

British Government @ LSE public lecture

The Future Of The Union: Wales

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Thank you for the invitation to speak this evening, as part of your lecture series on the Future of the Union.

Throughout its existence the London School of Economics has engaged with the important issues of the day, and the decision to organise this lecture series, on this topic, is firmly within that admirable tradition.

I understand that Alex Salmond and Martin McGuinness have already delivered lectures; both very able politicians, but both believe the Union should not in fact have a future – at least not in Scotland or Northern Ireland.

Most people in Wales, take a different view. We share a small group of islands with England, Northern Ireland and Scotland. Our close integration – social, cultural and economic – is good for Wales, and good for the rest of the UK.

30% of the population of Wales was born outside Wales. Most of these people have come to live in Wales from other parts of the UK.

100,000 people travel across the border to work every single day. More than 600,000 people of Welsh origin now live in England – and they have no desire to become foreigners.

Being part of the United Kingdom benefits our economy. It means easy access to large markets, an integrated transport system, a unified tax and social security system which enables transfers from richer to

poorer regions, recognised education standards, an integrated labour market, a common currency and a common legal framework (albeit with increasing diversity across the nations of the UK).

The UK works for all of its constituent nations, and all have contributed to its success. David Lloyd George laid the foundations for the Welfare State and Aneurin Bevan's vision gave us the NHS.

So I want the Union to flourish, and Wales to play a dynamic role in it. But for this to happen, the structures of the UK must adapt to the changing identities and aspirations of its citizens.

People in Wales are comfortable with overlapping Welsh, British and European identities; these are complementary, rather than conflicting aspects of our citizenship. If you visit Cardiff in February, you will find a city in red and passionately supporting the Welsh rugby team.

But if you were there for the Olympic football earlier this summer you would have found a city comfortably hosting Team GB. And if you had visited back in 2010 you would have seen remarkable support in nearby Newport for the European Ryder Cup Team.

So I'm going to be making an unashamedly pro-Union argument and I shall link prospective changes in Wales, the United Kingdom and Europe. I shall stress that the next few years, in particular 2014, may prove to be historic turning-points. Our political system must prove itself up to the task of addressing these fundamental changes effectively and coherently.

Wales Devolution is now the settled will of the people of Wales. But unlike devolution in Scotland, which perhaps sprang into life fully formed, devolution in Wales has been in a process of growth since 1999. It was only with the overwhelming success of the Yes campaign in the 2011 referendum that we finally established the National Assembly for Wales as a legislature, with primary legislative powers.

The Assembly can now make laws for Wales in matters such as health, education, transport, the environment, local government – matters which most touch peoples' lives on a daily basis.

But we have more constitutional change in prospect. The UK Government, in its coalition agreement, committed to a Commission to review the constitutional settlement for Wales. That Commission, under the

chairmanship of Paul Silk, has been working diligently and will soon publish its first report.

The Commission's remit covers two broad areas. First, it has considered fiscal devolution, whether to confer on the Assembly responsibilities to determine rates for specified taxes. The Commission will report to the UK Government on that very soon, but

the two Governments have already agreed that any recommendations on the transfer of taxation powers will go forward only with the consent of the National Assembly. That is a proper recognition of the status

of the Assembly within the UK's constitutional arrangements, and means that fiscal devolution must proceed on the basis of consensus between the UK and the Welsh Governments.

The second part of the Silk Commission's remit will be to review the respective legislative responsibilities; the Assembly on the one hand, and Parliament on the other. It would take another full lecture to explain how we got to the current balance and the complications that arise from it, and I won't pursue that this evening.

In fact, we await a Supreme Court judgement on one particular aspect.

It is worth noting that that case was heard in the Supreme Court without the benefit of a Welsh judge on the bench; it is very surprising that the Lord Chief Justice, who is the Lord Chief Justice of Wales as well as of England, was not invited to sit in the Supreme Court to hear this case. Wales is the only part of the UK not formally represented in membership of the Supreme Court. That position that should not be allowed to continue.

Although the National Assembly now has substantial legislative powers, the statutory provisions providing for this differ significantly from those for the Scottish Parliament and the Northern Ireland Assembly.

The Scottish Parliament's powers, for example, are defined in law by what it cannot do; certain matters are "reserved" to Westminster, but the Parliament can legislate in relation to Scotland on anything else.

The Welsh Assembly's powers, on the other hand, are legally defined by what it is permitted to do: legislative competence is conferred on the Assembly in respect only of a range of specified subjects.

In theory, the two approaches ought to be able to produce bodies with equivalent competence. In practice, that has not proved the case, and the method of conferring legislative competence on the Welsh Assembly produces complications. I expect the Silk Commission will receive a lot of evidence about this, with recommendations for change. My

Government's evidence will argue for Welsh devolution to be reformed on the basis of a Reserved Powers model, as Lord Richard recommended in his Report on the powers of the National Assembly as long ago as 2004.

The timetable for the second part of Silk's work is significant. The Commission must report by the end of March 2014. Coincidentally, that will be a crucial year for the constitutional future of the UK and Europe. Recognising this, the Welsh Government, will be asking Silk to address its remit with full awareness of that developing constitutional landscape. The Commission's recommendations should not simply address current issues, but rather seek to establish a longer-term vision for the governance of Wales within the changing UK.

Financial reform

I come back to financial reform. Money forms a large part of politics.

All countries grapple with resource allocation across regions and between tiers of government. There is no single 'right' way of doing things, no template of best practice. Each country's system reflects its history, its socio-economic circumstances and its political culture. So it is difficult to look across the world and draw too many lessons as to how things should be done here.

That said, we ought to be able to sketch out what the main features of a sensible system of funding of regional government should look like.

For me - and I argue for anyone wishing to maintain the integrity of the UK – the core of any system should be an attempt to align resources and needs. If UK citizenship means anything, it surely means that people should not experience widely divergent levels of funding for public services, simply as a result of the tax base in their particular region.

Devolution allows spending on services to be aligned with local priorities and preferences; that is how it should be. But a system that left one part of the UK permanently and substantially under- or over-resourced in relation to its needs would be failing its citizens in a fairly fundamental way. For instance, the presence or absence of offshore oil – to take one obvious and relevant example – should not be allowed to distort funding levels between UK regions to the extent that relative needs and relative funding end up severely out of kilter.

Looking around the world, we see that regional and sub-State governments invariably possess powers to adjust the profile of spending over time, and to increase or decrease the spending envelope at the margin. This is achieved through the use of tax and borrowing powers. Borrowing powers are especially useful in making large

'lumpy' capital projects affordable. As well as providing some control over the overall level of spending, tax powers can also be useful policy levers and arguably serve to strengthen democratic engagement.

Finally, any stable system needs a clear and well-understood framework of rules and responsibilities that respects the legitimate interests of each tier of government.

So that's my view of a sensible system of devolved finance: resources broadly aligned with needs, meaningful but not unlimited borrowing and taxation powers, all operated within a clear framework that aims to avoid friction between different levels of government.

To say that the current UK system falls short of that ideal is something of an understatement.

At present, almost all taxes paid in Wales are pooled at the UK level along with the taxes paid by citizens in England, Scotland and Northern Ireland. From that pool, we receive a block grant which makes

up almost all of our spending power. The mechanism for setting the block grant is remarkably poor. The starting point for the size of the block grant this year, the baseline on which all

subsequent changes are made, is whatever the block grant was last year. The baseline for setting the block grant last year was whatever the grant was the year before that, and so on.

One might expect that at some point in this backward loop – which now stretches over 30 years, well before devolution – you would alight on some justification for the overall size of the settlement. Amazingly,

there is none. No attempt to align spending with needs, no attempt to do anything other than set a budget with the minimum political fuss from one year to the next.

Having established an almost entirely arbitrary baseline, annual changes to the size of the block grant are made through a mechanism known as the Barnett formula. This is a subject that causes huge

excitement among a small band of enthusiasts but for most people it causes the eyes to glaze over pretty rapidly. Tonight, it suffices to say that the formula lacks any rationale - or any that I've ever found remotely convincing – and is almost entirely unloved outside of HM Treasury, where perhaps the ability to set a budget with the minimum political fuss from one year to the next is the most prized of objectives, regardless of the fairness of the outcome.

I occasionally hear the claim that Wales does well – unfairly well, even - out of the current system. In fact, Barnett does Wales absolutely no favours in terms of our budget settlement, a point which has been proved in multiple Commissions, Committees and academic studies in recent years.

Incidentally, many of those same studies have drawn the opposite conclusion about Scotland's funding position; it is pretty clearly over-resourced in relation to its needs. This blunt fact is rarely acknowledged in public by advocates of the block grant status quo. But it would be naïve to think that the Scottish Chancellors, Prime Ministers and Chief Secretaries to the Treasury of recent years were unaware of it.

According to the Treasury's data, public spending per head in Wales has historically been lower not just than in the other devolved administrations of Scotland and Northern Ireland but also actually lower than in London. Of course, London has its own needs and challenges – I haven't come to the LSE to argue that London's funding should be reduced. But it is something to bear in mind the next time you see complaints in the London media implying that Wales is some kind of a 'subsidy junkie' living off over-generous funding from the rest of the UK.

So the block grant element of our settlement is not a pretty picture.

As for the other normal financial powers of a sub-State government – borrowing and tax-varying powers – they are easily summarised: we don't really have any.

Actually, that is not quite correct. We do have fairly extensive borrowing powers in law, but the Treasury operates the rules in a way that makes them meaningless in practice. If we were to borrow as we are entitled to do under law, the Treasury would simply refuse to increase our spending limit, leaving us no better off.

Borrowing powers are hardly a radical or novel budgetary device. Local authorities have always been able to borrow without the world coming to an end, and the other devolved administrations already possess or

are being given borrowing powers to invest in capital projects. The Welsh Government is uniquely – so far at least – denied this power.

This means that major infrastructure projects, with a strong economic rationale, cannot be delivered. If you've ever driven into Wales on the M4, you will know that it can be badly congested, and needs significant improvement. The economic studies show that the benefits

to both Wales and south west England from such an improvement scheme would be substantial. But any major scheme could consume, for several

years, around a quarter of the Welsh Government's total capital budget – which has to cover not just transport, but all devolved activities, including health, education, the environment and so on.

Without the borrowing powers that are available elsewhere in the UK, this is simply unaffordable. Yet it is clearly ridiculous to discriminate against capital projects simply because they are located in the one particular part of the UK which, for no good reason, lacks access to the financial levers available elsewhere.

With reasonable borrowing powers that would allow us to spread the costs of projects beyond their actual period of construction, these problems could be addressed. And that means we need to see financial

legislation delivering those powers to Wales during the lifetime of the current Parliament.

Borrowing has to be repaid – it is not free money. In practice, the annual block grant of some £15 billion that we currently receive would give us ample cover for a prudent programme of capital investment,

particularly as Wales has much smaller PFI obligations than other parts of the UK.

But the UK Government believes we require a revenue stream separate from the block grant before we can borrow. Tax devolution offers one potential way forward. But there is an additional, substantial, potential revenue stream, which flows from the row of toll booths on the Welsh side of the Severn Crossings.

At present, the Crossings are privately operated, and motorists are charged some £90 million in toll revenue to enter Wales each year; this revenue will grow as traffic flows increase. But in 2018 the current concessions will come to an end and the UK Government's Department for Transport will determine what happens next about the tolls.

It would be politically unacceptable for the UK Government to levy tolls on the Crossings at anything close to the current rates beyond 2018; there would be a strong perception that drivers coming into Wales were continuing to be being charged for no obvious benefit when the bridges have been paid for. Such an outcome would be completely unacceptable.

Those of you who are familiar with Welsh history will be aware of the famous 'Rebecca riots' of the 19th century, when toll gates were attacked and burned by gangs of men dressed as women. Rest assured

there is no danger of Rebecca's sons and daughters taking a similar approach to the Severn Crossings, but surely the fair-minded motorist would view the situation I have described as an injustice.

We need a different way forward. I believe there is a very strong case for replacing the tolls from 2018 with a new road user charge. The revenues from this charge would help to improve the M4 in south Wales,

with benefits accruing to the economy of both Wales and the south west of England. The road user charge would provide a source of income against which the Welsh Government could borrow and thus spread the upfront costs of the investment over a much longer period. This proposal offers a route to devolving borrowing powers swiftly and delivering economic benefits to the UK. And, Rebecca, I'm sure, would approve.

So, Wales has a flawed block grant, and no meaningful borrowing or tax powers. But it is no use just complaining, so I want to say something more on the future of Welsh devolution finance.

Over the past year, the Welsh and UK Governments have been discussing reform of the mechanism for setting the Welsh block grant, as well as allowing us access to our existing borrowing powers. Last month we published a joint statement on the progress that has been made in those discussions.

The statement is not perfect, but it does contain several specific new commitments, including: a new mechanism for addressing problems with the block grant; detailed talks on early access to borrowing powers; and a guaranteed role for the National Assembly in agreeing to major change.

Perhaps the most important aspect of the statement is the signal it sends about the future path of reform. The fact that both Governments were able to agree a joint statement is in itself unusual. That said, joint statements are not an end in themselves. Over the coming months, discussion needs to be turned into concrete actions.

The Silk Commission's work on the case for devolution of new fiscal powers to Wales has proceeded in parallel with these inter-governmental talks. Last month's joint statement opens the way for tax devolution to become a realistic prospect.

Clearly, some taxes are better candidates for devolution than others.

For the devolution of any specific tax to be meaningful, there must be a realistic prospect of those tax-varying powers being exercised, which could mean different rates and thresholds operating on either

side of the England-Wales border. For many taxes, administrative barriers, European law or the likelihood of economic distortions make that an impractical proposition. VAT, for example, is not, I believe,

suitable for devolution. Similarly, any difference between alcohol or tobacco duties on either side of the Severn Bridge would create a flourishing business for smugglers, but would do very little good to either Welsh or UK Government finances.

But in other cases tax devolution is not just feasible but desirable.

Let's start with tax-varying powers that could serve as policy levers in areas of existing devolved responsibility – housing, for example.

Stamp duty land tax would be perfectly capable of operating at the all-Wales level. And housing is of course immobile, making it relatively immune to economic distortions that might otherwise arise

from differences in cross-border rates. There are also certain environmental taxes – landfill tax and aggregates levy – which are clearly tied to a specific locality and would fit well with existing devolution.

Air passenger duty is another tax that should, in my view be devolved.

While London struggles with where to build additional airport capacity, we in Wales face a very different problem. Our national airport in Cardiff has not enjoyed the growth in passenger numbers and destinations that we need to help drive economic growth. Devolution of air passenger duty would give us a useful tool to incentivise the growth of Cardiff airport and other smaller facilities, such as Anglesey in north Wales. APD has already been devolved to Northern Ireland for long-haul flights; at a minimum, I believe Wales should have parity.

Incidentally, speaking of air transport, I know the debate on 'Boris island' airport is a matter of great interest in London, but the proposal has worrying implications for other parts of the UK.

Heathrow, for all its drawbacks, functions effectively as the major hub airport not just for London but also large swathes of the UK, including much of Wales. It is an undeniable geographical fact that a new airport far to the east of London could not fulfil that role.

'Boris island' does not solve the UK's need for expanded hub airport capacity and I will certainly do what I can to persuade the UK Government of that fact. However, the longer this matter is left unresolved, the greater is the need for us in Wales to be given the policy tools to help strengthen our air route network.

Turning to options for even wider reforms, devolution of income tax is clearly feasible in principle, since it is in the process of being partly devolved to Scotland. But for both constitutional and practical reasons the situation in Wales is more complicated.

Constitutionally, it is important to remember that the 1997 referendum on devolution in Scotland secured public consent for the income tax varying powers that were included in the 1998 Scotland Act. No such

question has ever been put to the people of Wales.

Welsh voters would expect a say before they found themselves potentially paying a different rate of income tax than in other parts of the UK. In other words, there should be a referendum before this power could be transferred.

In addition, the practical barriers to income tax devolution should not be minimised. The border between England and Wales is much more porous than the border between England and Scotland. Around 100,000 people cross into or out of Wales each day for work reasons – almost three times the figure for Scotland. The administrative challenge of operating two income tax regimes, for governments, businesses and citizens, would be significant.

For those reasons, the Welsh Government has not sought income tax powers. That said, I know that the Silk Commission is looking at income tax as part of its work. No doubt they will have given some thought to the practicalities of how devolution of the tax could be made to work. If they are able to provide reassurance on that score, and if we can be sure that the people of Wales have the opportunity to give their consent, then I would not object to looking at whether some responsibility for income tax could be included in a package of reforms.

Given the challenges, full devolution of powers to vary income tax rates is likely to be some way off. However, there may be scope to move more swiftly to a model of income tax assignment – that is, where part of the Welsh Government's resources are drawn from Welsh income tax receipts, but without devolution of any powers to vary income tax rates. Full devolution of rate-varying powers could follow at a later stage, with popular consent.

Assignment could involve significant challenges for the Welsh Government's budget, but I would not want to rule it out as an option.

It would reduce our reliance on a block grant, bring us more into line with international practice and give the Welsh Government a direct financial stake in the economic prosperity of Wales.

In addition, income tax assignment could provide us with a substantial income stream that would be separate from the block grant and could therefore provide a route to meaningful borrowing powers. If the risks are manageable, that could be an attractive proposition.

Legislation will be necessary to implement a new system. If we can reach agreement on a way forward, I would be looking to the UK Government to legislate within the lifetime of the current Parliament.

There is clearly an opportunity to move away from an imperfect current system to a new model better suited to the realities of a looser, but still United, Kingdom. And it is to the future of the United Kingdom that I now turn.

The United Kingdom While considerable progress has been made over the last 15 years in modernising the British Constitution, the challenges immediately ahead are at least as great as those that have been addressed so far.

The new challenges are about the territorial constitution: how are the different territories of the UK to be governed, and how are their governments and legislatures to relate to each other within the UK?

I emphasise “within the UK”. The vast majority of people in Wales have no interest in independence. Support for independence was never significant even before 1997, and since devolution it has declined further; Wales wants to remain within the UK family.

It remains an open question whether that is also true of Scotland. I would enormously regret any decision by the Scots to opt for independence in the referendum in 2014. A UK without the Scots would be thrown out of balance. England would constitute nearly 92% of the population of the new state, leaving Wales and Northern Ireland with the remaining 8%. A residual UK would be unbalanced politically; at present we share with the Scots an approach to economic and social policy questions which is broadly social democratic/ communitarian in its ethos, whereas the inclination of the current UK Government is for

more market-based approaches as far as England is concerned. Losing the Scots would significantly weaken the Welsh voice in these debates.

For the future, and assuming the Scots stay, we need to envisage a Kingdom which is politically diverse, looser, and combines several centres of democratic accountability.

It will be “politically diverse” because, whereas previously Labour governments operated at UK, Scotland and Wales levels simultaneously, and issues of contention could be smoothed over on a relatively informal basis, the position is very different now. In consequence, we need to develop further the more formal mechanisms of inter-governmental machinery, such as the Joint Ministerial Committee, to manage these complex relationships.

The Kingdom will also be “looser”, because the process of devolution in each part of the UK will continue. In traditional constitutional theory, Parliament, having created the devolved institutions, could equally abolish them, as an exercise of “parliamentary sovereignty”; it was this idea that led Enoch Powell to assert that “Power devolved is power retained”. But in the real world, that is not practical politics, as the present UK Government has recognised: for both Scotland and Wales, it has agreed that the respective legislatures’ consent must be obtained before Parliament can legislate on their fiscal powers. That is a welcome recognition of a constitutional reality, whatever the textbooks may say.

What then of the future of devolution? The Prime Minister has already said that, in the event that the Scots vote No in their independence referendum, the powers of the Scottish Parliament can be re-examined,

and by implication expanded further. The Scottish Labour Party has set up its own Commission to review the position. And in Wales, the Silk Commission will in 2014 be publishing its report on the future of Welsh devolution, and that report will need to be set in the context of wider constitutional developments in the UK.

Finally, the Kingdom will “combine several centres of democratic accountability”. That is inherent in devolution itself, which enables distinct political mandates to be conferred on different tiers of government. Those mandates need to be reconciled, if needs be, through the formal mechanisms I mentioned just now. Devolution is here to stay, and our constitutional arrangements, indeed our daily inter-governmental practice, must take full account of that.

But if Scotland goes in 2014, we cannot pretend that the remaining truncated Union could simply carry on as before. In reality, much would have changed and the long-term consequences might be profound.

It is, for example, not clear to me what would be the attitude of people in England to the future of a UK consisting only of England, Wales and Northern Ireland. And what would be the implications for the existing UK's membership of international organisations?

So, rather than simply allow events in Scotland to unfold, and to react passively to whatever happens when it happens, I believe that political and civil society across the UK should be talking now about what kind of UK we want to see.

Earlier this year I proposed the establishment of a Convention on the Future of the United Kingdom, to examine the full context of relationships between the Devolved Administrations and the UK Government. That call has received pleasing levels of support: a Parliamentary Select Committee is actively investigating the question, it was commented on favourably in a debate in the House of Lords last month. Press reports suggest that the Prime Minister is now open to the idea. He has certainly told me that he is open to a comprehensive conversation about the kind of Union we want to see.

Why a convention, rather than the traditional Whitehall device of a Royal Commission? I think that the constitutional reform agenda hitherto has been too much a matter for discussion among the political classes narrowly conceived, and with too little wider public engagement. A Royal Commission, constituted of the "great and good" and relying on traditional methods of taking evidence, would not suit the spirit of the times, which is characterised by a distrust of established institutions and establishment figures. We need to broaden out the debate; in other words, we need to do constitutional politics in a different way from "ordinary" politics.

This is not a revolutionary proposition, it has been done before. The success of Scottish devolution from its outset is surely linked to the work done over several years in the 1990s by the Scottish Constitutional Convention, which managed to build a consensus both on the case for devolution and how it should work. And both the New Zealand and the Irish Governments have recently put in train constitutional reform processes based either on the establishment of a constitutional convention, as in Ireland, or much wider public engagement than is normally the case, in New Zealand.

We also need to look at matters in the round. If the Scots decide to stay within the UK, that is likely to be on the basis of more powers for the Scottish Parliament. Could that simply be a matter for discussion and agreement between the Scots and the UK Government, or should the other members of the UK club be involved as the terms of membership of another of them are renegotiated? I believe that all parts of the UK should be involved in that discussion.

Such a Convention should examine the full range of constitutional possibilities. I find it inexplicable that the recent proposals for House of Lords reform were developed entirely without regard to the UK's territorial constitution. In other countries, the upper House of a legislature frequently contains representation not rigidly tied to electorate data, but with the House itself serving as a unifying institution within the state. I believe that a territorial dimension to membership of the House of Lords could be a way of ensuring a strong voice for each of the four countries at the UK level, without diminishing England's voice (because the membership of the House of Commons would continue to reflect population shares). And if we are to retain, at least for the foreseeable future, the system of appointment rather than election to membership of the House of Lords, I believe that the devolved legislatures should be entitled to make an agreed number of nominations of potential members, as a way of better securing that territorial membership of the Lords.

In the same way, it is strange that, at a time when the prospect of Scottish independence represents an existential challenge to the UK, a separate Commission is set up to examine the so-called West Lothian

Question. The Question is about what future role MPs from constituencies outside England should play with respect to exclusively English legislation.

But is there such a thing? The recent legislation on reform of the Health Service appears on its face to have been purely about England, yet it will have significant implications for Wales, given the regular cross-border flows of patients registered with GPs or taking advantage of hospital services on the 'other side'. And as has been pointed out in evidence to the Commission, the resources available to the Welsh Government for expenditure on public services in Wales depend on the policies and resource allocation of the UK Government with respect to England. Any legislation which affects that resource allocation or has the capacity to affect it is of legitimate interest to the constituents of MPs for Welsh seats.

Surely the West Lothian Question is something, like the membership of the House of Lords, that needs to be addressed in the wider constitutional context of the future of the United Kingdom. A Constitutional Convention would be well-placed to address these issues; it is obvious that Whitehall cannot.

A Convention would also enable a more specifically English contribution to the debate. The discussions in recent years on constitutional matters within the UK have been primarily, and perhaps is proportionately, about the governance of Scotland, Wales and

Northern Ireland. The English voice has yet to be heard properly. It is not for me to say what arguments about the governance of England should be advanced, but I can certainly regret the lack of an English contribution thus far, and urge that we find a way to rectify that.

When should the convention begin its work? As soon as practically possible, I believe. This goes back to my concern about the future constitutional position of Scotland within the United Kingdom. I am anxious that those who are committed to the UK should be proactive in developing a vision in which Scotland can see its rightful place, without waiting for the outcome of the referendum.

Unfortunately, the Prime Minister does not share that view. He thinks that we need first to focus on winning the case for the Union in Scotland.

I do not agree. Unless an attractive alternative for the UK's constitutional future, based on partnership between the different parts of the UK, and developed by the sort of broad-based Convention I have described, is developed ahead of the referendum, I fear it may be lost. I cannot overstate how much I would regret that.

So, in summary, I believe that we need a Constitutional Convention for the UK, and we need it to begin its work as soon as practically possible. And I can assure you that the Welsh contribution to that debate would be active and constructive.

The European Context

Finally, we must set all these internal constitutional developments in the wider context of a rapidly-changing Europe. The crisis in the Eurozone will surely result in fundamental changes to the governance

of the European Union. Indeed, under the Fiscal Compact signed in March this year, 25 EU Member States (all except the UK and the Czech Republic) agreed that the Commission and the European Court of Justice may, in certain circumstances, have some jurisdiction over their national budgets.

The President of the European Commission, José Manuel Barroso, in his State of the Union address to the European Parliament in September, stated that successful economic and monetary union must be accompanied by "concrete steps" towards a political union and, ultimately, a federation of nation states, with shared sovereignty. It seems the Commission may present proposals for Treaty change ahead of the European elections in 2014.

The debate about the role of regions in the European Union has gone off the boil somewhat in recent years, largely – I suspect – because it has seemed marginal to the economic crisis. But I want to put down

a marker. Devolution at home needs expression at EU level where devolved vital interests are at stake. We have our own species of the West Lothian Question: the Minister responsible for Agriculture in England suddenly morphs into a UK Minister for Agriculture at the Council of Ministers in Brussels, exercising an effective veto on the views of his Scottish, Welsh and Northern Ireland counterparts. This is surely not sustainable. Pressure for independence is apparent in different parts of Europe – Scotland, Flanders, Catalonia and elsewhere – and we must find ways of including devolved governments more effectively in EU decision-making unless we wish to encourage the break-up of existing states into smaller units.

The UK Government has set in train a review of the existing balance of competences between the EU and the UK, which is scheduled for completion in late 2014. The outcome of that review will no doubt inform the UK's negotiating position for a new relationship within the European Union.

Lying beyond that is the prospect of a UK referendum, presumably on whether to agree the terms of any new relationship which may have emerged, or even an "In Out" question.

These developments could present real difficulties. Wales is supportive of the EU, and will want the UK to remain part of it.

150,000 jobs in Wales depend on our access to the Single Market and more than 450 firms from other Member States are located in Wales, providing over 50,000 jobs.

So far as the balance of competences is concerned, we would oppose "repatriation" of responsibility for investment in economic and social development: the Structural Funds have served Wales well, and, frankly, we would not be confident of the same degree of support if funding for this became a Treasury responsibility.

But more fundamentally, imagine a referendum on the European Union which resulted in a vote to leave, carried by the weight of English votes against the preferences of other parts of the UK to remain in membership. That would put us under enormous strain, and could only serve the interests of those who wanted the United Kingdom to cease to exist. It is ironic that those who are pressing for an "In Out" referendum on the grounds of their commitment to the United Kingdom may actually be imperilling the very future of the UK as presently constituted. And that would be a matter of grave concern to the majority of people in Wales.

So, how should we conclude? The various matters I have discussed this evening: the final stages of the Silk process in Wales, the Scottish referendum, the emergence of proposals for new structures of governance in the European Union, all seem likely to come to a head in or around 2014.

The task is to knit all this together, to develop a more elastic United Kingdom while retaining a coherent whole, and with all parts of the UK able to play their full part in the European Union policy process. I am not clear that anyone yet fully understands the scale and complexity of that challenge, but I am clear that we in the UK have not begun to address it in any coherent way.

But I am sure that members of this School, with its tradition of engagement with the major issues of our time, will want to make your own contributions to these fundamental questions; I hope you do, and I look forward to hearing your views.

Thank you very much, diolch yn fawr.

END