



<b>Explaining British Policy on the Euro</b>
<b>David Howarth</b>
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<b>Keywords</b>
UK, Euro, EMU, media; pluralism, political parties, public opinion, national autonomy, political science
<b>Abstract</b>
Four overlapping analytical frameworks focusing upon domestic British politics are applied to explain the detailed development of the policy on the euro maintained by the Conservative Government then Party in opposition and the Labour Party opposition and then Government: intra-party politics; inter-party politics; public opinion and the nature of British democracy; and neo-pluralism (competing economic and other interests). This article posits that British government - and in particular Labour Government - reluctance to hold a referendum on euro membership and actively push a pro-euro policy can be best explained in terms of ideologically infused intra- (rather than inter-) party politics and the realities of pluralist politics, while explanations rooted in an analysis of public opinion are less helpful.
<b>Kurzfassung</b>
Vier überlappende analytische Rahmen, die auf die britische Innenpolitik fokussieren, werden angewandt, um die detaillierte Entwicklung der Politik zum Euro zu erklären, wie sie von der konservativen Regierung (später Oppositionspartei) und der Labour-Oppositions-Partei (später Regierung) sowohl als innerparteiliche Politik, Politik zwischen den Parteien, in der öffentlichen Meinung und der Natur der Britischen Demokratie als auch im Zuge des Neoliberalismus (im Wettkampf mit wirtschaftlichen und anderen Interessen) verfochten wurden. Dieser Artikel postuliert, dass die Ablehnung der britischen Regierung – und insbesondere der Labour-Regierung, ein Referendum zum Euro-Beitritt abzuhalten und eine Pro-Euro-Politik aktiv zu forcieren, am besten als ideologisch durchgedrungene innerparteiliche (vielmehr als zwischenparteiliche) Politik und Realität pluralistischer Politik erklärt werden kann, während sich Erklärungen, die auf einer Analyse der öffentlichen Meinung basieren, als weniger hilfreich erweisen.
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## 1. Introduction <sup>↑</sup>

British entry in the Third Stage of EMU and adoption of the euro to replace the pound has been one of the most divisive issues in British politics since the debates on the ratification of the Maastricht Treaty. The start of Stage Three, the worrying slide of the exchange rate of the euro and the debates on the application of the Stability Pact rules exacerbated the intensity of the debate. This article examines four leading domestic political explanations of British policy on the euro: intra-party political (ideological divisions and leadership battles), inter-party political-electoral, public opinion focused, pluralistic (interest group). Other explanations have been posited by various academics including: structuralist (Talani 2000a & b, George 1998 and Young 1999); ideological-economic (Blair 2002); geo-strategic (George 1989); ideological-nationalist (Berrington and Hague 1998; Blair 2002; Rawnsley 2001; Seldon 2001; Young 1999 and Wilks 1996; with Risse 2003 writing on identity politics and the euro); and liberal intergovernmentalist (Moravcsik 1998). While ideology – notably views on the nation state, European integration and on economic matters – infuses the domestic political debate, ideological explanations for British policy on the euro are not explored here. The degree to which the economic debate on British participation in EMU – with the arguments against tending to gain the upper hand in British academic and political debate – is also not examined here. (See Forder and Huhne (1999) and Blair (2002) for a rehearsal of these arguments and the latter for a further analysis of the economic debate). This article posits that British government – and in particular Labour Government – reluctance to support British membership of EMU can be explained more in terms of ideologically infused intra- (rather than inter-) party politics and the realities of pluralist politics, while explanations rooted in an analysis of public opinion are less helpful. The article also compares the relevance of the four domestic political explanations of British policy with regard to the positioning of respectively the two largest political parties in the country: (New) Labour and Conservative (Tory).

Much has been written of Britain's 'awkward partner' (George 1989) or 'semi-detached' (Bulmer) status in the country's relations with Europe (see also Baker 2001, 2002; Baker and Seawright 1998; Bishop 2003; Hale 1999 and Young 1999) and a diversity of explanations for this 'awkwardness' have been provided. Numerous examples serve to illustrate British scepticism towards European integration: from the decision not to join the original communities in the 1950s, the demands for a renegotiated terms of entry, the budget rebate debate of the early 1980s, to the opt outs on the social protocol and EMU in the Maastricht Treaty and obstructionism in EU policy-making during the BSE ('mad cow') crisis. The very large majority of British politicians – Labour, Conservative or Liberal Democrat (the third, relatively pro-European party) – oppose any form of European federalism. Most Conservatives, many Labour and even many Liberal Democrat politicians have been principally interested in (or, in the case of left-wing Labour, opposed to) the EU as a regional free-trading bloc. The transfer of policy making to the EU level in most areas has been opposed by British governments and, when accepted, only at an intergovernmental level.

For Young (1999, 492), Prime Minister Tony Blair's favourable but hesitant position on the euro simply demonstrates the traditional European policy line of British political leaders 'who ... were sceptical about the success of the weird integrationist scheme, and argued that we must wait and see if the Common Market worked, which it probably wouldn't'. Thus, the Prime Minister's announcement in the Autumn of 1997 not to participate in the euro from 1 January 1999 reflects 'the politics ... the culture and the psychology' of the United Kingdom (493). Explaining Conservative and Labour government policies on the euro in terms of this traditional 'reluctance' and 'awkwardness' leaves many questions unanswered about the details of British policy.

## 2. An overview of Conservative and Labour government policy



On the euro, Conservative government policy prior to 1997 was to forward an alternative policy for monetary integration and then, when this had clearly failed to win over the other European governments, demand a British optional opt-out from Stage Three (thus accepting the macroeconomic convergence of Stage Two but refusing the single currency) with a 'wait and see' policy, according to which the success of EMU and Britain's outsider position would be evaluated once EMU began (Stephens 1996). Under the leadership of John Major, the Conservative government initially maintained a 'non-position' on the euro, not ruling out a referendum prior to the start of stage three of EMU (in 1997 or 1999) but not promising one either (George 1998), publicly believing and hoping that the project would collapse. In the Spring of 1996, Conservative Central Office (not the government) stated in a protocol that *if*, following the 1997 elections, it adopted a position in favour of the euro, it would then hold a referendum prior to British entry. This was not much of a commitment on the matter. 'Wait and see with extreme scepticism', one leading commentator has called the Conservative position (Young 1999, 467). In the meantime, many Conservative MPs fought the 1997 election with a 'never' policy on the euro. In opposition since 1997 – under the leadership of William Hague, then, from September 2001, Ian Duncan Smith (IDS) and then, from November 2003, Michael Howard – the Conservative leadership's position became more rhetorically hostile to membership, demanding an immediate referendum on the euro, criticising the Labour government's 'five economic tests' established ostensibly to determine the appropriate timing of British entry (see below) and promising a no reconsideration policy for the life of the next Conservative government and then a policy shift only following a referendum in the life of the subsequent government. Interestingly, official Conservative policy has *never* promised to seek to keep Britain out of the euro-zone indefinitely.

In opposition, the Labour party during the early 1990s was very much in favour of British participation in stage three of EMU. Enthusiasm moderated after the forced British departure from the Exchange Rate Mechanism (ERM) of the European Monetary System (EMS). The party (as 'New Labour' under the leadership of Tony Blair from July 1994) only embraced the idea of a referendum on the issue – on which Blair would personally campaign for the 'yes' side – a few months after the change in Conservative party policy on a referendum in 1996. In the lead-up to the 1997 elections, Blair became even more cautious in his pro-euro rhetoric. Once in government from June 1997, Blair balanced carefully between an enthusiastically pro-'Europe' rhetoric, a cautiously pro-euro position and a hesitancy on setting a date for a referendum on the matter. The announcement in the week following the election of the decision to render the Monetary Committee of the Bank of England autonomous suggested strongly that the new government was preparing the country for eventual membership. However, on 27 October 1997, the Labour Government made a clear pledge not to join EMU during the life of the government until following elections in 2001. Gordon Brown, the Chancellor of the Exchequer, told the House of Commons that disjunctions between the British and EU economies prevented any rapid move to British membership but also that membership should take place if the economic benefits were 'clear and unambiguous' which signposted the priority of politics in any future decision on the euro! Brown called for government efforts to align the British and EU economic cycles but also efforts to prepare public opinion for eventual membership. The government sought to legitimize its policy with a veneer of economic analysis, allowing a referendum on the policy only once its five economic tests had been satisfied (as determined officially by the Treasury) (Treasury 1997).(1) These five tests comprise the following:

- 'whether there can be sustainable convergence between Britain and the countries of the single currency;
- whether there is sufficient flexibility [in the British economy] to cope with economic change;
- the effect on investment [in Britain];
- the impact on [Britain's] financial services industry;
- (and) whether [euro zone membership] is good for employment'

The continued cyclical divergence of the British and continental European economies could stand as a perpetual reason to block British membership. A 2000 OECD study of the British economy suggested that on 'several scores ... Britain is projected to be as close, or even closer to the economic centre of the euro than some of the current 'ins' and several respected British economists have concurred.(2) However, this degree of convergence did not lead the government to conclude that the test had been satisfied. On 9 June 2003, the Chancellor of the Exchequer, Gordon Brown, presented the Treasury's 18 reports on the five tests to the House of Commons, concluding that only one of the criteria had been met – the success of British financial services in adjusting to EMU – but that progress was being made in meeting the others. Gordon Brown and the Treasury defended the reports as the 'best application' of economic theory to a public policy decision in the history of British government'. It certainly cost more ink and paper than any previous Treasury study. However, the reports also conveniently embody the full ambiguity of the Labour Government's policy of 'Yes in principle but only when the timing is right', postponing any decision on holding a referendum until after the next legislative elections at the earliest following a further assessment.

The five economic tests conform in many respects to the conditions laid down by the Major Government prior to the 1997 elections. However, since the elections, the rhetoric of the two leading parties has been markedly different: Tory, the rather negative and pessimistic 'wait and see'; Labour, the more positive and cautiously optimistic 'prepare and decide' (Blair 2002). There have been two principal differences in real policy between the two parties: engagement to convince the public and precision.

First, the Labour Government is – at least officially, if not much in practice – committed to leading a change in public opinion on the euro. Second, the Labour Government has outlined specific plans for the move by the UK to membership in EMU. Brown set up the Business Advisory Group (BAG) in late 1997 to examine the practical implications of EMU.<sup>(3)</sup> The Treasury's Outline National Changeover Plan of February 1999 (Treasury 1999) – modified by a revised second plan in March 2000 (Treasury 2000) presents a draft timetable for joining, the central government's preparations to date and to come, and recommendations to a number of sectors of the economy to prepare them for membership (the preparation among British business for EMU membership is acknowledged to be 'poor'). The 18 Treasury reports of June 2003 also propose necessary developments in the British economy to enable four of the five tests to be met in the upcoming years. As one practical step, Gordon Brown hired the services of a professor of economics at Imperial College to looking into encouraging the use of longer-term fixed rate mortgages which would diminish the impact of accession to the euro-zone on the UK housing market and economy.

### **3. Intra-party politics: ideological squabbling and leadership manoeuvres** <sup>↑</sup>

Aspinwall (1999) examines the impact of the British electoral system to explain the reluctance of the two largest parties on the most sensitive European questions. The First-Past-the-Post (plurality / single-member district) system contributes to the deep divisions that plague the Conservative and Labour parties on the Europe issue. The FPTP system penalises small parties (without a regional vote concentration) while favouring the two dominant parties which remain broad churches of opinion. Much of the anti-Europe opinion on the left and the right will remain in the two main parties. This anti-integration opinion cannot be ignored by Labour and Conservative leaderships: they still need these voters and party supporters to secure parliamentary majorities, especially because euro-phobes and sceptics are more likely to turn out to vote than the euro-agnostics. Both Labour and the Conservatives must tolerate a degree of internal dissent and both must tailor at least some of their programmes and policies towards these supporters. This is especially true for the Conservative party (Berrington and Hague 1998) but Labour must also still play this game with its left-wing and some of the affiliated trade unions such as the RMT (transport union) (Gamble and Kelly 2000). Major and Blair both embraced a policy centred on economic appropriateness and a referendum in order to defuse the divisiveness of the issue within their respective parties.

Currently the divide between pro and anti-euro factions within the Conservative Party is very heavily weighted in favour of the latter, with very active anti-euro groups with large memberships – notably Conservatives Against a Federal Europe – opposing less active groups with less membership, including the 'Tory Reform Group', 'Conservative Group for Europe' (Leon Brittan) and the 'Tory Europe Network' (which Kenneth Clark launched in the *Times* on 14 May 2002). Although less divided than the pre-1997 Conservatives on the question of the euro (Gamble and Kelly 2000), there persist important divisions on the euro question within the Labour government and backbench. These divisions were given organisational form in 2002 with the creation of polarised party groups: the pro-euro 'Labour Movement for Europe' and its rivals the 'Labour Euro-Safeguards Campaign' and 'Labour Against the Euro'<sup>(4)</sup> set up in early 2002, which makes the establishment of a more committed Labour government policy line more politically problematic than would have been the case in the government's first term.



The divisions within the two major parties relate to on-going battles for leadership, with regard to which European issues (and in particular the euro) have considerable relevance. This is most obvious in the Conservative party. Throughout his period as Prime Minister, John Major was plagued by constant challenges to his leadership led by anti-Europeans because of his support for the Maastricht Treaty (Young 1999) and sought to weaken the challenge to his leadership through the adoption of the 'wait and see' policy. The democratisation of the Conservative leadership selection process in 1997 pulled the party leadership in a considerably more Eurosceptic direction better reflecting the views of the ageing party rank and file which is overwhelmingly hostile to euro membership.<sup>(5)</sup> William Hague and Ian Duncan Smith (IDS) adopted a strong anti-euro (and anti-EU: 'in Europe; not run by Europe') rhetorical position (being selected over the more experienced and well-known pro-euro / EU contenders Michael Portillo and Ken Clark). It is particularly demonstrative of the relative importance of intra-party squabbling that IDS based his leadership campaign on an anti-euro / EU stance even though Hague's strategy to focus on European issues during the 2001 national elections clearly backfired (see below).

Disagreements persist between the two leading Labour government actors on the euro. The quality British press has dedicated a considerable amount of attention to the relationship between the Chancellor of the Exchequer Gordon Brown and Prime Minister Blair as a determining variable in the euro referendum debate. Brown has long coveted the leadership of the Labour Party and the post of Prime Minister and has always felt that Blair usurped the position from John Smith's rightful heir as many in the Party desperately sought to appeal to the wavering voter of Middle England. Although Brown joined Blair to establish the pro-Euro / Europe campaign group Britain in Europe, Blair has been widely reported as the more pro-euro / European of the two (Blair 2002). Despite Blair's growing public support for British entry, it is claimed that Brown has repeatedly demonstrated his reluctance, most notably, through his reported 'non-commitment' at Treasury Select Committee sessions on the euro in February 2003 (Miles 2004).

The use of the five economic tests has reinforced the power of Brown over the timing of any future referendum, essentially giving the Chancellor of the Exchequer 'a veto over if and when the government recommended entry' (Stephens 2001, 201). Moreover, the use of the tests has also reduced divisions in the Labour Government, notably between Brown and the pro-euro Foreign Secretary, Robin Cook. It has been claimed that Brown has the final say on the holding of the euro referendum but that he has not chosen to allow a referendum given the danger that it could create for his ambition to become Prime Minister. Tony Blair, bearing in mind the fate of the Conservative Party during the 1990s, was concerned by the potential divisiveness within the Labour party that the euro issue could create. Blair sought to suppress Cook's enthusiasm for the euro so as to prevent these divisions (See, for example, comments in the *The Guardian*, 8 July 2000). It is very likely that the replacement of Robin Cook as Foreign Secretary – an otherwise highly respected Foreign Secretary – in the June 2001 cabinet reshuffle with Jack Straw owed in large part to the former's strong and vocal pro-euro position and the latter's cautious Euroscepticism. In fact, all the foreign ministers were replaced with more cautious Eurosceptics, including the new Minister for Europe, Peter Hain. Blair sought to maintain unity in the government between the Chancellor of the Exchequer and other leading ministers on the euro question. If the Prime Minister might have previously been interested in pressing Brown on a referendum, since the Iraq invasion – and the considerable drop in support for his leadership within the Labour Party and the country at large – Blair is now in no position to force a euro referendum if Brown remains opposed.

## 4. Inter-party politics <sup>↑</sup>

The inter-party electoral competition dimension of the euro debates attracts considerable attention in the British press coverage of the issue. The two parties have over the past 14 years demarcated their differences on the euro for partisan purposes. A Downsian analysis (Downs 1957) of Conservative and Labour party euro policy would suggest that that the two leading British parties, competing for a large number of the same voters, would, acting rationally, embrace policies which correspond to the views of the majority of the voting population. A Downsian analysis provides a useful explanation of the shift in Labour policies in the 1980s on macroeconomic policy-making and European integration in terms of the party's attempt to appear more credible to the majority of British voters after its poor record in government in the late 1970s and left-wing turn in opposition under the leadership of Michael Foot (Daniels 1998). On the euro, Conservative opposition but also the hesitation of the Labour government conform superficially to a Downsian analysis, although the marked differences in the rhetorical thrust of Conservative and Labour policies suggests limits to its explanatory use. The considerable emphasis placed on 'saving the pound' by the Conservative government and party in opposition in 1997 appears to go well beyond the moderate opposition of a large number of those who claim that they are opposed to the euro. Tory policy has been shaped by a virulent euroscepticism from within the party – as noted in the previous section – but also by the fear of a loss of votes to right-wing anti-European parties (Ashford 2000; Berrington and Hague 1998; Stephens 1996; Young 1999). The Referendum Party created and led initially by Sir James Goldsmith was committed to an immediate referendum on the Maastricht Treaty / further integration. Many Tory MPs adopted strong anti-euro positions in the 1992 election campaign to see off votes for Referendum Party candidates (Ashford 2000; Berrington and Hague 1998; Stephens 1996; Young 1999). Goldsmith committed 20 million pounds of his personal fortune to the anti-euro cause and his party fielded 550 candidates in the 1992 elections. Although achieving the best showing for a single issue party in the history of British democracy, the Referendum Party only won 3.1 per cent of the vote in 1992 and even less in the 1997 elections. The UK Independence Party which also ran in the 1997 and 2001 parliamentary elections (winning 3 per cent of the vote in the former) was less well-funded but has had more staying power, winning 6.25 per cent of the vote in the June 1999 European Parliamentary elections and three seats (although hardly to the detriment of the Conservatives which did particularly well in those elections).

It is important not to overestimate the extent to which former Conservative voters switched their allegiances because they sought a more specifically eurosceptic option. Many former Conservative supporters had left the party prior to the 1992 and 1997 elections for a variety of other reasons and then selected to vote for the Referendum and UK Independence parties rather than Labour and the Liberal Democrats because European integration was one of their preoccupations (Heath et al. 1998). Moreover, very few seats swung as a result of the Referendum Party's success so Goldsmith's aim to inflict maximum damage on the Conservatives must be deemed a failure. Nonetheless, the fear of Conservative strategists and many individual Conservative Members of Parliament of the loss of Eurosceptic supporters to these smaller parties has contributed to pulling the party in a more determined eurosceptic direction (Ashford 2000; Stephens 1996; Thompson 1996; Young 1999) contrary to the Downsian thesis which would predict a more moderate euroscepticism to correspond to the shift in British public opinion against further integration in the 1990s (Heath et al. 1998).

The consistently hostile opinion of a majority of British voters towards the euro – albeit hostility of a shallow nature for many in this majority – has not convinced the Labour government to abandon its pro-euro rhetoric and commitment to membership. However, the Downsian thesis is apparently corroborated by the Labour Government's exceedingly meek campaign on the euro. Tony Blair has thus opted to ignore the advice of a leading New Labour think-tank, the Foreign Policy Centre, which argues that the euro referendum could be won and demonstrates how (Leonard and Arbuthnott 2001; Leonard 2003; Mortimer and Atkinson 2003). In September 2003, Simon Buckby, the director of the pro-euro Britain in Europe campaign – set up by Tony Blair and Gordon Blair and other pro-euro politicians from the three major parties – announced his resignation, complaining the government was not pursuing a consistent strategy on the euro and failed to do much of anything to lead a change in public opinion: 'one speech every six months does not a campaign make' (quoted in the *Guardian*, 10 September 2003).

A Downsian analysis might still be useful to explain recent Conservative party developments on the euro. Following the election of 1997, the Conservatives under William Hague, responding to demands within the party and the menace of the smaller Eurosceptic parties, became excessively hostile on European matters including the euro, highlighting the party's Euroscepticism above other issues of greater concern to the general voting population. The strong anti-euro ('a vote for Labour is a vote to lose the pound') and more broadly Eurosceptic strategy<sup>(6)</sup> paid off for the Conservatives in the 1999 European Parliamentary elections, given poor voter turnout (at 23 per cent). However, in the parliamentary elections of 2001 – where the large majority of the voting population did not prioritise the euro – this strategy failed to win the Conservatives many votes.<sup>(7)</sup> The 'Europe' issue is important to many voters but not as important as Health and Education in the context of national elections and few voters feel passionate either way about 'Europe'. The political salience of the 'Europe' issue over time also varies a great deal, much more so than the salience of core public services. Periodic debates and discussions on the matter can have a major effect on the public's perception of the issue's importance: anticipation of the Chancellor's speech on euro in June 2003 sparked interest in Europe in May and June, with 22 and 26 per cent prioritising the matter. However, since then the issue has declined dramatically in salience to less than 13 per cent. Prior to the last two national elections, 'Europe' was prioritised by many but fell behind the more immediately salient issues of Health and Education.<sup>(8)</sup> In the lead up to the EP elections in June 1999, 'Europe' was considered the most important issue but only by 37 per cent of the voting age population. In other words, prioritising opposition to the Europe and euro issue during elections might make some electoral sense for the Tories but it is only likely to pay significant electoral dividends in the context of European Parliamentary elections. The Conservative strategy to prioritise hostility to the 'Europe' and specifically euro issue might have been embraced because the Conservatives were unable to credibly challenge the Labour Government on Health and Education. In the population at large the intensity of negative attitudes to the euro is not great: polls consistently show that a large number of those who oppose euro membership could be persuaded in favour of it if it was thought that it would be good for the British economy.<sup>(9)</sup> Thus a Downsian analysis may not be able to explain the intensity of Conservative party anti-euro rhetoric from 1997 to 2003. However, it would suggest that the party would eventually tone down its rhetoric to appeal more to the moderate median voter which is favourable to EU membership but opposed somewhat to the euro.



## 5. Public Opinion: British policy as a reflection of a responsive democracy? <sup>↑</sup>

The assumption of Downsian theory is that public opinion is the most important determining factor shaping the policy of 'catch-all' parties. The Labour Government's constant use of focus groups during its first term in office suggests its responsiveness to public opinion. More recently, however, during the government's second term it has embraced very unpopular decisions and stood by them – on foundation hospitals, the war on Iraq and top-up tuition fees for universities – each stance demonstrating that the government is willing to adopt policies that are far more unpopular than EMU membership. An issue here may be the extent to which the Conservative opposition can transform public frustration with the government on a particular matter into votes: the Conservatives are more likely to be able to do with the euro than these other unpopular policy decisions.

British public opinion on the euro has been consistently negative over the last decade (see <http://www.mori.com/europe/index.shtml> for a full list of surveys since January 1999). Support for EMU rose slightly in the period around the Maastricht Summit of December 1991 – perhaps linked to partisan inspired opposition to the Conservative Government on the matter. The pound's forced exit from the Exchange Rate Mechanism (ERM) of the European Monetary System (EMS) in September 1992 ('Black Wednesday') marked the turning point for public opinion. Poll after poll, including Eurobarometer surveys, have shown a hostile British public.<sup>(10)</sup> If the drop in the value of the euro confirmed the suspicions of many opponents of the euro as to the workability of EMU, the recent rise of the euro in relation to the dollar has not yet had a noticeable effect on opinion. The Eurobarometer poll of 2003 showed only 24% in favour and 63% against British participation in the euro – considerably more negative than in both Denmark and Sweden where populations voted 'no' in their euro referenda. A plurality and frequently majority of the supporters of each of the three major parties (including the officially pro-euro Liberal Democrats) has been consistently opposed to euro-zone membership and in favour of a public debate and referendum prior to entry.<sup>(11)</sup>

The Danish no to the euro (September 2000, 53 per cent against) and the Swedish no (of September 2003, 56 per cent against) – despite overwhelming support of the political class, business and trade union leadership and most of the media – have reinforced perceptions that it is not necessary for the British to join the euro (Miles 2004).<sup>(12)</sup> The results are particularly discouraging for the Labour Government which does not want to embark on a referendum campaign that it is unlikely to win, especially given that it has conditioned holding the referendum on the Treasury's green light based on meeting the five economic tests and an officially pro-euro government position. Likewise, the results of the Swedish referendum result confirms the sensible politics of the Brown's cautious strategy. In the view of the *Guardian* newspaper (15 September 2003): 'Tony Blair's lingering hopes of staging a euro referendum in this parliament were finally shattered'. The failure of the Eurogroup to apply the Stability Pact rules with regard to France and Germany has likely further increased public scepticism with regard to the euro.

However, other polling results suggest that negative public opinion is not an overwhelming obstacle to entry and that public opposition to other government policies is greater and more intense (such as the war on Iraq). While a majority of the public oppose Britain adopting the euro, a large majority (74 per cent) also think that it is very (31 per cent) or fairly likely (43 per cent) that Britain will adopt the euro in the next five years.<sup>(13)</sup> The intensity of feeling on the euro issue has already been mentioned in the inter-party section. However, it bears repeating that polls show consistently that a sufficiently large number of people could be convinced to join the euro if they were convinced that the euro would have a good effect on the economy.<sup>(14)</sup>

Hix (2000) provides the most detailed examination of British public opinion. Voters offer their support for a political system or policy through affective support (ideological or non-material belief in the value of the policy/system) and utilitarian support (when the system or policy increases the material (economic) well-being of an individual. According to Hix, much of the opposition to the euro stems from the affective belief that the euro is not of particular ideological or non-material benefit to the British which suggests the relevance of nationalist sentiment and identity politics combined with affective support for the pound. However, among professional employees and owners of businesses who perceive material gain from the introduction of the euro, utilitarian attitudes prevail. The export oriented business sector is the most consensually supportive group in favour of the euro.

On the other hand, those in the lower paid industrial and service sector jobs and small business owners – less affected financially by currency fluctuations and more preoccupied with the potential difficulties created by the ‘sound money’ dimension of EMU – tend to be more anti-euro, paralleling their counterparts in other EU member states. The persuasiveness of the economic alternatives to the euro and the relatively strong affective support of the British for the pound combine to undermine support for the euro and stoke the opposition.

It is tempting to conclude that public opinion directs policy making in Britain and that British governments are perhaps more responsive than those in Germany where hostile public opinion failed to block support for EMU. In other words, can an approach rooted in an understanding of the unique features of British democracy and policy making as somehow more responsive to public opinion help to explain British policy on the euro? The British have engaged in a lengthy and detailed debate and discussion on the economic merits and demerits of the euro in a variety of fora from the parliament and the political parties to various media, universities and so on. Unlike the interest group and elite-based approach to understanding European integration, an understanding of British policy on EMU could therefore be understood within the framework of popular sovereignty — especially in the insistence upon the need to use referendum.

Such claims are highly contestable.<sup>(15)</sup> There may be preference for wide consultation and debate in British liberal democracy but this has not prevented British governments from appealing to Burkean notion of representative democracy – which is as important to the British conception of parliamentary democracy as popular sovereignty – sidelining public opinion and containing public debate. Moreover, British governments have rarely used referenda in the past. They have done so only on very important matters of change in governance which need the sanction of a public vote to reinforce the legitimacy of the decision: notably, joining the EC (post facto in 1975 on the renegotiated terms of entry) and devolution in Scotland and Wales. Referenda have not been used on other very important issues of governance — no EC / EU treaty since 1973 has been subject to a British referendum, nor have significant developments in British governance such as House of Lords reform. British governments have for the most part opposed the use of referenda seen as crude devices subject to grotesque manipulation and contrary to the Burkean ideal. Conservative governments have never held a referendum and refused to hold one on entry into the EC, even though the three other countries which had negotiated to join with Britain – Norway, Denmark and Ireland – each held one. One should thus appraise sceptically the Conservative Party’s insistence upon a referendum on both Britain’s participation in the euro and any future EU constitution. One must conclude that the Conservatives are now calling for a referendum for reasons unrelated to their preoccupation with popular sovereignty. It is likely that the development of European integration has progressed to such an extent that Conservative leaders are now willing to accept referenda as part of a blocking strategy if only out desperation. Party politics and the ambition to avoid intra-party squabbling on European matters also help to explain the current Tory preference for referenda.

A Labour government held the first British referendum in 1975 principally to prevent a politically debilitating split in the party given that several high profile ministers, the majority of the party's members of parliament and much of the party rank and file were opposed to membership. The Conservative party is in a similar position today. However, this does not help to explain why the Labour government has promised a referendum on the euro, as divisions within the party on EMU and European integration are far less profound than they were on EC membership in the 1970s and 80s. The Labour Party has been more willing than the Tories to use referenda to legitimize significant modifications of governance: holding a referendum on EMU — which obviously involves a significant modification of governance — thus conforms more to recently developed Labour tradition than a Conservative one. Furthermore, the decision to hold a referendum is seen by many in the party as rooted in party strategy to avoid a backlash at the polls were the government to press ahead with euro membership in the face of widespread public opposition in the country. However, the holding of a referendum that the government is likely to lose is also opposed on strategic grounds. While some in the Labour Government leadership may have initially harboured hopes that public opinion could be brought around in favour of euro membership (thus the creation of the lobbying association 'Britain in Europe') the commitment to invest the political resources to accomplish this transformation of opinion has never materialised.

The role of the print media in shaping British public opinion in general and specifically with regard to European issues is subject to considerable academic debate. Firmstone (2003) argues that the division in elite opinion on the euro, the collapse of the left-right divide on the issue and the technical nature of the debate gives the British media a very important role to play in shaping public opinion. The British print media is divided on the 'Europe' and euro issues with more of the leading dailies in favour but circulation of the anti-European integration and anti-euro dailies far greater (see Firmstone 2003).<sup>(16)</sup> This should be juxtaposed with the almost unanimous support for EC membership in the run-up to the 1975 referendum on membership. Of course, some of the broadsheets can present a range of views in their guest commentaries (Kuhn 2000) but the leader editorial comment presents the 'official' position of the paper. The two best selling UK national daily broadsheets have been firmly against: the *Daily Telegraph* and *Times* with over 60 per cent of the national broadsheet circulation between them and almost 1.5 million readers.<sup>(17)</sup> The *Financial Times*, *Guardian* and *Independent* (with a combined circulation of just under a million (970,000)) have been generally but critically in favour of euro membership – while accepting the economic difficulties in the euro-zone (Firmstone 2003) – reflecting a broader Europhilia and in favour of holding a referendum on the matter in the near rather than distant future without the constraint of the five economic tests. The two best selling UK national daily tabloids have been consistently opposed to British membership of the euro-zone, reflecting a virulently antagonistic position on European integration: the *Sun* and the *Daily Mail* with a combined circulation of 5.9 million (August 2003 figures). The *Sun* famously greeted the introduction of euro notes and coins as the 'Dawn of a new Error'. The third, fourth and fifth best selling national tabloids, the *Mirror* (2 million circulation daily), the *Daily Express* (956,000) and the *Daily Star* (929,000) – with a combined circulation of almost 3.9 million – have embraced a consistently positive stance on the euro.

Of particular concern to both the Major and Blair governments was the determined anti-euro position of the press owned by Australian-American tycoon Rupert Murdoch (including the *Times* and the *Sun*, the best selling British tabloid newspaper and also the Sky satellite channels). Murdoch swung the *Sun* and *Times* firmly in favour of a Labour victory in the June 1997 elections and New Labour's preference to retain Murdoch's allegiance encourages caution on the euro issue (Young 1999). Blair's earlier claims to be willing to 'take on' the Euro-sceptic press in a future referendum (*Guardian*, 30 January 1999) should be judged by his caution hitherto on the issue.

Leonard and Arbuthnott (2001) cite the political editor of the *Mirror* group who claimed that the *Sun* and the *Mail* would be the battleground in any future referendum contest and that ‘those that are leading the fight against EMU are obsessed with the subject and have a huge, unbalanced and dangerous influence on the government and broadcasting, especially the BBC’.

## 6. Neo-pluralism: conflicting interests and government policy



Neo-pluralist analyses of British politics tighten our focus upon the role of powerful interests and in particular the Confederation of British Industry (CBI) – the peak association for large British companies – with well-established, albeit informal, connections to the Conservative Party, and the Trade Union Congress (TUC) – the confederation of British trade unions – through its direct influence on the Labour Party with one-third of votes on party policy, financial support and overlap of personnel. On other European policy developments, the CBI actively pushed the Thatcher Government to agree to the Single European Act and Single European Market programme and actively opposed the social policy provisions of the Maastricht Treaty. The CBI adopted a policy in favour of the pound’s entry into the ERM in a majority vote in February 1985 as a means to bring down inflation and interest rates and completing the Single Market. On EMU, the CBI initially presented a critical but neutral policy, insisting that British entry ‘is largely a political decision’ (Confederation of British Industry 1989, 17, quoted in Talani (2000b)) but by 1990, the CBI was considerably more positive, recommending British entry into the ERM to play a full role in discussions on EMU. The CBI adopted a cautiously supportive role on EMU, initially approving the Delors Report but opposing the fiscal policy rules, but then, by 1992, supporting these fiscal rules to ensure convergence.

The TUC was largely responsible for the Labour Party policy shift on European integration in the 1980s, when the Congress was won over to a social democratic vision of European integration presented by the then Commission president Jacques Delors at the 1987 Bournemouth Annual Conference. However, the TUC trailed the Labour Party in embracing the EMU project. After over 17 years of official hostility to British participation in European monetary arrangements, in 1989, the TUC voted to approve British entry in the ERM although there was a split on EMU membership, with the TUC Secretariat in favour but major component unions opposed. Finally, in July 1996, the General Council of the TUC endorsed a report advocating British membership in the proposed EMU. Support was qualified – in favour of a relaxed EMU timetable and flexible application of the convergence criteria – but the TUC had become ‘in the words of John Monks, “more committed to EMU and a single currency than any other national institution”’ (Josselin 2001, 62; see also Verdun 2002). The official support of both the CBI and TUC and keen support from the leadership of these associations has led to the conclusion that ‘[r]arely has there been such wide interest group support [in the UK] for such a major decision of economic policy’ (Gamble & Kelly 2000, 2002). The gap between the CBI and Conservative positions has been marked, whereas the TUC secretariat’s position has very much conformed to that of the Labour Party, while the TUC itself lagged behind the Party in embracing a pro-EMU position. This suggests that focusing upon interest groups is not very helpful in explaining government policy.

However what helps to explain the divergence in views between the two parties and their supporting constituencies is the significant divide between the elite of these organisations and their rank and file which corresponds to a more a generalised division between elite and mass public opinion on the euro (Hix 2000) (elite support for the euro at 60 per cent is double that of mass public support).



The directors of numerous high profile member companies of the CBI oppose British membership in the euro and participate in the well-resourced group 'Business for Sterling' which merged into the no-euro group in 2000 (see <http://www.no-euro.com/howeare/bfs.asp> for a full list of current members). Support for membership amongst the directors of the 500 largest British companies has fluctuated over the past decade, reaching heights of 70 per cent in favour in 1998 with less than half by mid 2003 (*Financial Times*, 15 December 2003). Small and medium sized businesses represented by the British Chambers of Commerce with activities directed principally at the domestic market have adopted an even less favourable position on the euro. In October 2002, asked what their position would be if the Treasury found that the five economic tests were met, 13 per cent would not join under any circumstances, 49 per cent wanted the government to wait and see how the euro developed before joining, 35 per cent would support entry as soon as practicable.<sup>(18)</sup> These figures should be compared to those for CBI members – respectively 15, 31 and 52 per cent – demonstrating division but a more overall confident stance.<sup>(19)</sup>

The rapid rise of the pound in relation to the euro in 1999 and 2000 (from 1.41 euro at the start of 1999 to 1.63 euro 21 months later) resulted directly in several high profile manufacturing closures in the UK yet did not result in any dramatic shift in manufacturing or public opinion or Labour government policy with regard to British participation in the euro. There was considerable lobbying of the Monetary Policy Committee of the Bank of England to cut interest rates and lobbying on the Blair government for British entry into the euro. The collapse of the British Rover Group in August 2000 contributed to the widespread perception at the time that the exchange rate between sterling and the euro was damaging the profitability of British automotive production, deterring foreign investment and damaging British industry more generally. Although automobile production constituted only a small percentage of British manufacturing and economic output, this was a politically sensitive sector of the economy. Rather than modify its policy on the pound, the government sought to subsidise the automobile manufacturers (Jones 2002, 133). Other industries affected badly by the strong pound saw such subsidies policy as insufficient. During the winter of 2000-2001, the management of Corus, the Anglo-Dutch steel manufacturer and former British Steel, without even bothering to explore the possibility of government aid, decided to lay off more than 6000 mostly Labour voting workers citing lack of competitiveness as the principal justification. The government clearly put such high profile closures in the wider economic context with unemployment at its lowest levels since the early 1980s. Many other manufacturing and service sector companies did not suffer irreparable damage. Thus exchange volatility and the considerable appreciation of the pound did not create sufficiently strong political pressure on the government to act on the euro question.

Two of the major component unions of the TUC have consistently embraced strong opposing positions on British participation in the euro-zone – UNISON (the public sector union) and the Transport and General Workers Union (TGWU) – and form the leading components of Trade Unions Against the Single Currency campaign group (TUASC). As Frieden (1991) predicts the sectoral orientation of the trade union broadly dictated the policy line taken, with private sector unions (such as the Amalgamated Engineering and Electrical Union (AEEU)) with members affected by exchange rate fluctuations particularly supportive of EMU and forming a main component of the Trade Unions for Europe campaign group. However, Josselin (2001) points about that the centralised nature of the TUC enabled the secretariat to take a strongly favourable position on EMU despite the opposition of a large number of members. The Labour government, it might be argued, has been more sensitive to the significant division of views in the labour movement. In 1997, the newly elected Blair government rejected the TUC leadership's call to move to quick referendum on EMU. The divisions within the CBI and TUC on the euro can be seen as an example of a more general division in these two organisations on a range of issues (Jones and Kavanagh 1998) and more fluid ties to their former



chosen party which has arguably weakened their influence over the past two decades.

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The attitudes in the financial services sector have been likewise divided between the pros and cons of British entry into EMU siding towards the cons (Talani 2000a & b) with a large majority of directors of leading British banks and other financial services companies consistently indifferent to British participation in the EMU (see for example *Financial Times*, 'City Indifferent to Euro', 5 June 2003) with similar attitudes among the hundreds of foreign banks and companies operating in the city. Negative attitudes reflect the view that British participation in EMU would potentially undermine the City's leading international role. However, there is a pro-euro lobby in the City (City in Europe). Given the importance of the City of London (and the financial sector more generally) to the prosperity of the UK, such attitudes have provided backing for negative Conservative policy on the euro and hesitant Labour Government policy. Reluctance in this sector to participate European monetary integration is long-standing. British Banks and financial services companies were highly sceptical of the merits of British membership of the ERM, although by the late 1980s most approved of British membership but principally as an anti-inflationary device. A majority of City firms were opposed to EMU generally and British participation. The City was concerned that placing the future ECB elsewhere would be a damaging blow to its status as many smaller European banks might leave but this was not enough to ensure support for British participation. Since 1999, the 'City' (financial sector) has adjusted well to the advent of the euro. With only a limited threat of lost business to continental financial centres, the majority of financial firms see no need for Britain to join EMU in order for the City to maintain its position as far and away the leading European financial centre.

Over the past decade several new interest groups have been established by politicians and business leaders opposed to and in favour of British membership in the euro. Unlike the sectoral interests of the CBI and TUC, these single issue groups have been created to shape public opinion specifically on the euro, although in the 'pre-campaign' stage lobbying efforts are directed principally towards the policy and increasingly media arenas rather than waging a full battle for public opinion (Gray 2003). Nonetheless, some very public campaigning has already taken place in particular from the no-side, engaging the services of high profile celebrities. Not all the no-side groups associate themselves with the broader Euroscepticism of, say, the Bruges Group. The 'New Europe' group led by former Labour Foreign Secretary and SDP founder, Lord David Owen, is officially in favour of British membership in the EU (<http://www.new-europe.co.uk/>). Gray (2003) provides a full list of research organisations, campaign coalitions and campaign organisations on the euro issue, part of which is reproduced in table 1. Usherwood (2002) sees these campaign groups as the continuation of intra- and inter-party politics by other means, which if true, would deny the distinct importance of these groups in shaping government policy. However, given the large number of non-political leaders involved in these groups, Usherwood's claim is at best problematic.

#### Table 1

The number of anti-euro groups far exceeds those in favour of the euro, with five umbrella alliance organisations versus only one (Britain in Europe). However, the anti-euro campaigners are more diverse ideologically and form looser alliances (Gray 2003). Although precise figures are not available, the anti-euro groups also spend a great deal more than the pro-euro groups. One anti-euro businessman who has attracted a great deal of media attention is Paul Sykes, having dedicated a large amount of his own personal fortune to the cause as part of the Democracy Movement and the British Democracy Campaign.

The two major pro and anti-euro alliances attract the lion's share of media attention because they are well-resourced and are seen as the principal authoritative sources of information on the euro from the two perspectives. The leading no-side group is the 'No campaign' ([http:// www.no-euro.com/](http://www.no-euro.com/)) which is officially in favour of British membership in the EU, unlike some of the anti-euro groups, but opposed EMU. Formed in 1999 by leading pro-euro politicians from the three largest parties, the 'Britain in Europe' campaign is an umbrella organisation for diverse pro-European and euro groups (<http://www.britainineurope.org.uk>). Currently headed by Colin Marshall, the Chairman of British Airways, 'Britain in Europe' brings together pro-European politicians from all the parties, leading figures from the world of business, trade unions and other sections of society (see the website for a full list of members). Each of these groups is funded by donation and comprises a full time secretariat dedicated to compiling large amounts of information supporting their respective positions and disseminating this information through websites, the media and talks to the public, various organisations and university students. It is problematic to claim that the activities of these groups explain government policy on the euro. However, the energetic 'no-side' – emphasising a 'people versus politicians' campaign – has likely contributed to the Labour Government's caution on the matter. Moreover, research has demonstrated the great impact that referendum campaigns can have on public opinion on British membership especially 'where elites are divided on the referendum issue, where ideological alignments on the issue are unclear and there are low levels of public knowledge on the issue' as on the euro (Gray 2003, 3; Le Duc 2002). There are more constraints imposed on the Britain in Europe group as, created by pro-euro members of the three main parties, it is in a difficult balancing position and cannot push the government too hard on holding a referendum. The former director, Simon Buckby, has called on the government not to chicken out and hold a referendum ('Euro campaign urges Blair to act', BBC News Online, 8 May 2002). However, since the June 2003 announcement of the Treasury Report on the euro and the certainty of a much delayed referendum, the wind is very much out of the sails of this pro-euro group, with donations drying up. As mentioned above, in September 2003, Buckby resigned in protest at the government's inaction.

## 7. The importance of domestic politics

The disinterest and opposition of many important manufacturing and financial companies has an impact on government, which effectively counters the strong support for EMU in both the CBI and TUC leaderships. A Downsian analysis explains some feature of each party's policy given the nature of public opinion on the euro question but the alignment is only partial between median voter attitudes and the policies of the two parties: a less hostile Conservative opposition policy and a more active Labour government campaign to shift public opinion might be expected. Intra-party politics has been of great significance in shaping Conservative party policy and may – through the dynamics of the Blair-Brown rivalry and simmering Euroscepticism in Labour party ranks – explain the current government's delay in holding the referendum. The dangers of the powerful Eurosceptic press and lobby further dissuade government activism on the issue. For the Labour Government in its second term and likely to enter a third, why bother spending a great deal of effort and political capital on a second (even third) order issue even if a majority of public opinion could be convinced to support the euro. Many will be resentful that the government has devoted so much attention and time to an issue that is far less important than the improvement of public services.

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## Endnotes <sup>↑</sup>

- (1) Many commentators (journalists, politicians and academic economists, including Michael Artis in this special edition) have attacked the five tests as overlapping and imprecise.
- (2) OECD (2000) *Economic survey of the United Kingdom*, June 2000, recommendation.
- (3) The BAG includes representatives from business and trade organisations, the Consumers' Association and the Trades Union Congress.
- (4) LATE (Labour Against the Euro) 'holds meetings, uses personal contacts and makes speeches at relevant conferences to influence the Labour movement – both Labour MPs and the trade unions – to come out against the euro. LATE's Secretary John Cryer MP has claimed the group was formed to put pressure on the 'great mass of the Parliamentary Labour Party' as well as on the trade unions, which he views as 'absolutely key in the future of this debate ... because of all their membership.' Speech by John Cryer MP, Secretary of Labour Against the Euro, at the Eighth Congress for Democracy, Church House, Westminster, 1 November 2002. See <http://www.congressfordemocracy.org.uk/> .
- (5) Polls indicate that Conservative Party voters are far more likely to oppose British participation in the euro (see for example, 25 June 2000 MORI, Commissioned by News of the World <http://www.mori.com/polls/2000/notw000623.shtml> .
- (6) Hague even went so far as to embrace a 'pick and choose' approach to the *acquis communautaire* and the party manifesto claims that the 'Conservatives [would] be the only major party fighting the next election determined to stop the surrender of our most precious right as a country – the right to govern ourselves.'
- (7) For a full list of MORI polls over the past three decades on the public's views of priority political issues see <http://www.mori.com/polls/2003/mpm030916-top.shtml> .
- (8) In June 1997, Europe was important at 30 per cent but well behind Education and Health at 45 and 51. In June 2001, Europe was important at 24 per cent but well behind Health, Education and Crime with Health reaching 58 per cent.
- (9) This also applies for those who support British adoption of the euro. Since 1996, 'waverers' (those that could be persuaded to change their minds and vote in a referendum) range from 42 per cent of the population to 59 per cent. See <http://www.mori.com/europe/euro-participation.shtml>
- (10) For a recent Eurobarometer survey of opinion see [http://europa.eu.int/futurum/documents/other/oth170603\\_en.pdf](http://europa.eu.int/futurum/documents/other/oth170603_en.pdf).
- (11) For example, a 25 June 2000 MORI, Commissioned by News of the World (<http://www.mori.com/polls/2000/notw000623.shtml>) show results to responses to the following question: 'In a referendum, would you vote for or against Britain replacing the pound sterling with the single European currency?' 64 per cent of those surveyed would vote against with only 24 per cent in favour. This no-vote figure rises to 83 among Tory supporters (only 12 per cent in favour) but also is in a majority for Labour party supporters (51 per cent with 35 in favour) and Liberal Democratic party supporters (56 per cent with only 28 in favour). The same poll also indicated that a majority of voters of each of the three parties wanted a public debate and referendum before joining (57 Conservatives, 63 Labour, 57 Liberal Democrat).

(12) At the start of 2003, the Swedish yes side had a lead of 15 per cent; all the political parties (except the extreme left) and the business groups, most of the trade unions leadership and every major newspaper were in favour (while opposition in the Social Democratic government was silenced). The assassination of the very popular pro-euro foreign minister encouraged a sympathy yes vote.

(13) MORI poll published 1 July 2003; see also <http://www.mori.com/polls/2003/mpm030622-top.shtml>).

(14) See footnote 10.

(15) For a survey of different policy styles in Britain and several West European countries see Jeremy Richardson, ed. (1982) *Policy Styles in Western Europe*, London: Allen and Unwin.

(16) All figures are from August 2003. Audit Bureau of Circulations.

(17) August 2003 figures from the Audit Bureau of Circulations.

(18) <http://www.mori.com/polls/2002/bcc-topline.shtml>.

(19) Mori poll from 1999 cited at <http://www.cbi.org.uk>.

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# Table I

## Groups campaigning for and against the euro in Britain, 1999-2002

(not including party fractions and specifically business and union organisations)

Type of organisation	Pro-euro	Anti-euro
Research organisation (single issue think tanks; focusing principally upon the policy arena)	Action Centre for Europe (Lord Geoffrey Howe)	New Europe Global Britain European Research Group European Foundation
Campaign organisation (coalition/alliance)	Britain in Europe	No Campaign Anti-Maastricht Alliance (AMA) Congress for Democracy The European Alliance of EU-Critical Movements (TEAM) Campaign Alliance for Referendums in Parishes
Campaign organisations (single issue groups)	Citizens for Europe European Movement Young European Movement	Democracy Movement Campaign for an Independent Britain (CIB) British Democracy Campaign Campaign Against Euro-Federalism Freedom Association New Alliance Youth for a Free Europe The Bruges Group Anti-Common Market League

Source: Gray (2003)

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