

European Policy Brief

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The Euro and British Politics

Introduction

In recent years, most of those British journalists or academics who have written about British policy towards the European single currency have been influenced in their writings by their own partisan standpoint, either as advocates or opponents of British participation in the euro. Frequently, this has led both camps to overstate the extent of the genuine enthusiasm felt by Mr. Blair and his government for the project of joining the European single currency. Opponents of British membership have been eager to mobilise funds and campaigning resources by presenting the New Labour government as working relentlessly towards British integration within the Eurozone. Proponents of membership have understandably concealed any doubts they may have had about the government's commitment to the single currency in the hope of generating a political and campaigning momentum towards the referendum which Mr. Blair had promised as a precondition of any governmental decision to take Britain into the euro.

Now that it is clear that any serious attempt to secure British membership of the European single currency has been indefinitely postponed by Mr. Blair and his likely successor, Mr. Brown, it may be possible to review more objectively the role the European single currency has played in the political life and discourse of the United Kingdom over the past ten years. In particular, it may be possible to come to more considered view of the New Labour government's approach to this issue since 1997. Many who favour in principle British membership of the euro would argue that the economic landscape of the past five years had in any case made impossible or inadvisable any moves in that period by the British government to join the European single currency. This may be so, but quite apart from the evolving economic background, it is equally clear that powerful political factors (mostly domestic) have coloured and shaped the approach towards the European single currency adopted by the British government elected in 1997 and still in power. This Brief seeks to describe and analyse these political factors.

Historical background

In the 1990s, the British political system was profoundly changed by the election to the Labour leadership of Tony Blair and his espousal of the revisionist politics known as 'New Labour'. Central to the political philosophy of New Labour was the belief that the traditional Labour Party was fatally harming its electoral prospects by its continuing association in the public mind with a number of unpopular policies and attitudes, such as punitive tax rates, poor management of the economy, commitment to wide public ownership in crucial areas of the economy and excessive tolerance of law-breaking. The consequence of this wilfully and self-indulgently unattractive image was, in the New Labour analysis, the series of four electoral defeats since 1979, culminating

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EDITOR'S NOTE

This is the fifteenth in a series of regular *European Policy Briefs* produced by the Federal Trust. The aim of the series is to describe and analyse major controversies in the current British debate about the European Union.

We would welcome comments on or reactions to this Policy Brief. Other Policy Briefs are available on the Federal Trust's website www.fedtrust.co.uk/policybriefs. This Brief also forms part of the London Metropolitan University's collection of essays 'The City in Europe and the World', to be published in 2006. For more information please visit www.europeanresearchforum.com

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in the General Election of 1992, when an unpopular Conservative government was unexpectedly reelected. To some extent, Mr. Blair's predecessor as Labour leader, John Smith, had shared this analysis and worked to 'modernise' the policies of the Party until his sudden death in 1994. But the decade since Mr. Blair became leader of the Labour Party has seen an acceleration and generalisation of this process, which it is difficult to imagine his predecessor could have executed or indeed would have wished to execute.

As a result of Mr. Blair's wholesale and ruthless remodelling of Labour policies and presentation, the British electorate's perception of the Labour Party is today qualitatively different from that of fifteen years ago. Its management of the economy has been at least respectable, its rhetoric and policies on domestic security are deliberately robust and it carefully avoids the rhetoric of egalitarianism. To his critics within the Labour Party, arguing that traditional principles have been abandoned for short-term electoral interests, Mr. Blair can plausibly point to the unprecedented reversal of electoral fortunes which he has bestowed on the Labour Party since his election to government in 1997. The continuing difficulty which the Conservative Party finds in its attempts to develop a coherent critique of the Prime Minister's policies acceptable to its own potential voters is eloquent witness to Mr. Blair's success in this regard. Today, it is not the Labour Party, but rather the Conservative Party which is seen as the defender of outdated and unpopular attitudes having only marginal resonance with the wider electorate outside the diminishing ranks of its traditional supporters. If Labour's traditional principles have been sacrificed to electability, the sacrifice has certainly been successful in attaining its goal, it shows every sign of continuing to be successful. If there is in modern Britain a 'mainstream' political party, it is New Labour.

In this radical remodelling of the Labour Party, European policy has played some role, particularly in the early years of the Labour government elected in 1997. But New Labour's European policy should not be viewed as something distinct from the general political and electoral matrix from which New Labour springs. As we shall see, for New Labour Europe is simply one of a number of instruments subserving its

fundamental political objective of the greatest possible electability for the Labour Party. The independent traction of the European Union within the Labour Party is relatively small. New Labour has been described by opponents, critics and itself as a 'pro-European' party. A more accurate description might be that it has found it electorally advantageous to act as an 'anti-anti-European' party. This distinction will emerge more fully in the course of this Brief.

New Labour and Europe

Since the 1960s, Europe has been a deeply controversial question within the Labour Party, and for much of that period the Party saw itself as distinctly politically hostile to the European Community. When Britain signed the Treaty of Rome in 1972, only a minority of Labour Members of Parliament supported that step. The Labour government elected in 1974 came to power deeply divided on the question of continuing British membership of the Community. After a limited renegotiation of the terms of British membership, the Labour Prime Minister Harold Wilson put the results of that renegotiation to a referendum in 1975, a referendum in which some serving members of the Labour government were allowed to campaign (in the event unsuccessfully) against Britain's continued membership of the European Community. When Labour lost power in 1979, the increasing hostility of its membership and leaders towards the European Community was an important factor leading to the fracture of the party and the founding of the Social Democratic Party, many of whose leaders such as Shirley Williams and Roy Jenkins, had been among the minority of Labour MPs supporting Britain's signature of the Treaty of Rome in 1972.

As the Labour Party moved to the left in the early 1980s, so its institutional hostility to the European Community increased. The most common criticism of the Community from Labour spokesmen was to claim that its core values of free trade and political integration would prevent the implementation of genuinely socialist policies in the United Kingdom by any future Labour government. In the General Election of 1983, the Labour Party manifesto called for withdrawal from the Community. In the General Election of

1987, the Party stopped short of calling for withdrawal, but could not hide its distrust of and distaste for the Community. Many current leading figures in New Labour fought in the elections of 1983 and 1987 without disavowing their Party's manifesto at the time.

It was only in the late 1980s that the traditional hostility of the Labour Party towards the European Community began to soften, not least in response to an influential speech given by Jacques Delors to the British Trades Union Congress in 1988. In this speech, the President of the European Commission argued that the Community had much to offer the British Labour movement in the way of new social legislation, a claim that greatly pleased his audience, while simultaneously fuelling the growing hostility to the European Community of the then British Prime Minister, Margaret Thatcher. In 1992, John Smith (one of those Labour MPs who in 1972 had voted for British membership of the European Community,) became leader of the Labour Party. His leadership saw a narrowing of the gulf between the Labour Party and other left-wing parties in continental Europe, almost all of whom, with the exception of some national Communist parties, were enthusiastic supporters of deeper European integration. Even so, when the Conservative Party found itself divided in the early 1990s on the question of the ratification of the Maastricht Treaty, the Prime Minister John Major received little help from John Smith's Parliamentary Labour Party. In contrast to his decision of twenty years before, John Smith decided to exacerbate growing Conservative divisions on Europe by delaying the Treaty's passage through Parliament. The adversarial and tribal nature of British politics provides a standing temptation for political parties to exploit the divisions of their opponents, almost irrespective of any wider political context. John Smith's tactical approach to the ratification of the Maastricht Treaty was an illuminating example of that phenomenon.

When Tony Blair became leader of the Labour Party in 1994, he concluded that one of the elements which needed to be jettisoned in the remodelled Labour Party was its still well-entrenched anti-Europeanism. A number of considerations seem to have weighed with him in this decision. His own personal and intellectual background led him to regard with some disdain the cruder

manifestations of leftwing and trade union hostility to all things European. Such unreflective hostility was in Mr. Blair's view part of the package of 'Old Labour' attitudes, so unacceptable to the middle class voters whom New Labour was now attempting to woo. A significant tranche of these latter voters was also coming to be repelled by the growing shrillness with which the European question was debated within the Conservative Party. It was good party politics to remind such electors that New Labour now rejected old-fashioned nationalism, whether of the Old Labour or modern Conservative variety. But the new-found Europeanism of Mr. Blair's Labour Party was not one unreflectively or unconditionally embraced. Electoral calculation was at the heart of New Labour's approach to the single European currency in particular.

In the months leading up to the General Election of 1997, Labour strategists were consciously pursuing a double track in their pronouncements on British membership of the euro. While remaining generally convinced that the Labour Party's abandonment of reflexive anti-Europeanism was electorally advantageous, these strategists were equally mindful of the need to protect themselves from accusations of uncritical acceptance of every proposal emanating from the European Union. The British electorate might reject the virulent and obsessive tone with which the Conservative Party discussed European issues, but most British voters believed in 1997 (and no doubt still believe) that a determined defence of British interests within the European Union is a primary responsibility of the British government. It was in order to allay such concerns that Mr. Blair echoed before the General Election of 1997 the Conservative government's pledge to hold a referendum before taking Britain into the euro, and shortly before the Election itself published an article in the notoriously Eurosceptic newspaper the 'Sun' telling its readers about how much he 'loved' the pound. New Labour was determined not to jeopardise its favourable electoral prospects by opening itself to the criticism of excessive European enthusiasm. New Labour's 'love affair' with the European Union and specifically with the euro was from the beginning a relationship of calculated self-advantage rather than one of passionate conviction.

New Labour in office

New Labour's rationalistic and politically measured view of the single European currency came to prominence early in the new government's term in office. That minority of New Labour ministers genuinely eager for Britain rapidly to join the euro hoped that the newly-elected government would use some of its immense political capital to hold and win shortly after the General Election a referendum on the principle of joining the euro, the precise date of Britain's accession to the single currency to be decided by the government later. Instead, after a confused and confusing set of discussions between the Prime Minister and his Chancellor, Gordon Brown, the new government adopted a set of five criteria (economic convergence, employment, outside investment, impact on the City, economic flexibility) which it would apply in the coming years to judge whether it was to Britain's economic advantage to join the euro, and only recommend British membership of the single currency if and when these criteria were met. It was stressed at the time and since that the decision whether to join the euro was at least primarily and perhaps exclusively an economic one. In this the government was undoubtedly responding to well-entrenched preconceptions among the British electorate which stress the economic component of European integration and disregard, or even reject, its manifest political aspect.

Formally, the five criteria remain the basis even today of the government's approach to British membership of the single currency. An interim assessment of them was made in 2003, which concluded that the criteria had not yet been met. Apparently the tone and terms of this assessment were matters of long and acrimonious discussion between the Prime Minister and his Chancellor. Immediately after the assessment was completed, a minority of commentators claimed that its contents opened the way for a relatively speedy entry into the single currency by the United Kingdom. Later remarks by the Chancellor and, more recently, the Prime Minister, have shown how little substance there was in these hopes. It is now very clear that British membership of the euro is at the earliest a number of years away, perhaps as many as the ten years mentioned recently by Kenneth Clarke, a former advocate of early membership. But since their formulation

in 1997, the five criteria for British membership of the euro have proved strikingly helpful to the political positioning of the New Labour government. They are sufficiently elastic and general to be interpreted either as barriers or gateways to the single currency. Above all, they have been admirably adapted for use as an argumentative weapon in the government's domestic political controversy with the opposition parties.

Until recently, the Prime Minister in particular regularly presented the position of his government as equidistant between two misconceived and extremist attitudes, represented respectively by the Conservative Party and the Liberal Democrats. For Mr. Blair, the former Party sinned by refusing ever to join the single currency, even if it was economically advantageous to do so; the latter by advocating membership of the euro even if contrary to Britain's economic interests. For his government, the Prime Minister insisted, the matter was not one of doctrine or ideology, but rather a pragmatic decision to be taken in the light of evolving economic circumstances. This was 'a view well attuned to British public sentiment in the late 1990s, when the euro was first set up. The British electorate was clearly uneasy at the prospect of ruling out for ever membership of the single currency but equally deeply hesitant before taking the decisive step of engaging further in European monetary and political integration through membership of the Eurozone. New Labour's Janus-like commitment to the five 'criteria' for euro membership was a successful 'triangulation' between the contrasting views of its political opponents, which faithfully mirrored the uncertain attitude of the British electorate.

It has often been claimed that the Prime Minister is emotionally more committed to Britain's eventual membership of the euro than is his Chancellor, and that the Chancellor in his turn has used the issue of the single currency as a weapon in his joust with Mr. Blair to ensure his early succession to the Premiership. There is good reason to believe both these claims. New Labour's approach to the European single currency has been a matter not merely of political positioning by the Labour Party, but also of political positioning within the Labour Party. As the custodian of the five 'criteria,' Mr.

Brown has been able to stress his own independence of the Prime Minister by thwarting any desire of the latter to declare the 'criteria' met. Indeed, he has gone further, making more difficult the winning of any eventual referendum on the euro by his frequent and well-advertised diatribes against the European Commission, the supposed economic inflexibility of Britain's neighbours and the iniquities of the European budget. The Prime Minister has been unable to mobilise the determination or perhaps even the political capacity to overrule his Chancellor. No doubt many of his advisers were counselling him that a rupture with the Chancellor over European issues was politically dangerous ground on which to provoke a conflict. The need to preserve the internal and external political equilibrium of New Labour has clearly taken precedence in his calculations over any personal inclination he may have, or have had, to move to quick resolution of the single currency issue.

Conclusion

One frequently-voiced criticism of New Labour as a political philosophy is its supposedly reactive nature, its over-emphasis on following existing public opinion as determined by polling or focus groups. The government's friends would point to at least one major policy of recent years contradicting this criticism, namely Iraq. They would not, however, be able to cite European policy as an argument to establish their case for a New Labour party defying and moulding public opinion. On many occasions since 1997, press reports have claimed that the government, and the Prime Minister in particular, was resolved upon a systematic campaign to change increasingly hostile British attitudes towards the single currency. No such campaign has ever been mounted or even seriously attempted. New Labour has not tried to win the argument in favour of British membership of the euro and failed. It has not made any serious attempt to promote this argument. Given the purely instrumental role allocated to European questions by New Labour's political philosophy, this outcome is perhaps less surprising than it has appeared to many observers over the past decade.

In that decade, the political debate concerning British membership of the euro has revolved essentially around two poles, the pole of those hostile to British membership of the euro and the governmental position which could envisage, but would not seek to promote Britain's joining the European single currency. The former pole of debate was well-financed, favoured by important elements of the media, and supported by the official Opposition. The latter pole was only intermittently promoted by a divided government, which was at least as interested in exploiting the divisions of its Conservative opponents and scoring Parliamentary points against all its political opponents as in securing British membership of the single currency. From the beginning, the New Labour government's commitment to the euro has been tentative, conditional and instrumental. It is unsurprising that in the contest of ideas with those who propagated a clear message against British membership of the Eurozone, the latter have marked a clear victory.

With the demise of the European Constitution, which on occasion the Prime Minister seemed to regard as an opportunity to combat the Euroscepticism which has flourished so vigorously under his Premiership, the interest of New Labour in the European Union seems at an unprecedentedly low ebb. This disengagement has been reinforced by the realisation of many in the current government that winning a referendum on the Constitution in 2006 might well have been an impossible challenge. There is little appetite in their ranks to run the gauntlet of another referendum on Europe in the foreseeable future. When, in order to deprive the Conservative Party of a tactical advantage in the European Elections of 2004, Jack Straw persuaded the Prime Minister to reverse tack and promise a referendum on the European Constitution, he was taking a definite risk. The success of that gamble, arising from the rejection of the Constitution in the French and Dutch referendums, could not be guaranteed to repeat itself in two or three years' time.

The disappearance of the European Constitution in its present form is not the end of the evolving process of European integration. In the single market, in matters of internal security, in monetary policy and even in foreign policy, an institutional and political momentum

exists which is far from having run its course. Mechanisms are already in place whereby Britain can if it wishes participate only partly or not at all in these developments. But the price of this semi-detachment is that for the foreseeable future this New Labour government will be unable to secure for the United Kingdom (except perhaps in the field of foreign policy and probably in the field of defence policy) any leading or determinant role in the scope and pace of further European integration. The development of the euro's structures of governance in particular will take place without any significant British contribution to this process.

This ambiguous position may well be an outcome with which the great majority of the British electorate are content to live indefinitely. But two unfavourable possibilities for the long term should not be entirely discounted, namely that the continuing integration of the European Union without Britain develops in a way inimical to British interests; or that European integration without Britain is so economically and politically successful that Britain will wish in ten years time to 'reconnect' with the European mainstream on terms less favourable than it might have achieved but for its hesitation. If the government confronting this latter circumstance were a Conservative one, and the Prime Minister seeking to join the European single currency a Conservative, the irony of the situation would be palpable. Until Mrs. Thatcher it was the Conservative Party which in British politics was the primary advocate and initiator of Britain's whole-hearted membership in the European Community. The move towards radical Euroscepticism in that party, stopping only just short of calls for withdrawal from the Union, has created a new equilibrium (disequilibrium) in British political discourse on the European Union. This new equilibrium (disequilibrium) may now seem a permanent element of the British political scene. Nothing, however, is permanent in democratic politics. Europe may well still have surprises in store for the British political parties and their leaders.

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