. Each country has slightly different circumstances, slightly different benefit systems and so on, but a number of other countries are wrestling with quite similar issues.

Q397 Chair: I think you said a moment ago that there is quite a lot of evidence that the UK welfare system is a principal draw for EU migrants, or words to that effect. Correct me if I have not got it right. What is the evidence?

Mr Osborne: I am very happy to supply it in detail. There was a particularly good study by Open Europe, for example, just last year about the attractiveness of the UK in-work benefit system. They gave a number of examples of migrants from Eastern European countries and the automatic salary boosts they would get by arriving.

Q398 Wes Streeting: Mr Bowman, I do not want you to feel left out, so what preparations are the Civil Service doing to prepare for the eventuality of an “out” vote in the referendum?

Mark Bowman: We are focused on getting the best deal in the renegotiation. That is the focus of all of our efforts at the moment.

Q399 Wes Streeting: There is no preparation taking place in the Civil Service for the eventuality of an “out” vote.

Mark Bowman: We are not working on that. We are working on the renegotiation and getting the best deal for the renegotiation.

Q400 Wes Streeting: That was not the answer I was expecting. Coming back to you then, Chancellor, you have been clear and the Prime Minister has been clear that, at this stage, you are ruling nothing out. There is still the possibility that, if the renegotiations do not go as well as you like—and I accept what you say about making the best of it and going in fighting on the renegotiation—you or the Prime Minister may be campaigning for an “out” vote.

Mr Osborne: We choose our language carefully. We have said that we rule nothing out. If you rule nothing out, you rule nothing out.

Q401 Wes Streeting: Let us just assume that “rule nothing out” is the language of appeasement for your “out” backbenchers.

Mr Osborne: We are one big happy party, Mr Streeting. I know that you do not want to hear that at the moment, but I am afraid that is the case.

Q402 Wes Streeting: I know what a divided party looks like, and I am looking at one when I look at your side on Europe. We know the tell-tale signs, Chancellor. Let us just look at the opinion polls. I support the terms of the renegotiation that you and the Prime Minister has set out. They have been welcomed by Pat McFadden and by the Labour Party, so we are with you on the outcomes you want to see from renegotiation, but none of us at this stage can predict what will happen when the public has their say. There is every chance that the public will vote “out”.

One of the key concerns that people in business of all sizes and shapes have, more than anything else, in terms of the outcome of the referendum, is uncertainty. Are you seriously saying that we are already committed to a referendum and the renegotiation is underway, and that neither you nor the Prime Minister nor the Civil Service will have a plan for the morning after the referendum, for the Prime Minister to come forward to the country and say, “You voted ‘out’. This is the course of action we are now going to follow”? That would be a recipe for market chaos, would it not?

Mr Osborne: First of all, there have been lots of questions raised about uncertainty. The UK has continued to attract the lion’s share of inward investment into the European Union, so I do not see that uncertainty in business investment. Second, it is perfectly reasonable, and Mark is absolutely right to say this, that the British Civil Service supports the objectives of the Government. The objectives of the Government are to seek an improvement in our relationship with the European Union, so that we can remain in. That is what policymaking is directed toward. If the policy of the Government changes, then the Civil Service will change.

Q403 Wes Streeting: I am not criticising the Civil Service at this stage. The responsible thing for the Government to do would be to direct the Civil Service to plan for the eventuality of an “out” vote. The Civil Service was preparing for the eventuality of another coalition government or a minority Labour government or a majority Conservative government. It was the same five years ago, and yet the outcome of the referendum will have a far greater impact on the markets than the outcome of the general election would. I seem to be hearing that it is the view of the Government that you are just gung-ho on the renegotiation and you are not actually preparing for an “out” vote.

Mr Osborne: First of all, the preparation for different governments is a very particular arrangement agreed 20 years ago, so the Civil Service could support opposition parties—

Q404 Wes Streeting: Do you think it would be wise to have a similar arrangement in place to plan for any eventuality? I want the Prime Minister to be prepared for either eventuality and that is not a partisan point. It is in the national interest.

Mr Osborne: As I say, we have two years to seek to get this negotiation right. That is where all the efforts of the British Civil Service and indeed British Government Ministers are directed, at the moment. If you take the example of Scottish independence, we made it very clear we were not preparing contingency plans for Scottish independence. In other words, once we had a clear policy and we were going to make a clear recommendation in the referendum when it came, and we have not reached that point—we have said we would wait and see the outcome of the renegotiation with Europe—in the case of the Scottish independence referendum, we were absolutely clear about what vote we were recommending and we did not actually do the contingency planning.

Of course, if Scotland had voted to leave the UK, then we would have had to deal with that result and we would have had a period of time to do it. I think it is accepted by all sides in this discussion that, should the UK vote to leave the EU, it would not happen overnight. It would happen over a period of months, at the minimum, and over that period the British Civil Service and British Ministers would do what we do in all these situations, which is the best for the UK.

Q405 Wes Streeting: I hope we are not going to find out and I would just urge you to rethink the Government's approach on this. The lack of contingency planning is potentially reckless, given the gravity of the decision, one way or another. Let me put it a different way. We had a panel, as part of our inquiry, of a range of people from businesses, and one of the things they were complaining about was not knowing enough, one way or another, about the benefits. They want to make an informed decision. Do you not think that it is in the public interest to have some understanding of the choice they have? They have an understanding of the outcome of the renegotiation. They will have an understanding of what Britain in Europe looks like, but do you not think you have a responsibility, as the Government that will have to make those key decisions in the days, weeks and months and possibly years after the referendum, about how we move forward? The Prime Minister has ruled out the Swiss model, it seems. He has ruled out the Norwegian model. Do you not think you have a responsibility to chart the course, so that people can make an informed choice?

Mr Osborne: I certainly think that people advocating that we leave the European Union will have to make a clear argument about what the alternative is. What are these alternative arrangements? I mentioned earlier that, for example, some of the free trade agreements that we currently benefit from would no longer apply to the UK if we were no longer in the EU. The US trade negotiator made the point a couple of weeks ago that you could not expect that Britain would be given priorities, and we would need to negotiate a trade agreement. It is true that, when we come to the referendum, those advocating withdrawal are going to have to explain what the alternative is.

Wes Streeting: If you are advocating withdrawal that would include you.

Mr Osborne: As I say, we rule nothing out.

Q406 Wes Streeting: I would not mind you advocating something, because you are the Chancellor. I would not mind the Prime Minister advocating his cause, because he would be the Prime Minister. Why should Nigel Farage sit there telling us what an “out” vote would look like?

Mr Osborne: We are focused on the renegotiation at the moment, but those who will advocate withdrawal from the European Union will have to set out what the alternative is, just as, by the way, those advocating that we remain will have to explain the benefits of those ongoing arrangements and, in the circumstances where we have had a successful negotiation, how that successful negotiation benefits the UK. Of course, advocating withdrawal means you do have to spell out those alternatives. We could see with the Scottish independence referendum that the nationalists struggled to answer questions on things like the currency.

Q407 Wes Streeting: Before you set George off, let us just come back to the EU. I genuinely think that, once the renegotiation is over, you need to rethink this. I think we are going to be on the same side in the referendum. Whatever side you are on, it is in the public interest. I have one final point, if I may, Chairman. Mr Baker pressed you on Sajid Javid’s view that currently the costs of EU membership outweigh the benefits. Is that your view, because I did not hear a clear answer?

Mr Osborne: Sajid correctly makes the point that the European Union, at the moment, is not delivering the economic goods that European citizens expect and that is why we want to see those improvements and changes.

Wes Streeting: I think we will have to leave it there, because the Chairman is going to cut me off.

Chair: Unless it is something very, very pressing.

Q408 Wes Streeting: I have one final question, as I am being indulged. The OBR has raised its projections for inward migration three times—twice this year in fact—from 105,000 to 165,000 and then to 185,000 last week. The long shot of that was—

Chair: Could we have the short shot?

Wes Streeting: This is the short question then. The result of the extra jobs and tax was an upward revision to economic output by 0.9%. Following your Conservative policy to conclusion, and net migration was lowered in or out of Europe, economic output would be worse, would it not? Why are you pursuing this?

Mr Osborne: It is sort of mechanically true to say that the more people you have in the country the higher your GDP is, but that is not the same as GDP per capita.

Q409 John Mann: Good afternoon. Mr Bowman, from your internal Treasury projections, if the Government are successful in their negotiations on these in-work benefits, how many fewer EU migrants are you projecting will come into the country?

Mark Bowman: There will be a substantial impact on the number of EU migrants. We talked about the number of migrants who are claiming benefits earlier. If you take into account the quantity of benefits they receive, then clearly it will have a substantial impact.

Q410 John Mann: As you are projecting tax take and the rest of it, could you quantify? You said “substantial”.

Mark Bowman: There is an established procedure. When there is a final policy, then there is an established procedure for the Government setting out the impact of the policy.

Q411 John Mann: Of course there is, but you do your projections. I am asking you what would be the reduction in the number of EU migrants who come into the country, if the Government is successful on in-work benefits.

Mark Bowman: It depends on the exact specification of the final policy.

Q412 John Mann: If the policy is as the Government are hoping, its maximum achievement, what is the impact? How many fewer EU migrants will there be?

Mark Bowman: As I said, there will be a substantial impact on the number of migrants. The Treasury will set out the number when we have the final policy, and we will work with the Office for Budget Responsibility to verify the methodology and the costings around that policy.

Q413 John Mann: At the moment, you have not factored into your projections a reduction in the number of EU migrants—

Mark Bowman: We do not have a final policy. We are in the process of a negotiation, so we do not have a final policy.

Q414 John Mann: I understand that. I am asking about your financial projections within the Treasury. In your financial projections within the Treasury, you are saying that you have not factored in a reduction in EU migrants yet.

Mark Bowman: This is a question to check with the OBR. In terms of their forecasts, they have not speculated on the outcome of the renegotiation.

Q415 John Mann: You take their analysis, but you have to do your own forecast.

Mr Osborne: No, we have an independent forecast now, Mr Mann.

Q416 John Mann: You have to make sure you have the tax coming in. You are saying that it is zero at the moment, but you are saying “significant”.

Mark Bowman: The OBR does the economic and fiscal forecast and, as far as I am aware, they have not factored in any of the policy, because there is no final policy.

Q417 John Mann: The Treasury does its spending plans based on its projection of tax revenue coming in. In those projections, are you confirming that you have not built in a reduction based on the Government’s success, because that has not happened yet? I understand that. You have not based, on your projections for the next four years, anything in relation to that, but you say it would be significant.

Mark Bowman: There is an established procedure that we take into account the impacts of policies when they are finalised.

Q418 John Mann: Would it be fair to say that “significant” would be 40%, because “significant” is a vague figure?

Mark Bowman: We do not have the number here and it depends on the final policy. Then, as I say, there will be a process with the Office for Budget Responsibility to go through those numbers.

Q419 John Mann: Chancellor, you used the words “tens of thousands”. If we take this year’s EU migration figure, the 40% is obviously hotly disputed, but no one has suggested a higher figure, so 40% of the EU migration this year would mean 108,000. You are saying that, if you reach absolute maximum objectives with this, EU migration would be 108,000.

Mr Osborne: The 40% is our best estimate of the number of European migrants who are in receipt of in-work benefits. This is a slightly different point, which is, if you made the UK in-work benefits system much less attractive to an EU migrant, would it reduce the number of EU migrants coming into the country. Our view and the view of independent observers of this is that it would.

Q420 John Mann: The figure that has been quoted is tens of thousands. What I am putting to you is, even if it was absolutely everybody, 100% of the 40% that you have projected, which is disputed but no one has put a higher figure, that still leaves 108,000. The minimum number in the best-case scenario, in terms of your policy outcomes and predictions, would be 108,000, would it not? That is not tens of thousands.

Mr Osborne: In the Prime Minister's letter, the second area of negotiation around competitiveness is partly to make the other European economies more attractive places to invest and create jobs. You would not necessarily have people feeling that they had to leave their home country to come to the UK for a job. One of the challenges we have at the moment, which in one sense is a product of our successful economic policy, is that we have created more jobs than every other European member state put together. That is quite a challenge.

Q421 John Mann: However great the Prime Minister and yourself may be in meeting your objectives, nobody rational—and you are a rational man—is expecting within the next three years you to have any significant impact on the way in which any country other than this country's economy operates. That is obvious to everyone. We did have a witness come in front of us who had been one of the key British figures inside the EU over the last decade. He told the Committee—I am paraphrasing, but very accurately—that the deal in Europe is that we, Britain, get access to your markets and you, the rest of Europe, get access to our labour market. That is the deal as spelled out by a key insider, as outlined to this Committee. I am right in thinking, am I not, that you are not attempting anything to restrict access to the UK labour market for any citizen from elsewhere in the EU?

Mr Osborne: In fact, we have successfully restricted access for people who do not have a job and cannot find work.

Q422 John Mann: With respect, Chancellor, you cannot dodge the question, because they are not people within the labour market. I am asking about people within the labour market. Is there anything you are attempting to do to restrict access into the labour market for any EU citizen?

Mr Osborne: We are not seeking to scrap the fundamental European rights around free movement of people and capital, but we are seeking to change the welfare arrangements that make some of that free movement very attractive.

Q423 John Mann: That is an important issue, but it is not the issue that I am raising with you. The issue I am raising with you is access by European citizens not from this country into our labour market. Some of them tell me they want it. The farmers in my area, for example, say that they cannot survive without that EU labour coming in. They will go out of business. That is what they are all

saying to me and there are other businesses saying the same thing, but the farmers are particularly strident in my area, in saying that.

Mr Osborne: In all areas they are particularly strident, in my experience.

Q424 John Mann: They are saying the same thing in your area as well, so it is across the country. What I am trying to ascertain is that we are giving open access to our labour markets to any EU citizen. You are not attempting to change that.

Mr Osborne: We are attempting to change the attractiveness of our labour market, because of the in-work benefits that are available if you work in it.

Q425 John Mann: It is disputed how much, but you are saying up to 40% and the 40% is disputed. I come back to my original point,

Mr Osborne: I am saying that 40% of EU migrants are in receipt of in-work benefits, to our best estimate.

Q426 John Mann: We are still going to have over 100,000 EU net migrants every year, on your projections and your plans, coming into the country. Whether it is a best or worst-case scenario that is what you are telling us.

Mr Osborne: I am not saying that. Our aim is to try to get net migration into the tens of thousands. You have to look at both the push and the pull factors. The pull factors are the generosity of the welfare system and the push factor is the fact that some of these other European economies are not as strong as they need to be. If we collectively took some of the steps that we have proposed, they would be strong.

Q427 John Mann: I have two more questions. My penultimate one is that that is not your aim because, on your aim in extreme scenarios, it is 108,000, so your current aim is not tens of thousands. Your current aim, at its maximum, at extremis, is 108,000, unless you are defining over 100,000 as tens of thousands. That is not your aim. On the in-work benefits, has either Germany or France given a clear indication that they are prepared to move in relation to what you are proposing?

Mr Osborne: Both Germany and France, and indeed other member states, have expressed sympathy for the British Government's position. They understand why it is a problem and they want to have a negotiation with us, and indeed are engaged in a negotiation with us, about what is acceptable at a European level.

Q428 John Mann: So no, they have not.

Mr Osborne: They are working with us on this important negotiation, not just for us, but for the whole EU.

Q429 Helen Goodman: Good afternoon, Chancellor. I have a great deal of sympathy with the question that the Chairman was putting to you earlier about why, in addition to these particular policy asks, you have not taken a slightly more long-term approach in looking for institutional changes because, in a way, it is the institutional imbalances that have created these various problems in your renegotiation remit. Why have you not done that?

Mr Osborne: Institutions are the vehicle for delivering policy. What we are seeking to do here is get the policy right and then see the best method of delivering it. We are addressing issues that partly go to the broader interests of every European citizen around things like competitiveness, but also some specific issues about Britain's relationship with the European Union or non-euro members' relationship with the European Union. That is why we have focused on those areas.

Q430 Helen Goodman: Are you satisfied with what the Chairman has called the "ratchet effect", in that things tend to go to Europe and they are very difficult to claw back, in whatever area one is looking?

Mr Osborne: Not particularly; we are not satisfied. That is why we are seeking to reduce European regulation and European mission creep in some of these areas. Actually, we have had a more positive response on that front than people might have expected.

Q431 Helen Goodman: Did you think at all of looking at clipping the wings of the Commission in this?

Mr Osborne: Again in this case we are trying to make sure that the Commission deliver for the member states. If you look at some of the areas around euro in and out governance, of course that will have implications on some of the proposals that the Commission would put forward and their applicability to the UK or other non-euro members.

Q432 Helen Goodman: Now I want to turn to the first question that Mr Garnier asked you this afternoon. The motion on Syria went down at lunchtime and yours is the second name on it. One of the things it says is that "This House ... welcomes the Government's continued determination to cut ISIL's sources of finance, fighters and weapons." Now, we have heard in recent days that they have had finance by trading with the Assad regime, from Saudi Arabia, and now the Russians are saying that they have evidence that they have also had finance from Turkey through the oil trade. What is your picture of what is going on at the moment on this front, Chancellor?

Mr Osborne: We put the issue in motion, because it is very important and you are actually restricted by how many words you can put in a Commons motion. We have chosen to

elevate that issue in the motion. I would say this: first of all, ISIL is fundamentally well funded because it seized control of a large area, including above all central bank reserves. That has helped it finance its operations. It also has access to oil, which it has been able to trade illegally on the world oil market. We have put in place, and many countries have put in place, financial sanctions against ISIL. The truth is they already have a sum of money in the first place. Whether it is financing from individual wealthy citizens in different parts of the Middle East, whether it is the illegal oil trade with the Assad Government or indeed others, these are all things that we now want to put more focus on more. British involvement might help bring that about.

Q433 Helen Goodman: I completely accept that we are not involved in this trading but, where there are third countries that are involved in this trading, what steps have you taken so far?

Mr Osborne: As I say, let us appreciate that the principal source of oil revenues for ISIL have been either the completely illegal black market trade in oil with criminal gangs or the sale of oil to the Assad regime, which is why we make the point that the Assad regime is, for all sorts of reasons, part of the problem, rather than part of the solution.

Helen Goodman: We have this expertise and we are agreed that there is a problem. What are you going to do about it, since there were not enough words to describe it in the motion? You have this opportunity now to describe it to us.

Mr Osborne: I do not want to pre-empt tomorrow's lengthy debate, but there are a number of tools at our disposal to try to cut off the funds for ISIL. We could take greater collective international action to stop the oil trade that was described. Actually, there may be some military options available to the RAF as well, but these are all things that of course will require the House of Commons to support the motion tomorrow. I hope I can count on your support.

Q434 Helen Goodman: Are the finance measures already part of the Vienna process? I thought they were.

Mr Osborne: They are part of—

Helen Goodman: You are not saying that tackling the finances is subject to getting agreement on military action. Surely you are not saying that, are you?

Mr Osborne: Some of the options available to us may be.

Chair: Sorry, could you say that again, Chancellor?

Mr Osborne: I do not want to go into too much operational detail, but part of going after ISIL will involve going after their sources of finance.

Chair: Thank you very much for that session.

