

# **THE POLITICS OF SOVEREIGNTY:**

## **BRITAIN AND EUROPEAN MONETARY UNION**

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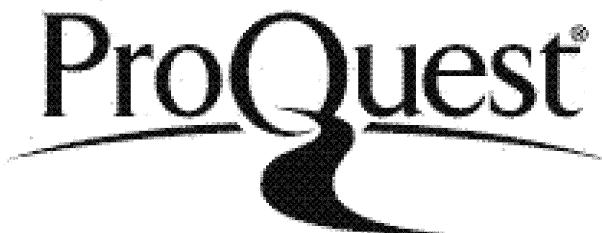


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# **THE POLITICS OF SOVEREIGNTY: BRITAIN AND EUROPEAN MONETARY UNION**

## **ABSTRACT**

**Raymond Keitch, PhD International Relations, London School of Economics**

The thesis examines the interrelationship between conceptions of British sovereignty and European Economic and Monetary Union (EMU). The central argument advanced is that the multiple discourses of sovereignty generated in the political debate have been a key influence in understanding British government policy on EMU. Before 1997 both Conservative government policy and Labour opposition policy on EMU was marked by an overall “wait and see” approach and a referendum commitment. After 1997 there was a divergence between the “Yes subject to economic tests” policy of the Labour government and the “No for two Parliaments” policy of the Conservative opposition. The multiple discourses of sovereignty focused on the locus of sovereignty (executive, parliamentary or popular) and the divisibility of sovereignty (pooling, differentiated or absolutist). These discourses taken together influenced policy in a number of identifiable ways.

Initial chapters outline the epistemological approach of discourse analysis, the interpretation of sovereignty as a social construct and the serious challenges of EMU to British conceptions of sovereignty. The relationships between the discourses of sovereignty and government policy on EMU are examined in the political debate from the Maastricht ratification process in 1992/3 to the aftermath of the European election of 1999. Five arguments are advanced. Firstly, the discourses of sovereignty reinforced the cautious “wait and see” policy. Secondly, sovereignty was a key component of Conservative divisions, which influenced Conservative government policy (1992-1997). Thirdly, Conservative divisions, arguments on popular sovereignty, and reaction by the Labour opposition fostered the referendum commitment by both major parties. Fourthly, the referendum commitment itself strongly influenced Labour government policy (1997-2001). Finally, the alternative discourses of pooling and absolutist sovereignty between the two major parties prefigured the 1997 policy divergence. Other factors influencing government policy on EMU are considered. The conclusion stresses the key influence of the multiple discourses of sovereignty.

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## **INTRODUCTION: THE POLITICS OF SOVEREIGNTY**

### **Primary Thesis**

This thesis examines the interrelationship between European Economic and Monetary Union (EMU) and conceptions of British sovereignty.<sup>1</sup> The focus is on the British political debate during the period between the formalisation of EMU in the 1991 Maastricht Treaty of European Union and the aftermath of the British European election in 1999. EMU has raised a series of issues related to British sovereignty which have led to heated political debate. These issues include monetary sovereignty over interest and exchange rates, fiscal sovereignty over taxation and public expenditure, institutional sovereignty in terms of the new European Central Bank (ECB) and ultimately Britain's status as an independent nation-state. The sovereignty debate itself influenced government policy on EMU.

The central thesis advanced is that the multiple discourses of sovereignty engendered by the political debate were a key influence on British government policy on EMU. Many conceptions of sovereignty were utilised during the debate. On the dimension of the divisibility of sovereignty the discourses ranged from an absolutist discourse of sovereignty surrendered to the idea of sovereignty being functionally differentiated (between say monetary and defence issues) through to the idea of pooling or sharing sovereignty. On the other dimension of the locus of sovereignty, the discourse ranged from executive sovereignty through Parliamentary sovereignty to the wider idea of popular sovereignty. Far from weakening the impact of sovereignty, the multiple discourses have strengthened its impact like the many strands that constitute a rope.

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<sup>1</sup> An initial note on terminology. EMU is used throughout this book for Economic and Monetary Union and is used synonymously for the more popular term "single currency" unless indicated otherwise. EU is used for European Union and is used except where historical or other circumstances require an alternative term. Britain is used throughout the thesis as a synonym for the United Kingdom.

British government policy on EMU displayed a number of characteristics. The strand of continuity throughout is the general caution displayed by both the Conservative government under John Major (1991-1997) and the Labour government (1997-2001) under Tony Blair. This caution was marked from the beginning by the British "opt-out" in the Maastricht Treaty, the general espousal of a "wait and see" approach and the decision not to join the first wave of EMU members in 1999. Another strand of similarity between the policies of the two main parties was the 1996 decision to grant a popular referendum on the specific issue of ultimate British membership of EMU. Underneath this apparently similar policy surface were marked differences in the detailed policies of the two main parties. The Conservative government stuck, with increasing difficulty, to the "wait and see" policy until their defeat in the 1997 General Election. The Labour opposition supported EMU membership in principle but stressed economic obstacles to British membership. After the 1997 General Election a clearer policy divergence emerged between the two main parties. The Labour government explicitly rejected a constitutional barrier to EMU (whilst rejecting early membership) and the Conservative opposition rejected EMU membership for two Parliaments.

How did the multiple discourses of sovereignty relate to British government policy on EMU? The relationship is both a complex and a dynamic one. Five particular arguments are made in this thesis. Firstly, the general policy characteristic of caution reflected a failure by both the Conservative and Labour governments to openly address the issues of sovereignty raised by EMU. Secondly, the divergent discourses of sovereignty used by the two main parties were ultimately reflected in different policies on EMU. The Labour discourse of pooling sovereignty made it easier to support EMU membership in principle. The Conservative attachment to an absolutist conception of sovereignty created larger barriers to EMU membership. The third argument made stresses the importance of sovereignty in deepening the divisions over EMU within the Conservative party,

especially during the Maastricht Treaty ratification process in Parliament. The agenda on EMU was set by an absolutist conception of sovereignty vigorously espoused by the Eurosceptic wing of the Conservative party. This created deep divisions in the party and a gradual drift in government policy in a Eurosceptic direction. Closely related is the fourth argument that the increasing influence of the Conservative Eurosceptic wing led the Conservative government to propose a referendum in 1996, shortly followed by the Labour opposition. However, there was also a wider feeling that EMU was such a key issue that a referendum was a necessary expression of popular sovereignty. Both approaches reflected the influence of the sovereignty discourses. The final argument made is that, whatever the motivation for the referendum commitment, the consistent opinion poll evidence against EMU acted as a continuing constraint on moves in favour of EMU membership by the Labour government. In these ways the “politics of sovereignty”, expressed through the multiple discourses of sovereignty, actively influenced government EMU policy. Other approaches, including geography, history, business interests and economics will be examined but it will be argued that the influence of the multiple discourses of sovereignty was essential for an understanding of British government policy on EMU.

### **Contribution Made**

The primary contribution of this thesis is an interpretive understanding of British government policy on EMU in terms of multiple discourses of sovereignty. The focus is inevitably on the British domestic debate, which remains the primary location of debates on European issues. European issues are channelled through the prism of domestic politics so that, to use Simon Bulmer's phrase, British politics matter.<sup>2</sup> However, the external dimension of European developments is equally significant. EMU itself represented a qualitative increase in the level of integration and, crucially, was a binary decision for EU member states in that you either joined or you did not. In sum, EMU and British sovereignty were key concepts on the border of the internal and the external, of

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<sup>2</sup> S. Bulmer, "Britain and European Integration: Of Sovereignty, Slow Adaptation and Semi-Detachment" in S. George (Ed.), Britain and the European Community: The Politics of Semi-Detachment, (Oxford University Press, Oxford, 1992), p.2.

the domestic and the foreign, which could potentially generate friction. The other subsidiary contributions made are a theoretical refinement in terms of sovereignty and an empirical contribution in terms of the linking of the discourses of sovereignty and British government policy on EMU. The theoretical refinement develops the constructivist approach to sovereignty by emphasising the strength rather than weakness of multiple conceptions of sovereignty. The empirical contribution stresses the explicit analysis of the relationships between sovereignty discourses and EMU policy including original research material (for example, the business cases discussed in Chapter 7). Whilst the emphasis is on the influence of the politics of sovereignty on government policy on EMU the key alternative arguments are also addressed. These include the impact of electoral considerations, economic factors and business interests. A specific chapter (Chapter 7) is devoted to the influence of business interests whilst wider electoral and economic considerations are considered throughout the other empirical chapters (Chapters 4-6).

These contributions are located in three areas of academic literature from which key strands are extracted and refined. These areas are sovereignty, the political economy of EMU and the relationship between Britain and Europe. The academic literature on sovereignty is extremely varied. Whilst an "essentially contested concept", the key elements of the locus of ultimate political authority within a territorial political entity are common to most interpretations. Four groupings of literature on sovereignty will be identified. Firstly, literature which focuses on the legal aspects of sovereignty, particularly on international law. Secondly, a body of literature, arguably the most common, focuses on the political nature of sovereignty, including the extent to which sovereignty has been eroded by developments such as globalisation and interdependence. The third grouping looks at the universal normative significance of sovereignty as a universal principle for political arrangements, albeit favouring a territorial, local solution as seen in the debates on intervention and human rights. The fourth grouping stresses the constructivist nature of sovereignty, which is not a tangible object but a social construct in a specific temporal and spatial context. This thesis follows the constructivist

conception and locates sovereignty in the context of the EU, Britain's relationship with EMU and the challenge of EMU.

The academic literature on EMU has tended to focus on the economic aspects of EMU including such issues as optimal currency areas and central banking arrangements. There is also a considerable literature on the history of EMU from a political economy perspective. Another grouping focuses on the political negotiation process in the EU. A further grouping examines Britain's role in the EMU negotiations. The discussion in Chapter 3 concentrates on the literature that addresses EMU issues with a particular impact on sovereignty. The key points extracted are the political dynamics behind EMU, the historical significance of EMU to the European integration process and the binary nature of EMU which, given its wide initial membership (11 out of 15 member states), meant that it was difficult for Britain to stand aside.

The third body of literature focuses on Britain's relationship with Europe in the post-war period. The key theme here is Britain's semi-detachment from the European integration process. This can be seen historically in Britain's late entry into the European Community in 1972. Even after joining Britain was portrayed as an "awkward partner" due to domestic political constraints such as a sceptical population, real economic problems in adjusting to membership, continued Atlanticism and an awkward negotiating style. The key point extracted is the range of domestic explanations advanced for Britain's "semi-detachment", which must be considered against the influence of the sovereignty discourses.

Having located the EMU/sovereignty debate in three groups of academic literature how is

the British debate extended? The epistemological approach adopted in this thesis is that of a discourse analysis of statements linking EMU and sovereignty. The core chapters analyse the correlation between statements linking EMU and sovereignty and the development of government policy on EMU. This is surveyed for the period from the conclusion of the Maastricht Treaty in 1991 until the aftermath of the European election in 1999. The aim is to specify the relationships between the range of discourses articulated on EMU and sovereignty and government policy as outlined earlier in this introduction. The arguments around sovereignty represented a multiplicity of arguments which extended the debate from EMU 'per se' to the very nature of Britain's relationship with the EU. Policy was marked by a cautious pragmatism by both Conservative and Labour governments and eventually a referendum commitment by both main parties. The focus is on the debate in the political arena but a chapter is devoted to considering the debate in the business arena.

### **Structure of Thesis**

The structure of the thesis deals with the academic literature followed by detailed analysis of the debate in the political and business arenas. Chapter 1 focuses on the epistemological approach used throughout this thesis. The underlying interpretive approach is aimed at "understanding" rather than "explanation". The use of language will be briefly considered and stress laid on the articulation of specific discourses in the light of the wider debate. A key point, discussed in the context of the structure/agency debate, is the importance of competing discourses as opposed to the focus on a hegemonic discourse which has dominated the literature. It is argued that competing discourses, far from weakening the impact of discourse analysis, can gain strength through their multiplicity. The focus will then turn to the relationship between discourse and policy. It will be argued that these are analytically distinct, especially when the discourses are focused on the EMU/sovereignty intersection and policy on government policy on EMU. The need to develop explicit arguments between the discourses and the policy will be discussed along with criticisms of the discourse approach.

Chapter 2 addresses the theoretical discussion on sovereignty. Four perspectives in the literature will be stressed. These are the legal perspective, the political perspective, the normative perspective and the constructivist perspective. The constructivist perspective will be explicitly chosen for this thesis. Whilst key elements of sovereignty including final authority and territory are utilised it is argued that these elements need to be seen in a specific time and place. Sovereignty is treated as a social construct which is developed by key actors within a temporal and spatial context. The context in this thesis is the debate on sovereignty in Britain in the light of EMU. The idea of sovereignty must also be seen against a competing idea or organisation. The discussion of sovereignty is briefly considered in the light of competing perspectives on the nature of the EU. The focus is then narrowed further to a discussion of sovereignty and the EU in relation to Britain.

Chapter 3 addresses the challenges to sovereignty presented by EMU. EMU is considered historically in relation to previous specific monetary unions and wider international monetary arrangements such as the Gold Standard system. The issues raised by EMU will be considered in four main areas. Firstly, in the monetary area the powers of the European Central Bank (ECB) under the Maastricht Treaty will be discussed. Secondly, the impact of EMU on EU fiscal arrangements will be surveyed including the issue of potential tax harmonisation. Thirdly, the institutional political accountability of the ECB will be discussed. Finally, the thorny question of the implications of EMU for wider European political union will be addressed. The last section of this chapter deals with Britain's unhappy relationship with European monetary politics including the Maastricht negotiations on EMU. The basic argument made in this chapter is that EMU is a historically unique process which, at the very least, raises a series of "sovereignty questions" across the monetary, fiscal, institutional and political areas. Whilst the most direct challenges are in the monetary and institutional (in the form of the ECB) arenas EMU also raises the issue of future fiscal and political arrangements within the EU.

The next three chapters examine the interrelationship between the discourses of sovereignty raised by EMU and government policy on EMU. Chapter 4 focuses on the prolonged debates on the ratification of the Maastricht Treaty in Parliament during which the government followed a strict "wait and see" policy based on the "opt-out" obtained in the Maastricht Treaty. The debate featured an organised rebellion by a small but disciplined faction in the Conservative party, supported by Labour rebels, against ratification. This debate generated a range of conceptions of sovereignty thereby setting the agenda for the political debate on EMU. Emphasis is placed on the depth of divisions within the Conservative party which crystallised around a sovereignty/interdependence axis. Whilst the rebels were a small faction they received sympathy from wider sections of the party, other backbenchers and Cabinet ministers. Although ratification eventually proceeded the divisions engendered by the sovereignty debate were to influence government EMU policy until 1997.

Chapter 5 analyses the extension of the debate from the parliamentary sphere to the wider public sphere. This was prompted by the decision in 1996 by both main parties to commit to a referendum on any potential future entry into EMU. The reasons for the referendum decision by both major parties are examined. For the Conservative government the development of the referendum idea over a number of years is stressed in terms of the ongoing desire for party unity prior to the 1997 general election. This was exacerbated by the fear of a pre-emptive move by the Labour party and the launch of the Referendum party. The development of a similar "wait and see" EMU policy within the Labour party is examined together with their own 1996 referendum commitment. This is interpreted as a reaction to the Conservative move amidst the overwhelming desire for election victory. There was also a wider feeling that a referendum was inevitable on such a significant issue as EMU membership. By the 1997 election the discourses on sovereignty of the two

parties were different whilst the policies were essentially similar. An analysis of the 1997 election campaign shows the centrality of the EMU issue in the public sphere, particularly in highlighting continued Conservative divisions.

Chapter 6 examines the period after the 1997 general election focusing on the policy of the new Labour government. The central argument made is that the policy divergence between the two main parties was now aligned with their divergent discourses on sovereignty. Labour accepted EMU in principle, rejected a constitutional bar on membership but set a series of economic conditions which must be met prior to entry at an uncertain future date. In contrast the Conservative opposition under William Hague ruled out EMU membership for two Parliaments. The debates over tax harmonisation, the Euro-X grouping and the actual launch of EMU are discussed. A crucial factor inhibiting a more pro-EMU policy by the Labour government was the ongoing referendum commitment which, given consistent EMU-scepticism in opinion polls, served to constrain policy. This constraint illustrates the linked nature of policy commitments. Labour's 1996 referendum commitment, originally made in opposition as an electoral response to the Conservative government (itself a product of internal party divisions), continued to shape their policy in government.

Chapter 7 focuses on the business debate over EMU, examining the extent to which it has provided an alternative dimension to the political debate around sovereignty. The business debate is traced through the arguments made by leading peak business organisations. The debate has tended to focus on economic factors with an underlying sub-theme as to the overall nature of the EU. Two business cases are outlined to analyse the preparations made for EMU entry. The debate is seen to have largely followed the political debate and became increasingly polarised around pro- and anti-EMU positions. The key demand of business though is for certainty of policy in order to allow

appropriate business planning. Given this demand and divisions within business it is argued that the business debate has tended to be a subsidiary factor in overall government EMU policy.

The conclusion seeks to draw together the main threads of the arguments made in a wider framework. The central thesis that the multiple discourses of sovereignty are crucial to an understanding of British government's EMU policy is stressed by highlighting the five key arguments made. The generally cautious policy of both Conservative and Labour governments is seen as an understandable reaction to the challenge of EMU. Divisions engendered by the sovereignty debate, especially within the Conservative party, are highlighted. These divisions are seen as critical in the change of policy manifested by the referendum commitment of both main parties. Following the Labour election victory in 1997 the environment allowed the policy divergence between the two main parties to be aligned with differing sovereignty discourses. The final argument advanced is that the public scepticism toward EMU which, given force by the referendum commitments, continued to constrain government policy. In these ways the idea of sovereignty was a key influence on government policy on EMU.

## **CHAPTER 1: EPISTEMOLOGICAL APPROACH: DISCOURSE ANALYSIS**

### **Introduction**

The objective of this chapter is to outline the epistemological framework used throughout this thesis. The approach taken is that of understanding government policy on EMU in the light of the meanings given to sovereignty in the British debate. Ideas, like sovereignty, define the universe of possibilities for action and provide a normative set of beliefs.<sup>1</sup> However, their precise meaning needs to be expressed through discourse and discourse analysis is the specific epistemological tool used throughout this thesis. An initial discussion will briefly highlight the distinction made between "explanation" and "understanding". This will be followed by more detailed discussion of the epistemological approach adopted in four main areas. Firstly, the changing nature of the relationship between language and meaning will be briefly examined. Secondly, the use of discourse analysis in the context of other concepts including power, interests, beliefs and values will be discussed in the work of discourse theorists including the idea of competing discourses. Thirdly, discourse will be discussed in relation to the concept of policy. Finally, the specific application of discourse analysis to the EMU/sovereignty debate will be outlined. The value added by a discourse approach specifically for the concept of sovereignty will be enunciated in the light of perceived criticisms of the approach.

### **Explaining and Understanding**

The distinction between approaches of explanation and understanding has been outlined by Hollis and Smith.<sup>2</sup> Explanation is linked to a call for the application of scientific method in constructing knowledge. The tasks of a scientific theory are to abstract, generalise and to connect. Abstraction involves the grouping of similar objects or events. Generalisation involves identifying common characteristics amongst the objects or events

<sup>1</sup> J. Goldstein and R. Keohane (Eds.), Ideas and Foreign Policy, (Cornell University Press, Ithaca, 1993), p.8.

<sup>2</sup> M. Hollis and S. Smith, Explaining and Understanding International Relations, (Oxford University Press, Oxford, 1990).

abstracted. Connection aims to link the characteristics identified in a necessary and constant manner leading to potential cause and effect statements which can be tested by experience.<sup>3</sup> Clearly these general principles of a scientific approach cover a wide range of scientific approaches. The Logical Positivist school argues that the methods of the natural sciences can be related to the social world through the testing of hypotheses by experience and observation.<sup>4</sup> Thomas Kuhn, studying the abrupt conceptual revolutions in science which tended to recur at frequent intervals, argued that scientific thinking takes place within a dominant paradigm. A paradigm is a set of broad, fundamental assumptions and a set of institutional practices within which scientific thinking takes place. These paradigms are subject to change when the fundamental assumptions are undermined by radical new research illustrated by the change from Newtonian ideas of the operation of forces to Einsteinian ideas of relativity.<sup>5</sup> Even given the variety of scientific approaches the common theme is that scientific methods are applicable, albeit in a modified form, to social sciences. Within International Relations this approach is most explicitly followed by the school of Neo-Realism.<sup>6</sup>

An alternative epistemological approach, which is termed "understanding" by Hollis and Smith, argues that social sciences are fundamentally distinct from the natural sciences and must be studied using alternative approaches. They identify four differences between the social sciences and the natural sciences. The first of these is the meanings human beings find in experience, the meaning of which can be given symbolic expression such as a flag at half-mast. The second is the use of language. Thirdly, actions and the context of actions can influence meaning such as the presumption that a deployment of missiles signals a hostile move toward armed conflict. Finally, ideological views and

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<sup>3</sup> Ibid., p.63.

<sup>4</sup> Ibid., p.52.

<sup>5</sup> Ibid., p.59.

<sup>6</sup> See K. Waltz, Theory of International Politics, (Addison-Weseley Press, Reading, Massachusetts, 1979).

preconceptions can influence the views of decision makers.<sup>7</sup>

The differences outlined above have led to a variety of approaches seeking to study social action which can be loosely grouped under the umbrella of "understanding". A range of responses can be grouped under the term, hermeneutics, or the interpretative tradition in social thought. Weber argued that ideas of rationality, in which a rational actor would seek to maximise utility based on perfect information, fully ordered preferences and accurate information processing, could be used as a key concept in understanding social action. He also distinguished between purely calculating instrumental rationality and value rationality which takes account of individual values.<sup>8</sup> A hermeneutical approach is arguably taken within International Relations by the "English School" of Realism seeking to understand how people order their experience in order to interpret the world. An alternative approach, argued by Peter Winch, is that reality itself is constructed, based on the different rules developed by different cultures.<sup>9</sup> Yet another approach is the deconstructionist approach of post-structuralism which seeks to peel away like an onion the layers of constructed meanings. All of these approaches under the umbrella of "understanding" reject the association of the natural sciences with the social sciences.

The discourse analysis approach adopted in this study clearly falls within the ambit of "understanding" as developed by Hollis and Smith. Henrik Larsen has sought to develop the concept of "explication" as an intermediate idea between explanation and understanding. However, his definition of the term as being between explanation and understanding is rather vague. In practice he uses the term almost synonymously with explanation in seeking to explain British policy towards the European Union as a product

<sup>7</sup> Ibid., pp:69-71.

<sup>8</sup> Ibid., pp:75-77.

<sup>9</sup> P. Winch, The Idea of a Social Science, (Routledge Publishing, London, 1958), p.15.

of conceptions of "Europe" developed in political discourse.<sup>10</sup> In this study the explicit approach taken is that of understanding. The idea of sovereignty is clearly a social concept which does not easily fit into models of scientific explanation. The central argument outlined in Chapter 2 is that sovereignty is a social construct contingently developed in the particular time and space of a given community. Discourse analysis is used to examine the range of meanings given to sovereignty in a particular context, namely that of potential British membership of EMU.

### **Language and Meaning**

Before discussing discourse analysis the function of language needs to be briefly discussed. In nineteenth century philosophy the function of language was primarily representative with language and thought regarded as separate activities. Language was an activity with words and thought was an activity with ideas. Whilst words depended on ideas, ideas were deemed to be independent of words. Ideas were treated as standing for objects, properties and relations in the external world as perceived by the senses. Language was only significant as a means of communication between human beings. Language was capable of being misused by use of incorrect words or grammar, especially in translation between two different languages. By implying that language had no direct corresponding link with reality but only an arbitrary, ever changing one the overall significance of language was downplayed.<sup>11</sup>

The representative view of language was challenged from two different disciplines, the linguist Ferdinand Saussure and the philosopher Ludwig Wittgenstein. They attacked nomenclaturism, which seeks to link words with objects (given the idea that certain words "stand for" certain objects, either naturally or in men's ideas about pre-existing

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<sup>10</sup> H. Larsen, Foreign Policy as Discourse Analysis: France, Britain and Europe, (Routledge Publishing, London, 1997), p.32.

<sup>11</sup> R. Harris, Language, Saussure and Wittgenstein, (Routledge Publishing, London, 1988), pp:2-6.

things). Saussure defined language as a "a system of signs held together by chains of syntagmatic or associative relations".<sup>12</sup> Syntagmatic relations are spatial links such as in "my house", whilst associative relations highlight similarity such as "house" and "dwelling". This system of signs is self-contained within the limits of the individual language. Wittgenstein developed a similar theme of language as a network of self-contained signs. However, he used the analogy of games, especially chess, to support his argument. Language, he argued, is a game which requires an overall set of rules in order to function. The rules of the game are self-contained in that there is no need to go outside of the game to understand its operation. Under the games analogy language and thought are inseparable. Saussure used the metaphor of an air ripple on water to illustrate the interdependent relationship between language and thought. The ripple is caused by both the pressure of air and the countervailing pressure of water but only the water is visible. Likewise thought and language are interdependent even though only language is "visible".<sup>13</sup>

Michel Foucault analysed language through an archaeological approach. By archaeology he means;

"...systems that establish statements as events (with their own conditions and domain of appearance) and as things (with their own possibility and field of use)."<sup>14</sup>

Using archaeology Foucault charted epistemic breaks in the philosophy of language. During the Renaissance period language was regarded as part of the natural order of things and was studied for its intrinsic properties (for example, letters, grammar, words, syntax) rather than its meaningfulness. With the Classical age there was an epistemic shift to the idea of language as representing meaning. It had become a separate

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<sup>12</sup> Ibid., p.23.

<sup>13</sup> Ibid., p.30.

<sup>14</sup> M. Foucault, The Archaeology of Knowledge, (Pantheon Publishing, New York, 1972), p.128.

ontological system divorced from overall reality and only served to represent this reality. With modernity language lost its purely representative character and was reinterpreted as a complexly dispersed historical phenomena.<sup>15</sup>

Rush Rhees has developed a revised relationship between language and meaning building on Wittgenstein's ideas. Rhees stressed the role of dynamic conversation. Conversations are inherently open-ended unlike the self-contained nature of the rules of a game. Conversation also connects with things outside the dialogue. The focus on conversation, which must be *about* something, serves to distinguish the use of language in conversation to other uses (such as ordering a cup of coffee). For Rhees the two key elements of conversation are that it is connected with things outside itself and, secondly, that persons involved in the conversation must have something in common. He criticised philosophers who tend to study language apart from an understanding of the lives people lead.<sup>16</sup> In sum, the key point made for discourse analysis is the interdependence between language and meaning with language having a constructive as well as a representative function.

### **Discourse Analysis**

Discourse analysis has been given a variety of meanings by a number of writers. Cook defines discourse as "stretches of language perceived to be meaningful, unified and purposive".<sup>17</sup> Crystal refers to discourse as "a continuous stretch of language larger than a sentence, often constituting a coherent unit, such as a sermon, argument, joke or narrative".<sup>18</sup> The common constituent here is the coherent use of language. Whilst language, in either written or spoken form, provides the primary condition for discourse a

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<sup>15</sup> G. Gutting (Ed.), The Cambridge Companion to Foucault, (Cambridge University Press, Cambridge, 1994), pp:16-17.

<sup>16</sup> R. Rhees, Wittgenstein and the Possibility of Discourse, (Cambridge University Press, Cambridge, 1998), pp:5-17.

<sup>17</sup> G. Cook, Discourse, (Oxford University Press, Oxford, 1989), p.156.

<sup>18</sup> D. Crystal, Introducing Linguistics, (Penguin Publishing, London, 1992), p.25.

distinction is often made between text and discourse. Text is usually confined to any written record of a communicative event. Discourse is seen to refer to the interpretation of the communicative event in context and focuses on the identification and interpretation of regularities and patterns in language in relation to the meanings expressed.<sup>19</sup> Van Dijk, defining discourse as "talk and text in context", traces the spread of discourse analysis across disciplines. He notes ironically that;

"In fact, in this long list of the various discourse disciplines only political science seems to be systematically absent. And yet, it needs little argument that text and talk are central and constitutive parts of the political process."<sup>20</sup>

In this thesis discourse is used as a specific term, following Laclau and Mouffe, as a set of articulations bound by specific rules. An articulation is defined as "any practice establishing a relation among elements such that their identity is modified".<sup>21</sup> The rules that bind together these articulations include those that define the kind of articulations that can legitimately be made and the sort of relations that can be proposed. Particularly significant for the discourses outlined in this thesis is the need for elected governments to justify their actions or policies. In our specific case the question of sovereignty in respect of potential British membership of EMU raises articulations that must either deny or accept necessary impacts on British sovereignty. In sum, the discourses on sovereignty are sets of articulations set within the ground rules of the British polity, especially the need for the legitimate rationalisations of all aspects of government policy. The term "debate" is used throughout as the wider notion of public discussions in general.<sup>22</sup>

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<sup>19</sup> Ibid.

<sup>20</sup> T. Van Dijk, Discourse as Structure and Process, (SAGE Publications, London, 1997), p.27.

<sup>21</sup> E. Laclau and C. Mouffe, Hegemony and Socialist Strategy, (Verso Publishing, London, 1985), p.105.

<sup>22</sup> T. Diez, "Discursive Nodal Points and the Analysis of European Integration Policy", 3rd Pan-European Conference, Vienna, September 1998, p.14.

The political context of discourse is developed further by Foucault who distinguishes between discourses that constitute scientific knowledge in a particular period and any other discourse. Foucault's conception of discourse links closely with his interpretation of power. For Foucault power is not contained by a particular agent but is "everywhere" in a complex network of dynamic social relations between dominant and subordinate agents (often relying on the subordinate agent wilfully acceding to the wishes of the dominant agent).<sup>23</sup> Power and knowledge are inextricably linked in a dynamic relationship with power privileging certain constructions of knowledge in a particular epistemic period. During these periods certain discourses acquire hegemonic positions as constitutive knowledge. However, given the dynamic nature of the power/knowledge relationship a space is left open for alternative discourses which may in time lead to an epistemic shift.<sup>24</sup> Nevertheless, the overall impression is one of a discursive hegemony.

Laclau and Mouffe, in a critique of socialist strategy, formulate a dynamic version of discourse. Discursive structures constitute and organise all social relations.<sup>25</sup> However, although all-embracing, Laclau and Mouffe argue that there can be no absolute fixity in discourse. Nevertheless, moments of partial fixity, or nodal points, can be analytically articulated. The central argument advanced by Laclau and Mouffe is the social articulation of hegemony, which is a political relationship unifying a number of hegemonic discursive nodal points but without a single, defined centre. Indeed hegemonic relations open the field for antagonistic discourses which may challenge the current hegemonic discourse. However, the overall relationship appears to be an unequal, dual relationship between "hegemony" and "antagonism";

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<sup>23</sup> J. Rouse, "Power/Knowledge" in G. Gutting (Ed.), The Cambridge Companion to Foucault, (Cambridge University Press, Cambridge, 1994), p.107.

<sup>24</sup> Ibid., p.112.

<sup>25</sup> E. Laclau and C. Mouffe, Hegemony and Socialist Strategy, (Verso Publishing, London, 1985), p.96.

"But it is equally wrong to propose as an alternative ... pluralism ... as this would blind the analysis to the presence of nodal points and to partial concentrations of power."<sup>26</sup>

The key point is the overall focus on hegemony as opposed to the concept of "competing discourses" developed below.

Even though both Foucault and Laclau and Mouffe leave space for alternative discourses the overall impression of hegemony remains. The structuralism of Saussure and the hegemonic approaches of Foucault, Laclau and Mouffe together imply a degree of inflexibility in the use of language. Other linguistic studies have challenged this argument suggesting that language needs to be more closely linked to social structures and local cultures. These factors highlight the complexity and the nuance of meaning between such words as "sullen", "morose", "moody", ill-tempered".<sup>27</sup> Whorf, in a study of American Indian languages, stresses the link between different linguistic forms and the cognitive interpretation of daily events. Lakoff, in a study of Aboriginal languages, argues that cultural factors influence grammatical categories. The heterogeneity of language can also be extended within a particular language through the use of metaphor. Metaphor allows a wide variety of statements to be made including the changing nature of language use (such as the attribution of human characteristics to computers in the phrase "the Millennium virus").<sup>28</sup> Language also varies with social settings. For example, in Sauris, a multilingual community in the Italian Alps, German is used in the home, Romansch in public places and Italian in formal situations.<sup>29</sup> In sum, language as a medium of social interaction is a highly heterogeneous phenomenon.<sup>30</sup>

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<sup>26</sup> Ibid., p.142.

<sup>27</sup> D. Lee, Competing Discourses: Perspective and Ideology in Language, (Longman Group UK Limited, Harlow, 1992), p.26.

<sup>28</sup> Ibid., p.89.

<sup>29</sup> J. Aitchison, Linguistics, (3rd Ed., Hodder and Stoughton, London, 1987), p.117.

<sup>30</sup> Ibid., p.49.

Given the heterogeneity of language David Lee argues that instead of hegemonic discourses an alternative position of competing discourses should be used to reflect the complexity of social interactions. This should not be restricted to the use of binary discourses which necessarily oppose each other but should allow a range of discourses to be identified.<sup>31</sup> Lee argues that traditional linguistics saw language largely as a homogenous structure divorced from the wider social context. He argues that, instead of seeing language as a mirror of autonomous social structures, it should be regarded as the primary medium through which social processes operate. Social and institutional diversity is established and perpetuated through diversity in linguistic usage leading to *competing*, rather than hegemonic, discourses.<sup>32</sup>

### **Discourse, Structure and Agency**

The role of discourse analysis also needs to be considered against the question of structure and agency. Applied to International Relations Hollis and Smith refer to the "structure" as the international system and the "agents" as the individual nation-states.<sup>33</sup> They argue that these levels exist on one dimension and the "explanation/understanding" dualism on the other dimension, creating an overall epistemological matrix. The main problem with this dual matrix is the lack of a sense of dynamism. Anthony Giddens has sought to transcend this dualism with his theory of structuration. Three main elements are analytically distinguished; the communication process, moral relations and the operation of rules.<sup>34</sup> These reproduce structures which are "systems of generative rules and resources" which exist "out of time and space". However, structures only exist as the

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<sup>31</sup> D. Lee, op.cit, p. 183.

<sup>32</sup> Ibid, p.x.

<sup>33</sup> M. Hollis and S. Smith, Explaining and Understanding International Relations, (Oxford University Press, Oxford, 1990), p.9. They also add bureaucracies and individuals.

<sup>34</sup> A. Giddens, New Rules of Sociological Method, (2nd. Ed., Polity Press, Cambridge, 1993), p.134.

"reproduced conduct of situated actors with definite intentions and interests".<sup>35</sup> In sum, Giddens sees structure and agency as mutually constituted phenomena which, like a coin, have two visible sides but are in effect mutually interdependent.

Giddens' structuration theory has been criticised from a number of perspectives. Firstly, it has been argued that, given that structures are reproduced by agents' actions, Giddens eventually comes down on the side of agency.<sup>36</sup> Secondly, Giddens' failure to analytically separate structure and agency implies that they are unable to act in ways that are independent of each other. Finally, his definition of structure is seen as unduly limiting.<sup>37</sup>

Placing discourse analysis in the overall structure/agency problematique is a complex question. Agents are responsible for producing the contemporary discourses in contingent time and space. However, it is difficult to understand individual events or actions in terms of discourse analysis. Stuart McAnnula provides an interesting framework for integrating discourse analysis within the structure/agency debate. He argues that discourse plays an intermediate but independent role between structure and agency. McAnnula makes an initial assumption that discourse takes place within a material, objective structure. However, this structure must be interpreted and constructed by individual actors in terms of discourse which, in a dynamic process of social interaction, can itself change the discursive formation and influence structure in an ongoing, morphogenetic cycle.<sup>38</sup>

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<sup>35</sup> *Ibid.*

<sup>36</sup> S. McAnnula, "Structure, Agency and Discourse as Analytical Concepts", PSA Conference, Keele, 1998, p.642.

<sup>37</sup> C. Hay, "Structure and Agency" in D. Marsh and G. Stoker (Eds.), *Theory and Methods in Political Science*, (Macmillan Publishing, London, 1995).

<sup>38</sup> S. McAnnula, *op.cit.*, p.651.

McAnnulla's framework provides a useful guide to considering issues such as the question of the relationship between discourse and agency driven factors such as beliefs, values, interests, ideology and culture. Beliefs and values usually focus on individual decision makers. In terms of social cognition two broad approaches can be outlined. The first is the "mentalist" approach focused on the psychological mechanisms that allow isolated individual subjects to perceive themselves and other people in particular ways in particular circumstances. The second is the "social basis" approach focused on the social nature of perceivers and the social construction of knowledge.<sup>39</sup>

The different approaches to social cognition have differing implications for discourse analysis. For the "mentalist" approach discourse is sense making mediated by mental processes. Discourse is, therefore, a useful guide to the processes of sense making, namely information selection, handling and judgement and the resultant decision making process. Given that mental activity is deemed to be separate from and ontologically prior to discourse the role of discourse analysis is to highlight these mental processes.<sup>40</sup>

The "social basis" of cognition has three broad streams; shared culture or ideology, shared group interests and interpersonal exchange leading to a joint construction of social reality. Discourse is accorded an ontologically greater priority under this approach. Billig, in a study of discourse and ideology, stresses the dynamics of discourse in influencing thought. He argues that human thinking is not just an information processing mechanism

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<sup>39</sup> S. Condor and C. Antaki, "Social Cognition and Discourse" in T. Van Dijk, Discourse as Structure and Process, (SAGE Publications, London, 1997), p.320.

<sup>40</sup> Ibid., p.322.

but must be seen in the dynamics of discussion and argument.<sup>41</sup> Shared group interests focuses on the role of discourse in favouring one group over another.<sup>42</sup> Finally, the social interaction strand focuses on the social construction of reality. The very analytical distinction between cognition and discourse is undermined by this strand. Discourse is here accorded priority as the public face of language and the main device by which social reality is constructed.<sup>43</sup>

The relationship between discourse and other key concepts such as beliefs, values, ideology, interests and culture is a highly complex one but three comments can be made. Firstly, discourse can be seen as analytically distinct, albeit interrelated with, these other key concepts. In my opinion, Laclau and Mouffe's use of discourse is too wide in incorporating these other concepts into its overall ambit. McAnnula, whilst criticising Laclau and Mouffe, also conflates discourse with the ideational in his analytical framework.<sup>44</sup> However, his interweaving of discourse between structure and agency is an approach that is adopted here. The second comment is to support the concept of articulation as formulated by Laclau and Mouffe. All of the other concepts need to be articulated through language whatever their own intrinsic significance. Finally, this articulation is inherently a dynamic one as the arguments shape each other in an ongoing process. I would argue that the idea of competing discourses, as espoused by Lee, is a more fruitful conception than that of hegemonic and antagonistic discourses postulated by Laclau and Mouffe.

### **Discourse and Policy**

Policy is a key concept which dominates our understanding of the governing

<sup>41</sup> M. Billig, *Ideology and Opinions: Studies in Rhetorical Psychology*, (SAGE Publishing, London, 1991), p.17.

<sup>42</sup> S. Condor and C. Antaki, "Social Cognition and Discourse" in T. Van Dijk, *op.cit.*, p.333.

<sup>43</sup> *Ibid.*, p.335.

<sup>44</sup> S. McAnnula, *op.cit.*, p.651.

arrangements of society. In this thesis policy is understood as "the structuring of collective action by the mobilisation of a model of government as authorised decision making".<sup>45</sup> Four points need to be made in clarification of this definition. Firstly, policy must be seen as both a process and an end product. Secondly, policy is concerned with creating coherence in the face of ambiguity. Thirdly, policy is inherently problematic and graduated rather than definite and absolute. Finally, the key point in the argument made here is that policy needs to be authorised by government. Whilst many actors may be involved in the formulation of a particular policy only elected government can provide the necessary legitimacy. Given the focus on sovereignty in this thesis policy is deemed here to be government policy both in the sense of representing official government action and in terms of legitimisation of that action.<sup>46</sup>

Like other epistemological questions the relationship between discourse and policy is a complex one. The initial question relates to whether the two concepts can be clearly segregated. Larsen argues that the two concepts can be clearly delineated and indeed makes this the basis of his main thesis that different conceptions of "Europe" in Britain and France explain the different policies adopted.<sup>47</sup> Other writers using discourse analysis are more guarded. Thomas Diez, in a discussion of discursive nodal points constructing "Europe", takes a more reserved view. He argues that there is no knowledge outside language and this assumption clearly makes the distinction between discourse and policy problematic.<sup>48</sup> However, he goes on to argue that within discourse a distinction can be made between policynarratives and metanarratives. Policynarratives refer to the discourses that lie in a nodal point. Metanarratives refers to discourses which constitute the policynarratives. A good example in this case would be the concept of the "state" as a

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<sup>45</sup> H.K.Colebatch, *Policy*, (Open University Press, Buckingham, 1998), p.111.

<sup>46</sup> *Ibid.*, p.113.

<sup>47</sup> H. Larsen, *op.cit.* (Routledge Publishing, London, 1997), p.32.

<sup>48</sup> T. Diez, "Discursive Nodal Points and the Analysis of European Integration Policy", 3rd Pan-European Conference, Vienna, September 1998, p.11.

metanarrative and "Europe" as the policynarrative.<sup>49</sup> In this thesis discourse and policy are seen as distinct concepts. Waever argues that discourse is able to account for an overall policy but not for a single policy act. It does this by providing a rationalised legitimisation of various policy positions. Once these legitimisations have been advanced it is difficult to adapt quickly to new positions.<sup>50</sup>

Even given the assumption that discourse can be ontologically separated from policy the relationship between the two concepts is a dynamic one. Colebatch, in an analysis of the concept of policy, distinguishes between sacred and profane accounts of policy. Sacred accounts focus on the normative framework of policy and talk of the rational pursuit of legitimate objectives. Profane accounts focus instead on the empirical framework of policy such as the contest between bureaucratic agencies.<sup>51</sup> The focus in this thesis is exclusively on the "sacred" account. However, this "account" is a dynamic process and the use of language becomes part of this process. The very use of the phrase "the government objective is" provides a policy with a degree of importance it would not acquire without such a statement. Rational legitimisations of policy only serve to add to the complexity of the process. Whilst policy may indeed change these changes need to be explained in terms of previous discourse within a democratic polity. In the EMU/sovereignty debate the commitment to a popular referendum was extremely difficult to reverse once made. In sum, language is itself part of the action.<sup>52</sup>

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<sup>49</sup> Ibid., p.14.

<sup>50</sup> O. Waever, Explaining Europe by Decoding Discourses, 1998, (Mimeo.).

<sup>51</sup> H. Colebatch, op.cit., p.99.

<sup>52</sup> Ibid., p. 64. See also F. Fischer and J. Forester, The Argumentative Turn in Policy Analysis and Planning, (Duke University Press, Durham NC, 1993).

## The Utility of Discourse

Discourse analysis has been criticised both from a general perspective and for specific methodological problems. The key general criticism is that discourse serves to reify the language above other factors. For example Bryan Palmer, from a historical materialist perspective, argues that discourse analysts;

"...offer their own program: simplistic denial of the base/superstructure distinction; unproblematic reification of language as non-referential and autonomous; refusal of any center that might, in however nuanced a manner, draw lines of separation between substance and form. This program has a smooth tongue, too smooth."<sup>53</sup>

Clearly, like any other epistemological approach, there can be a tendency to ignore other factors. In particular the autonomy of discourse can be taken too far. The role of individual actors remains highly significant and can indeed be borne out by discourse analysis. I would agree with McAnnula that "actors and agents exist as more than mere 'nodal points' of decentred discourses".<sup>54</sup> My main criticism of prevailing discourse approaches is their focus on hegemonic or dominant discourses linking discourse analysis with a structural conception of power. However, if discourse is located within a wider social context and allows the idea of competing discourses, it can fulfil several useful functions as discussed below.

Specific criticisms of discourse analysis include the difficulty of segregating one discourse from another, a tendency to focus on the national rather than international arena and a tendency to reproduce existing structures. The segregation of discourses is clearly a subjective decision which needs to be made by each individual researcher. For example,

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<sup>53</sup> B. Palmer, Descent into Discourse, (Temple University Press, Philadelphia, 1990), pp.217-8.

<sup>54</sup> S. McAnnula, op.cit., p.647.

Diez and Larsen, in similar analyses of British discourses on Europe, find different patterns of segregation. Whilst Larsen advances a basically binary discourse Diez espouses a wider range of positions.<sup>55</sup> Waever argues that a "tree structure" can be made of individual discourses. This would consist of main trunk discursive concepts such as "state" or "nation", which tend to remain fairly consistent over time, and other discourses or "branches" which are more likely to change.<sup>56</sup> Whilst this is a neat distinction, especially in the way it allows scope for change, it does not alter the fact that segregation of discourses is an inherently subjective process. However, this can be said of all qualitative epistemologies in the social sciences. Discourse analysis has tended to focus on the national rather than the international arena. However, this generally reflects the fact that most political debate, even within the EU, continues to take place in the national arena. As for discourses reproducing existing structures this will largely depend on individual situations but should not necessarily be a criticism of discourse analysis.

Notwithstanding the wider criticisms of discourse analysis what specific functions can it fulfil, especially in the political sphere? Chilton and Schaeffner argue that discourse can fulfil four strategic functions. The first is the traditional concern with coercion in the form of edicts, commands and propaganda. The second is the converse discourses of resistance and opposition. Thirdly, discourse analysis can serve the function of dissimulation which refers to the control over sources of information. Finally, discourse analysis can serve to underpin legitimacy of a particular idea or policy. Equally significant in this respect are moves to delegitimise alternative arguments.<sup>57</sup> It is the fourth function of legitimisation that is the focus of this thesis.

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<sup>55</sup> T. Diez, op.cit., pp.20-21.

<sup>56</sup> O. Waever, Discourse Analysis as Foreign Policy Theory: The Case of Germany and Europe, (mimeo.), p.6.

<sup>57</sup> P. Chilton and C. Schaeffner, "Discourse and Politics" in T. Van Dijk (Ed.), Discourse as Social Interaction, (SAGE Publications Limited, London, 1997), pp.212-3.

The key epistemological argument made is that discourse analysis is a particularly appropriate tool in relation to the concept of sovereignty. A fuller theoretical discussion of sovereignty is outlined in Chapter 2 but it is argued that sovereignty as a concept can only be fully explored by discourse analysis in a specific time and place. The legitimacy function outlined above is a key aspect of sovereignty which focuses on the locus of political authority. This locus can not be studied in a positivist manner like the existence of a chair or table because sovereignty is inherently intangible. Academically arguments can be constructed as to the boundaries of sovereignty in a particular situation such as EMU membership. However, discourse analysis takes this a step further by analysing the use of the concept by key actors in specific arenas and contexts. This strategic function of legitimisation acts in a variety of ways. Actors can set the agenda, select particular topics for conversation, position themselves and other actors in specific relationships, make particular constructions of knowledge, appeal to wider ideological frameworks and present other concepts or actors in a negative light.<sup>58</sup>

### **Politics of Sovereignty: Application of Discourse Analysis**

The central thesis argues that the discourses of sovereignty in the political debate were a key influence on government policy on EMU. Discourse analysis is empirically examined around the five key relationships made. Chapter 4 analyses the divisions within the Conservative party along a sovereignty/interdependence axis in the context of the Maastricht ratification debates in Parliament. Chapter 5 focuses on the decision of both major parties to opt for a referendum on EMU in 1996. Chapter 6 focuses on the continuing constraint that the referendum decision placed on Labour government policy after 1997. In addition, the divergence between the discourses on sovereignty and government policy on EMU is followed through the policy turns in 1997. Throughout Chapters 4-6 the overall caution of government policy is outlined.

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<sup>58</sup> *Ibid.*, p.213.

The relationship between discourse and policy requires intermediation by key agents. As Risse-Kappen argues "ideas do not just float freely" but need to be acted on by agents.<sup>59</sup> Ideas not only need to be constructed and legitimated through discourse but must acquire influential, if not necessarily hegemonic, positions. Goldstein and Keohane argue that ideas can be related to policy in three main ways. These are ideas as road maps for individual decision makers, as strategic focal points for groups or as embedded in institutions.<sup>60</sup> In the EMU/sovereignty debate the key agents were individuals and political parties. Sovereignty operated at an individual level but, more significantly, as a group norm in the British polity. Crucially arguments on sovereignty supported the "status quo" and would require a major change should government policy move towards accession to EMU.

Discourse and government policy throughout this study refer to different objects. The primary object of the discourse analysis is focused on the concept of "sovereignty". The primary object of the government policy is that of "potential British membership of EMU". The connection between the discourse analysis and the government policy is empirically examined in three specific debates. These debates are chosen, not to produce a chronological narrative of the debate on British membership of EMU, but to focus on selected debates where the intertwining threads of the discourse analysis (with the object of "sovereignty") and government policy (with the object of "potential British membership of EMU") can be studied. By examining the relationship in a specific time and place an understanding of the complex interrelationship can be obtained. The aim is to identify relationships between the discourses of sovereignty and government policy on EMU including intermediation by key agents.

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<sup>59</sup> T. Risse-Kappen, "Ideas Do Not Float Freely: Transnational Coalitions, Domestic Structure and the End of the Cold War", *International Organisation*, Vol. 48, Spring 1994, pp:185-214. See also A. Yee, "The Causal Effects of Ideas on Policies", *International Organisation*, Vol. 50, Winter 1996.

<sup>60</sup> J. Goldstein and R. Keohane (Eds.), *op. cit.*, pp:12-13.

The historical start date taken is the completion of the Maastricht Treaty, which set the basic ground rules for EMU largely without any particular British influence (see Chapter 3). The end date chosen is the aftermath of the 1999 European election following the launch of EMU. These points provide an appropriate time horizon across two different governments and across a range of historical cases. The completion of the Maastricht treaty allows the debate to be placed in the context of treaty based provisions rather than unconfirmed proposals. Three debates are specifically chosen to evaluate the discourses of sovereignty in different situations (rather than presenting a chronological history). The first debate (Chapter 4) deals with the discourses of sovereignty developed in the parliamentary context of the ratification of the Maastricht treaty in Parliament. The second debate (Chapter 5) covers the decision by the main political parties to promise a referendum as a necessary condition prior to British entry into EMU and the 1997 general election campaign, placing the discourses in a context of popular debate. Finally, the third debate (Chapter 6) follows the new Labour government's policy from the October 1997 statement to the aftermath of the 1999 European election. The key contextual factors were the volatility of the financial markets, the growing realisation and confirmation that EMU was to become a certainty and a thriving business debate. In each of these cases the relationship between the discourses of sovereignty and government policy will be examined.

Chapter 7 focuses on the business debate on EMU. The importance of the business debate necessitated a separate chapter given the nature of the EMU issue, its importance to business interests and the need to consider a major counter argument to the politics of sovereignty in stressing the influence of business on government policy on EMU. The overall argument of Chapter 7 made is that business itself was divided on EMU, desired certainty of government policy over direction, and ultimately accepted the subordination of business interests to the political debate on sovereignty. Whilst business attitudes were basically driven by economic calculations these positions did not have a direct impact on

the dominant political discourse because business ultimately accepted the subordination of business interests to the wider debate on sovereignty. The other key alternative interpretations for government EMU policy, especially electoral considerations and economic factors, are considered throughout empirical chapters 4-6.

The primary underlying motivation behind the research strategy was that discourse analysis was an appropriate epistemological tool for a political idea such as sovereignty. Three specific reasons account for the particular sources used. Firstly, their contribution to the discourses on sovereignty. Secondly, the overall impact of these sources on government policy on EMU. Thirdly, the *specific* relevance of individual sources to the five main relationships outlined. A wide range of sources was used throughout the empirical chapters. These included autobiographies, biographies, Hansard, a review of press articles, Select Committee reports, government documents, election manifestoes, opinion poll surveys, interviews with selected persons, academic texts and other secondary literature.

The sources utilised vary by chapter. In Chapter 4 the primary source utilised is Hansard with the emphasis being placed on conceptions of sovereignty raised by MPs in the parliamentary debate. In addition, a review is made of key Eurosceptic publications during the debate. These were chosen on the basis of their contribution to the debate on sovereignty rather than other issues (such as the parliamentary tactics used). In Chapter 5 the sources utilised include autobiographies, biographies, manifestoes, selected interviews and a review of press articles. This reflected the movement in the debate from the parliamentary sphere to the wider public sphere given the referendum decision and the 1997 general election. In Chapter 6 the sources utilised include biographies, manifestoes, selected interviews and a review of press articles. In addition, opinion poll survey data is utilised given the continued influence of EMU-sceptic public opinion on

Labour government policy after 1997. In the business debate in Chapter 7 extensive use was made of Select Committee evidence supported by a review of press articles and business documents. In addition, extensive interviews were held on two specific business cases to illustrate the emphasis on uncertainty in the business debate.

Given the emphasis on the discourses of sovereignty and government policy on EMU the sources utilised were inevitably selective. For example, the following groupings are only briefly mentioned. The Liberal Democrats and other political parties are not specifically addressed given their limited influence on government policy. Particular mention is made, however, of the conception of popular sovereignty utilised by the Liberal Democrats. In addition, the Referendum Party is briefly discussed during the 1997 election. The role of trade unions is only briefly discussed given their focus on the economics of EMU, internal divisions and declining political influence. Other special interest groups, such as the farmers union, are excluded for similar reasons. Limited mention is made of bureaucratic bodies given the emphasis on sovereignty, which as a concept based on political authority must be articulated in the political debate. The emphasis made throughout is not to deny the significance and perspective of the groups identified but is made to emphasise the importance of sovereignty within the debate and its role on *government* policy. The influence of the media is not directly addressed given the extensive nature of the subject. However, extensive use is made throughout of press articles and opinion surveys reflecting the overall importance of the media.

Selective interviews were made with relevant politicians to supplement the wider range of textual evidence. These were chosen in three specific areas. Firstly, to examine the particular reasons behind the Conservative decision to accede to a referendum in 1996. Secondly, to gauge qualitatively the depth of internal divisions within both main political parties. Finally, to examine the development of EMU specific pressure groups. Given the continued presence after 1997 of a Labour government most interviews were carried out

with persons unconnected with the government given the practical difficulties in interviewing government spokespersons. Extensive interviews were also carried out with over forty persons in the two business cases to highlight the degree of uncertainty and lack of preparation within British business. The list of politicians interviewed is included in the reference section. The interviews were carried out on the basis of personal confidentiality and are generally attributed as "Author's interview" at relevant points in the text.

### **Conclusions**

Discourse analysis is used as the main tool throughout this thesis in the specific sense of a set of articulations bound by specific rules. Discourse must be set in a social context. In the wider discourse studies of Foucault and Laclau and Mouffe an overall conception of hegemony emerges. An alternative approach, adopted in this thesis, is to stress the flexibility of language in a social context and to allow the possibility of competing discourses. Discourse is treated as an intermediate layer between structure and agency, which is analytically distinct from policy. The approach taken is to identify the detailed relationships between the discourses of sovereignty and government policy on EMU mediated by the agency of key individuals and political parties.

The primary argument for utilising discourse analysis as an epistemological technique is its relevance to the concept of sovereignty. Sovereignty is not a concept that can be researched scientifically, examined through bureaucratic politics or through rational approaches to policy formation. As a concept focused on the locus of authority its elucidation requires a detailed analysis of the discourses which constitute its meaning. This meaning is developed within a specific spatial and temporal context, namely Britain in the 1990s. Prior to this detailed analysis the discussion turns to the academic analysis of sovereignty in the context of Britain and the EU.

## **CHAPTER 2: SOVEREIGNTY IN THE CONTEXT OF BRITAIN AND THE EU**

### **Introduction**

The purpose of this chapter is to review selected academic literature on sovereignty in the context of Britain and the European Union (EU). This chapter deals with six main aspects. Firstly, there is a preliminary discussion of the conceptual bases of sovereignty in relation to other concepts including the state, power and authority. Secondly, four interrelated perspectives on sovereignty are identified; as a legal principle, as a political authority claim, as a normative organising principle and as a social construct. Thirdly, setting sovereignty in the context of the debate over the nature of the EU, its continued relevance will be examined from a variety of theoretical perspectives. Fourthly, the specific EU concepts of subsidiarity and the democratic deficit will be briefly discussed in relation to sovereignty. Fifthly, the issues of sovereignty involved in Britain's overall relationship with the EU will be considered. Finally, the chapter will set out the central thesis for the detailed discussion of the sovereignty issues raised by EMU in later chapters.

The central argument of this chapter is that the approach taken throughout this thesis is to focus on sovereignty as a social construct. Key elements and debates arise from the legal, political and normative perspectives of sovereignty, which offer important insights into the essentially contested nature of sovereignty. However, the emphasis in this thesis is that, whilst containing ongoing features, the absolute principle of sovereignty is continually interpreted in changing time and space by key actors. Whilst complex academic meanings can be given to the concept of sovereignty, greater significance is given throughout to the use of the concept by key actors for their own objectives. The context of this thesis is the issue of EMU in Britain during the 1990s. It is important to see sovereignty in relation to alternative organising principles, one of which is the challenge to the sovereignty of individual member states presented by the EU. The

contention maintained throughout is that sovereignty remains a central feature but needs to be continually reinterpreted in changing circumstances.

### **Sovereignty: Conceptual Bases**

Like many problematic concepts sovereignty can be given a variety of meanings. The classical definition of sovereignty as presented by Hinsley is;

"...the idea that there is a final and absolute political authority in the political community...and no final and absolute authority exists elsewhere."<sup>1</sup>

This definition highlights the dual nature of sovereignty. One aspect is the "internal" dimension of one final and absolute authority within the political community, usually the government of a state. The other aspect is the external independence of the state recognised universally by other sovereign states. The "external" element of sovereignty is epitomised in the legal principle of sovereign equality, the corollary of which is non-intervention.<sup>2</sup> Though analytically distinct I would agree with Malcolm that these two aspects are inextricably linked and, hence, the importance of the word "and" in Hinsley's definition.<sup>3</sup> It is difficult to envisage a situation where a state has internal sovereignty without external sovereignty or vice-versa. The nearest possible situation is the position whereby a state may not have full external sovereignty but has almost complete internal sovereignty as was, arguably, the situation of the British Dominions in the 1930s. However, this does not amount to sovereignty in the sense of "final" and "absolute".<sup>4</sup> The idea of "constitutional independence" also reconciles the two aspects, as argued by

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<sup>1</sup> F.H.Hinsley, Sovereignty, (2nd Ed., Cambridge University Press, Cambridge, 1986), p.26.

<sup>2</sup> C. Weber, Simulating Sovereignty: Intervention, the State and Symbolic Exchange, (Cambridge University Press, Cambridge, 1995), p xi.

<sup>3</sup> N. Malcolm, "Sense on Sovereignty" in M. Holmes (Ed.), The Eurosceptical Reader, (Macmillan Press, London, 1996), p.351.

<sup>4</sup> Daniel Philpott also refers to the situation where an internal civil war is not matched by any external intervention but as he comments "when sovereignty is realised both aspects are present". D. Philpott, "Westphalia, Authority and International Society", Political Studies, Vol.47, No.3, Special Issue 1999, pp:566-589.

James;

"A sovereign state may have all sorts of links with other such states and with international bodies, but the one sort of link which, by definition, it cannot have is a constitutional one."<sup>5</sup>

The concept of sovereignty is inextricably linked with the development of the state. A law convention outlined the criteria of statehood as a permanent population, a defined territory, government and a capacity to enter relations with other states.<sup>6</sup> Hinsley argues that the development of the state was a fundamental change in the pattern of authority within society when contrasted with tribal societies dependent on kinship ties. A state is a precondition but not a sufficient condition for the development of the concept of sovereignty. The further requirement is the gradual convergence of the state with the needs of the community (albeit as distinct components). Thus, the concept of sovereignty developed some time after the development of the state and, in certain societies such as Africa, does not have very deep roots.<sup>7</sup>

The link between sovereignty and the "state" has been challenged by Weber and Biersteker. Defining the state as "a geographically contained structure whose agents claim ultimate political authority within their domain" they seek to make a clear distinction from sovereignty. This, they argue, allows certain anomalies such as Taiwan (non-sovereign territorial state) and Palestine (sovereign, non-territorial state) to be

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<sup>5</sup> A. James, Sovereign Statehood: The Basis of International Society, (Macmillan Publishing, London, 1986), p.24.

<sup>6</sup> Montevideo Convention on the Rights and Duties of States (1933), quoted from N. Malcolm, op.cit., p.349.

<sup>7</sup> F.H.Hinsley, op.cit., p.21.

theoretically identified.<sup>8</sup> Clearly state and sovereignty are analytically distinct concepts with a state reflecting a political entity and sovereignty an authority claim. However, they are, in my opinion, inextricably linked in the discourse and authority claims by non-state actors do not usually amount to sovereignty claims. Indeed the title of the Weber and Biersteker work, "*State Sovereignty as a Social Construct*", ironically highlights the link.

The second key relationship is with the concepts of power and authority. A distinction needs to be made between power and authority. Power is usually defined either as structural, in that an agent is powerful if he influences the actions of others or relational, in that one actor alters the behaviour of another in a particular context.<sup>9</sup> Authority implies that power is exercised in accordance with a moral or judicial basis. Malcolm paints the picture of a heavy man raiding a house; in one case he is a police officer with a search warrant for drugs and in the other he is a dangerous criminal. In both cases the power situation is similar but only in one case is there a case of authority.<sup>10</sup> Sovereignty needs to be clearly linked with authority as a claim by a political community to rightful independence.

The distinction between power and authority is made by a variety of writers. Some writers have gone further to distinguish sovereignty from autonomy. Kassim and Menon argue that autonomy, which they define as the ability of the state to transform its policy preferences into authoritative actions in the light of internal and external constraints, is a more flexible and subtle instrument.<sup>11</sup> William Wallace makes a similar distinction;

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<sup>8</sup> C. Weber and T. Biersteker, State Sovereignty As a Social Construct, (Cambridge University Press, Cambridge, 1996), p. 2.

<sup>9</sup> S. Strange, States and Markets, (2nd. Ed., Pinter Publishers, London, 1994), p.24.

<sup>10</sup> N. Malcolm, op.cit., p.347.

<sup>11</sup> H. Kassim and A. Menon (Eds.), The European Union and National Industrial Policy, (Routledge Publishing, London, 1996), p.2.

"Autonomy is a relative, not an absolute concept: to be assessed in comparative terms with reference to external constraints and domestic vulnerabilities to outside developments. Sovereignty is formal, legal; autonomy informal, shaped by economic, social and security factors."<sup>12</sup>

This distinction may be useful for empirical studies such as that carried out by Kassim and Menon but it is not universally accepted.<sup>13</sup> Autonomy seems too limited a term given the important authority foundation of sovereignty, which can be considered across a number of issue areas. The persistence of the term "sovereignty" is illustrated by Wallace's use of the term later in the same article in which the distinction is made;

"I want to suggest, however, that these *{defence and public order}* were the areas in which sovereignty - this *is* the most appropriate term for areas so fundamental for any concept of the state - was undermined."<sup>14</sup>

The main problem with the distinction is that it reduces sovereignty to a legal concept. The position taken in this thesis is that sovereignty, whilst located in terms of authority, also needs a degree of efficacy in terms of power or capability so that it is not reduced to a legal shell. States have never had untrammelled power to achieve all of their desired actions and whilst they may be increasingly constrained this does not imply complete dependence. The importance of having some capability basis to sovereignty is vividly illustrated in the case of the Eastern European states which emerged from communism after 1989. They had been subject to the doctrine of "limited sovereignty" imposed by the Soviet Union after the invasion of Czechoslovakia in 1968. As Vaclav Havel commented;

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<sup>12</sup> W. Wallace, "Rescue or Retreat? The Nation State in Western Europe" in P. Gowan and P. Anderson (Eds.), The Question of Europe, (Verso Publishing, London, 1997), p.23.

<sup>13</sup> H. Kassim and A. Menon, op.cit., p.4.

<sup>14</sup> W. Wallace in P. Gowan and P. Anderson, op.cit., p.40. My italics in brackets.

"Independence is not just a state of being. It is a task. And fresh independence, such as ours, is a particularly complex task. We must fill it with substance and meaning, give it a specific form."<sup>15</sup>

Another useful distinction in this area is made by Jackson, who distinguishes between states with positive sovereignty and "quasi-states" where sovereignty is more juridical than empirical.<sup>16</sup> The idea of available options, albeit in a constraining environment, allows the core of sovereignty to reside with authority but to be accompanied with a degree of effective capability.

### **Sovereignty: Key Perspectives**

Although sovereignty can be given a working definition it can be considered from four perspectives each of which emphasises different elements. The four perspectives identified here are legal, political efficacy, normative principle and social construct. Clearly these perspectives overlap but each highlights particular elements of sovereignty. The first of these is the legal perspective which argues that sovereignty is primarily a legal principle. Alan James argues that;

"Sovereignty,...is a matter of law and not of stature. It neatly expresses a legal and not a physical reality."<sup>17</sup>

For James sovereignty is the principle of "constitutional independence" with the key question being whether states qualify for sovereign status. Three key features are characteristic of this perspective of sovereignty. Firstly, sovereignty is inherently a legal

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<sup>15</sup> V. Havel, Summer Meditations: On Politics, Morality and Civility in Times of Transition, (Alfred A. Knopf Publishing, New York, 1992), p.82.

<sup>16</sup> R. Jackson, Quasi-States: Sovereignty, International Relations and the Third World, (Cambridge University Press, Cambridge, 1990), p.1.

<sup>17</sup> A. James, op.cit., p.40.

phenomenon. This is not necessarily just in terms of international law but also in terms of a state possessing a set of constitutional legal arrangements. The second feature is absolutism. For James a state is either totally sovereign or not sovereign, regardless of its power. The final feature is that sovereignty is unitary, namely that the internal and external functions flow from the same source.<sup>18</sup>

The legal perspective highlights the dichotomy between law and capability. However, to reduce sovereignty to a legal principle is to ignore the political context in three key respects. Firstly, a state becomes sovereign primarily through a recognition process by other already sovereign states. Whilst there are guidelines for this process it is inevitably highly subjective and political. The recognition of Croatia was a good example of the political nature of this process.<sup>19</sup> Secondly, the importance of the political practice of key states and the desire for sovereignty of other states is underplayed. The political practice includes the highly significant question of whether states have effective sovereignty over all functional issues.<sup>20</sup> Finally, there is a considerable amount of political debate on the concept amongst different actors outside the narrow legal arena.

The political efficacy perspective emphasises the political reality of sovereignty as an *effective* authority claim. This perspective can have both an external and internal focus. The external focus has a legal dimension in that sovereignty is treated as a bundle of legal rights which accrue to a sovereign state. These rights may be separated and passed to

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<sup>18</sup> A. James, "Sovereign Statehood in Contemporary International Society", *Political Studies*, Vol.47, No.3, Special Issue 1999, pp:462-464.

<sup>19</sup> See P. Taylor, "The United Nations in the 1990s: Proactive Cosmopolitanism and the Issue of Sovereignty", *Political Studies*, Vol.47, No.3, Special Issue 1999, p.558.

<sup>20</sup> D. Philpott, *op.cit*, p.571.

other bodies but they remain legal rights.<sup>21</sup> The political dimension of the external focus stresses the degree to which a state is able to exercise its political freedom. Both of these dimensions are relative in that there is no absolute immutability but a range of constraints. Even the legal dimension is relative in that a state is subject to the direct requirements of international law.<sup>22</sup> The external focus allows consideration of the extent to which sovereignty has been eroded by external developments. These include a variety of transnational forces including environmental factors, the increasing importance of international organisations, the impact of nuclear weapons and, most significantly, the increasing web of economic interdependence.<sup>23</sup> It also allows the consideration of sovereignty within various issue areas. This has led to a number of distinctions being made, especially in relation to non-state organisations. These include the idea of sharing or pooling sovereignty in an intergovernmental organisation, the delegation of sovereignty to an international organisation with the retaining of reserve capabilities or the irrevocable transfer of sovereignty. Each of these more nuanced distinctions can be applied to relevant issue areas such as industrial, monetary or security policy.<sup>24</sup>

The internal focus emphasises internal sovereignty arrangements within a state. As noted earlier by Hinsley the development of the state was only one pre-condition in the historical development of sovereignty. The other crucial factor was a degree of alignment between the state and the community. The internal focus raises the issue of who is the final and absolute authority within the state and allows consideration of such matters as the relative roles of the executive, parliamentary and legislative bodies within a state. It also gives scope for the idea of popular democratic sovereignty which is largely ignored

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<sup>21</sup> See F. Kratochwil, "Sovereignty as *Dominium*: Is there a right of Humanitarian intervention" in G. Lyons and J. Mastanduno, (Eds.), Beyond Westphalia?, (John Hopkins University Press, Baltimore, 1995), pp:21-42.

<sup>22</sup> A. James, op.cit., p.457.

<sup>23</sup> See R. Vernon, Sovereignty at Bay: The Multinational Spread of U.S. Enterprises, (Basic Books, New York, 1967); J. Camilleri and J. Falk, The End of Sovereignty: The Politics of a Shrinking and Fragmenting World, (Elgar Publishing, Aldershot, 1992).

<sup>24</sup> P. Taylor, The European Union in the 1990s, (Oxford University Press, Oxford, 1996), pp:180-1.

by the legal and external political perspectives.<sup>25</sup> An interesting approach here is Hedetof's perception of sovereignty as a "cultural self-image" where a political community defines itself by comparison with other political communities.<sup>26</sup>

A third perspective focuses on sovereignty as a normative principle. R.B.J. Walker argues that sovereignty is a central political principle of the modern era. He rejects the argument that sovereignty is "the preserve of legal experts and constitutional experts".<sup>27</sup> Instead sovereignty;

"... offers both a spatial and a temporal resolution to questions about what political community can be, given the priority of citizenship and particularity over all universalist claims to a common human identity."<sup>28</sup>

Hence the principle of sovereignty creates constitutively an "inside" and an "outside" highlighting the dichotomy drawn between ethics and international relations. For Walker sovereignty is a normative principle which stresses that the "good life", whilst guided by universal principles, can only occur within particular political communities. Sovereignty may be codified as a legal principle but this is based on a deeper political and normative foundation. This perspective of sovereignty allows consideration of the increasingly significant debate about the role of universal human rights and active military intervention vis-a-vis the traditional idea of non-interference in the internal affairs of a sovereign state.<sup>29</sup>

<sup>25</sup> R. Jackson, "Sovereignty in World Politics", Political Studies, Vol.47, No.3, Special Issue 1999, p.444.

<sup>26</sup> U. Hedetof, "Sovereignty: Political Concept or Cultural Self-Image?" in S. Zetterholm (Ed.), National Culture and European Integration, (Berg Publishing, Oxford, 1996), pp.13-48.

<sup>27</sup> R.B.J. Walker, Inside/Outside: International Relations as Political Theory, (Cambridge University Press, Cambridge, 1992), p.62.

<sup>28</sup> Ibid.

<sup>29</sup> See G. Lyons and J. Mastanduno, Beyond Westphalia?, (John Hopkins University Press, Baltimore, 1995) and P. Taylor, "The United Nations in the 1990s: Proactive Cosmopolitanism and the Issue of Sovereignty", Political Studies, Vol.47, No.3, Special Issue 1999, pp.538-565.

The fourth perspective stresses the idea of sovereignty as a social construct which must be placed in time and space. This perspective builds on the elements identified in the three previous perspectives but focuses on their interpretation in a dynamic manner by key actors. The tradition within the Realist paradigm of International Relations has been to treat sovereignty as a timeless principle of international relations. Waltz, for example, defines sovereignty as "a state deciding for itself how it will cope with internal and external problems".<sup>30</sup> Thus, all of the key components (population; territory; recognition and authority) are combined into a key actor, the sovereign state. Weber and Biersteker argue, in contrast, that sovereignty and its key components are a social construct developed by a range of actors but crucially contingent on time and space. These actors build on the elements of sovereignty discussed but to give the concept a wider range of meanings.

The social construct perspective is often underplayed by academic writers because of the lack of conceptual precision. Lynch, referring to the British debate on the EU, comments that "making sense of sovereignty in popular political discourse is more problematic given its frequent misuse".<sup>31</sup> In a similar vein Falk has argued that sovereignty is in such deep trouble as a concept that its use should be left to politicians but discarded in serious academic analysis.<sup>32</sup> The central argument made here is that the interpretation of the concept by key actors with the ability to determine both debate and policy is of crucial significance, arguably even greater than the detailed refinements made by academic

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<sup>30</sup> K. Waltz, Theory of International Relations, (Addison Weseley Publishing, Reading, Mass., 1979), p.96.

<sup>31</sup> P. Lynch, "Sovereignty and the European Union: Eroded, Enhanced, Fragmented" in J. Hoffman and L. Brace (Eds.), Reclaiming Sovereignty, (Pinter Publishing, London, 1997), p.57.

<sup>32</sup> R. Falk, "Sovereignty" in R. Krieger (Ed.), The Oxford Companion to Politics of the World, (Oxford University Press, Oxford, 1989), pp.851-853.

writers. Hence sovereignty is seen as contingent on space and time. Sovereignty is often regarded as a spatial concept.<sup>33</sup> Walker argues that the territorial boundaries of sovereign states are not fixed and that the key components of sovereignty are continually redefined creating an "inside" and an "outside".<sup>34</sup> Temporally, sovereignty has evolved in a historically contingent manner. Bartelson, in his study of the genealogy of sovereignty, identifies three historic phases (Renaissance, Classicism and Modernity) to the concept.<sup>35</sup> In this thesis the position is taken that, whilst sovereignty can be given a broad meaning, its precise interpretation is contingent on time and place.

Viewing sovereignty as a contingent political idea rather than a timeless principle allows the specific consideration of alternative authority claims. These include heteronomy, (neo-) colonialism, informal hierarchy and alternative international organisations. Heteronomy is the classical alternative to Westphalian state sovereignty involving overlapping authority claims of political princes and the universal church. Neo-colonialism undermines effective sovereignty by denying wealth to "de jure" independent states.<sup>36</sup> Informal hierarchy is illustrated in the experience of the East European states prior to the collapse of communism in 1989. Finally, international organisations, such as the EU, provide potential alternatives to sovereignty.<sup>37</sup>

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<sup>33</sup> C. Weber and T. Biersteker, op.cit., p.3.

<sup>34</sup> R.B.J. Walker, op.cit., p.164.

<sup>35</sup> J. Bartelson, A Genealogy of Sovereignty, (Cambridge University Press, Cambridge, 1995), p.3.

<sup>36</sup> N. Inaytullah, "Beyond the sovereignty dilemma: quasi-states as a social construct" in C. Weber and T. Biersteker (Eds.), op.cit., p.77.

<sup>37</sup> U. Hedetoft, "The state of sovereignty in Europe" in S. Zetterholm (Ed.), National Cultures and European Integration, (Berg Publishing, Oxford), p.121.

In summary, sovereignty is interpreted as an authority claim by a state which is externally recognised by other states supported by a degree of effective capability. However, its precise meaning is socially constructed by key actors through discourses at a particular point in time and space and in relevant issue areas. Finally, sovereignty needs to be considered against alternative organising principles in a changing global situation. One such area is the challenges raised by the EU.

### **The European Union and Sovereignty**

The gradual, albeit volatile, development of EU integration has prompted a wide debate as to its implications for state sovereignty. A working definition of integration from Galtung is;

"The process whereby two or more actors form a new actor. When the process is completed, the actors are said to be integrated."<sup>38</sup>

The aim here is to analyse the implications for sovereignty as portrayed by six perspectives of the EU providing a range of positions along the integration/sovereignty nexus. These are the European rescue of the nation-state, the EU as a unique ('sui generis') organisation, the EU as a consociation, the EU as a multi-level governance network, the EU as a putative federation and the EU as a post-sovereign state.

One interpretation of the EU's development is that, far from leading to an erosion of sovereignty through integration, it has actually acted to rescue the nation-state in a modified form. Alan Milward argues that the EU needs to be seen in the historical context of the inter-war period when the Great Depression destroyed the frail political elites in many nation-states leading ultimately to the disaster of the Second World War.<sup>39</sup>

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<sup>38</sup> J. Galtung, "A Structural Theory of Integration", *Journal of Peace Research*, Vol 5, No. 4, 1968.

<sup>39</sup> A. Milward and V. Sorensen "The Frontier of National Sovereignty" in A. Milward, F. Lynch, R. Ranieri, F. Romero and V.

States reasserted their presence as the fundamental political unit of organisation in the post-war period by placing a bundle of industrial and agricultural policies into an international framework where they could be more efficiently achieved. The policies chosen were primarily selected for sectoral reasons but also the general feeling that intergovernmental bargains struck in an integrationist rather than an interdependence framework were likely to be more durable in the longer term. This was supported by exclusive EU policy management underpinned by a permanent legal framework.<sup>40</sup> Within the integrationist framework though national policy considerations continued to dominate, accounting for the episodic rather than gradual process of European integration.

Milward challenges the view that the integrationist trend in the 1980s, culminating in the Maastricht Treaty, arose primarily from an alliance of a determined Commission President, Jacques Delors, and transnational business interests seeking a liberalised market. Instead Milward argues that the "burst" represented a consensus of national policy objectives, particularly in the monetary field. The key element was the bargain between France and a unified Germany with France embedding Germany within an EU framework and Germany gaining an independent foreign policy. In addition, France sought to limit the overwhelming influence of the Bundesbank in monetary affairs. The negative reaction to the Maastricht Treaty in several member states highlighted the fragility of the intergovernmental bargain struck at Maastricht.<sup>41</sup>

Clearly within the framework expounded by Milward sovereignty remains an important

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Sorensen, The Frontier of National Sovereignty, (Routledge Publishing, London, 1993), p.5.

<sup>40</sup> Ibid., p.19.

<sup>41</sup> Ibid., p.31.

factor within the EU. An important conceptual foundation is the sense of the nation-state as a purposive actor rather than as a constellation of diverse interests. In certain limited sectors sovereignty is transferred to an integrationist framework within the EU. However, this framework is itself heavily influenced by the governments of the member states through the Council of Ministers and the European Council. The intergovernmental nature of the second and third pillars of the Maastricht Treaty highlighted the limits of sovereignty transfers in the areas of foreign policy and home affairs. In conclusion, Milward argues that;

"The frontier of national sovereignty, which is approached within varying distances by national policy choices, remains with little alteration where it was fixed in 1952 and 1957."<sup>42</sup>

The fact that national political parties continue to espouse national policy solutions to their electorates, downplaying the EU angle, highlights for Milward the continued pre-eminence of the nation-state.

Another key perspective on the EU is that it reflects a unique historical position. In this perspective the EU cannot be explained by a particular social scientific theory and represents a 'sui generis' or unique situation. A good example of this approach is Keith Middlemas' voluminous study of the informal politics in "Orchestrating Europe".<sup>43</sup> Middlemas uses the word "orchestrate" in his title to convey the two meanings of the formal arrangement of instruments in an orchestra and the informal sequencing to ensure that the orchestra plays in tune. He stresses the failure of any particular generic framework;

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<sup>42</sup> Ibid.

<sup>43</sup> K. Middlemas, Orchestrating Europe: The Informal Politics of European Union 1973-1995, (Fontana Press, London, 1995).

"For all the efforts of federalists, functionalists, neofunctionalists and interdependence theorists to assign primacy to a single process, no single theory commands general assent...That the EC is distinct and probably unique is rarely in dispute"<sup>44</sup>

Below the "stable crust" of the *acquis communautaire* is a "vast molten magma of diversity".<sup>45</sup>

Within the diverse EU Middlemas' main project is to highlight the importance of informal political networks. Within Middlemas' informal EU what are the implications for a concept such as sovereignty which requires a clear locus of authority? In the early period (1945-1958) Middlemas stresses the federalist elite behind early integration moves transferring particular sovereign powers into supranational authorities. With the Maastricht Treaty the EU had become an entity in its own right, attracting the ongoing interest of non-governmental players.<sup>46</sup> However, there are limits to the overall transfers of sovereignty, two of which are highlighted by Middlemas. The first is the perceived lack of a European political community.<sup>47</sup> Secondly, whilst EMU itself represented a major cession of sovereignty to the EU level, other functional areas, such as defence and welfare, remained with the member states.<sup>48</sup>

Whilst most perspectives on EU integration and sovereignty portray an inherently conflictual relationship Paul Taylor argues that there is a symbiotic relationship between

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<sup>44</sup> Ibid., pp:669-670.

<sup>45</sup> Ibid.

<sup>46</sup> Ibid., p.612.

<sup>47</sup> Ibid., p. 696.

<sup>48</sup> Ibid., p.555.

them. Both the state and the EU have acquired a degree of legitimacy and autonomy and developments in one have led to countervailing developments in the other. Each has become essential to the survival of the other. In addition to a symbiotic relationship between the state and European levels, of equal significance is the perceived consociational relationship between the states.<sup>49</sup>

The consociational model comprises four main elements. Firstly, there are a number of distinct, inwardly focused groupings. Secondly, there is a cartel of elites which dominate, on a continuous basis, the policy processes within the groups. Thirdly, there is generally consensus within the elites. Finally, there is a broad principle of proportionality in the representation of the various segments of the population within the elites. The central outcome of the consociational model is a continual approach based on the search for the lowest common denominator, a tendency to eschew conflict whenever possible and a potential for elites within the groups to become detached from their publics.<sup>50</sup>

Applying the consociational model to the EU Taylor argues that it explains several unique features of the EU. These include the growing rift between elites and their publics, the use of this rift by the elites in the intergovernmental bargaining process, the support for European integration by nationalist groups and the consensual nature of the decision making process within the European Union. Within the decision making system there is a wide range of disagreements between the elites but the overwhelming need for consensus leads to a system of "confined dissent".<sup>51</sup>

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<sup>49</sup> P. Taylor, The European Union in the 1990s, (Oxford University Press, Oxford, 1996), p.79.

<sup>50</sup> Ibid., p.81.

<sup>51</sup> Ibid., p.88.

What are the implications for sovereignty of the consociational approach to the EU? Taylor argues that sovereignty was not necessarily diminished by integration, especially after 1974. Indeed for the smaller states the EU served as a mechanism for strengthening their sense of statehood within a context of common values. Given that the conditions of sovereignty are continually changing in the modern world, moves toward integration do not necessarily threaten sovereignty. States have retained a large number of reserve powers or are sharing them in central mechanisms. Integrative moves in the future could undermine sovereignty but if the principles of subsidiarity and balanced competencies (by which national authorities retain competencies in areas adjacent to those of the Communities) continue to be followed such erosion was unlikely to occur. In sum;

"...to say that sovereignty was shared or pooled was quite different from saying it had been lost or transferred."<sup>52</sup>

Another approach with complex implications for sovereignty is that of multi-level governance. This involves a system of continuous negotiations among nested governments at several territorial tiers; supranational, national, regional and local.<sup>53</sup> Three main elements are encompassed in the multi-level governance approach. Firstly, the stress on the decision making competencies of non-governmental actors, especially supranational bodies like the Commission, the European Parliament and the European Court of Justice. These bodies, once created, do not remain under close state control and it is difficult to reverse competencies that have been granted. The second element is that states are subject to both domestic political interests and transnational interests (such as the European Round Table of Industrialists). The final element recognises that, although

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<sup>52</sup> Ibid., p.181.

<sup>53</sup> G. Marks, "Structural Policy and Multi-level Governance in the EC" in A. Cafruny and G. Rosenthal (Eds.), The State of the European Community, Volume 2: The Maastricht Debates and Beyond. (Longman Publishing, Harlow, 1993).

the Council of Ministers may be the most significant decision making body, it cannot control all situations. From a sovereignty angle Qualified Majority Voting (QMV) provides some limitation and the consensus culture of the Council acts against the maximal use of national vetoes. Hence, collective decision making and other levels of governance can significantly impact sovereignty.<sup>54</sup>

The relevance of sovereignty in a multi-level governance environment has been considered more directly by William Wallace. He argues that there was a "European rescue of the nation-state" until the 1960s but that wider processes of informal integration have had a major impact culminating in the Maastricht Treaty;

"The Maastricht Treaty ... touches on almost all the core functions of the nation-state; control of the national territory and borders, police, citizenship and immigration, currency, taxation, financial transfers, management of the economy, promotion of industry, representation and accountability, foreign policy and defence."<sup>55</sup>

The most noticeable changes have been the agreed futility of national industrial strategies (illustrated by the failure of the French 'dash to growth' in the early 1980s) and the crisis of the European welfare state in an era of constrained resources and ageing populations. These developments are underpinned in an EU legal order which takes precedence over national legislation.

Although Wallace points to trends that have diminished national sovereignty he notes that

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<sup>54</sup> S. George, Politics and Policy in the European Union, (Oxford University Press, Oxford, 1996), p.53.

<sup>55</sup> W. Wallace, "Rescue or Retreat? The Nation State in Western Europe" in P. Gowan and P. Anderson (Eds.), The Question of Europe, (Verso Publishing, London, 1997), p.35.

parallel changes in respect of identity have not occurred to the same extent. Multi-level governance should imply multiple identities with a distribution of legitimacy to the various levels. An example would be a Bavarian who is Bavarian in some circumstances, a German in others and a European in yet others. Wallace argues that there is no clear pattern of multiple loyalties leading to a central contradiction between the forces of production and services operating across wider spaces and communities increasingly splintering into divided ethnic and social groupings. In 1993 Wallace did not see this contradiction being addressed;

"The European nation-state is in retreat. It might again be rescued through striking a further bargain between sovereignty and integration ... to a more explicitly confederal regional framework. But that would require a redefinition of the European nation-state ... of which in 1993 there was little sign."<sup>56</sup>

Writing later in 1999 this "central paradox" remains prevalent;

"Much of the substance of European state sovereignty has now fallen away; the symbols, the sense of national solidarity, the focus for political representation and accountability, nevertheless remain."<sup>57</sup>

The perspective of the EU as a putative federation emphasises a constitutional arrangement between the political communities (states) establishing the separation of powers between the political communities and federal institutions. Four principles underlie the proposed constitutional arrangement. Firstly, the principle of subsidiarity prescribes that each state should remain autonomous, except in matters that concern other states or the union as a whole. Secondly, states should act in accordance with a common

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<sup>56</sup> *Ibid.*, p.46.

<sup>57</sup> W. Wallace, "The Sharing of Sovereignty: The European Paradox", *Political Studies*, Vol.47, No.3, Special Issue 1999, pp:503-521.

legislative or judicial framework. The third principle is that the union is empowered to act on behalf of all by the vote of a majority. Finally, the union recognises and guarantees inalienable and universal rights to its citizens including direct political representation.<sup>58</sup>

Given the federal framework outlined what are the implications for sovereignty in this arrangement? At one level federalism seeks to transfer sovereignty from the individual states to the federal level. However, from another perspective, federalism ideally seeks to replace the political principle of sovereignty itself. David Coombes argues that federalism;

"...actually implies a rejection of such sovereignty as a unique principle of political rule."

There is also an explicit rejection of the link between political rule and exclusive national identity. The ideal situation would be the development of a pan-European identity in addition to national identities. Coombes attacks two "modernist" assumptions. Firstly, the principle of unlimited and indivisible political authority within centralised states. Secondly, the principle that a human community can only enjoy the benefits of political rule on the basis of an exclusive principle of common national identity.

David Mackay argues that the Maastricht Treaty gave the EU the basis of a federal state. The rhetoric of the treaty was essentially federalist (especially when referring to citizens) and EMU represented a fundamental shift in economic policy to the supranational level.<sup>59</sup> Three conditions underlined the essentially federalist nature of Maastricht. These were the assumption of exclusive powers, the acceptance of two levels of citizenship and a

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<sup>58</sup> D. Coombes, "Problems of Governance in the Union" in A. Duff, J. Pinder and R. Pryce (Eds.), Maastricht and Beyond, (Routledge Publishing, London, 1994), pp.161-171.

<sup>59</sup> D. Mackay, Rush to Union: Understanding the European Federal Bargain, (Clarendon Press, Oxford, 1996), p.18.

supranational institutional framework. Mackay also argues that the principle of subsidiarity formalised for the first time the separation of powers between the state and European levels. However, the overall putative federal position arose from a rationalistic bargaining process rather than an ideological foundation.<sup>60</sup>

Coombes also argues that the EU has developed some elements of a federative structure. The EU has its own financial resources, a directly elected Parliament and a European Court of Justice, which has established the precedence of EU law over national law. However, Coombes admits that the federal vocation is far from complete and argues that Maastricht was a "major reverse".<sup>61</sup> Maastricht effectively rejected a constitutional settlement, confirmed the intergovernmental nature of key policy areas such as security and home affairs and made the EU a system founded on state sovereignty.<sup>62</sup>

The legal arrangements of the EU presents arguably the most significant challenge to sovereignty. Neil MacCormick has argued that the EU is going "beyond the sovereign state" to become a "post-sovereign" entity given the supremacy of EU law over national law.<sup>63</sup> The European Court of Justice is a supranational institution in ruling on the validity of national legislation in certain areas.<sup>64</sup> For MacCormick there is not so much a sharing of sovereignty but a mutual acknowledgement of co-ordinated jurisdiction

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<sup>60</sup> Ibid., p.27.

<sup>61</sup> D. Coombes, op.cit., p.162.

<sup>62</sup> Ibid., p.163.

<sup>63</sup> N. MacCormick, "Liberalism, Nationalism and the Post-Sovereign State", Political Studies, Vol. 44, Special Issue 1996, pp.561-567.

<sup>64</sup> Ibid., p.555.

between the EU and the member states over a wide range of policy areas.<sup>65</sup> In the Van Gend en Loos case EU law was seen as imposing direct rights and obligations on EU citizens as well as member state governments.<sup>66</sup>

The perspective of the EU being a "post-sovereign" state can be criticised from three main perspectives. Firstly, as Bull argues, whilst the member states retain the right to secede from the EU, sovereignty remains with the member states.<sup>67</sup> Whilst it may be increasingly difficult for practical reasons for member states to secede, it remains a viable and not just a legal reserve power.<sup>68</sup> The second argument is that, even if the EU emerges as an effective sovereign state, international society is unchanged as several sovereign states are just replaced by one larger sovereign state.<sup>69</sup> Whilst acknowledging this argument the very replacement of 15 or more significant sovereign states in Europe would be a major development, especially for the individual states. The third, and most significant, argument is that for the majority of academic opinion the EU does not yet resemble a state. Wallace argues that it is not just an international organisation but certainly not a federation.<sup>70</sup> For Sorensen it has an intermediate status which he terms the "post-modern state".<sup>71</sup>

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<sup>65</sup> Ibid.

<sup>66</sup> J. Weiler, "European Neo-Constitutionalism: In Search of Foundations for the European Constitutional Order", Political Studies, Vol.44, Special Issue, 1996, pp:520-521.

<sup>67</sup> H. Bull, The Anarchical Society, (Macmillan Publishing, London, 1977), p.265.

<sup>68</sup> Whilst not a sovereign entity Greenland has seceded from the EU. See W. Wallace, op.cit., p.505.

<sup>69</sup> R. Jackson, "Sovereignty in World Politics", Political Studies, Vol.47, No. 3, Special Issue 1999, p.453.

<sup>70</sup> W. Wallace, op.cit., p.518.

<sup>71</sup> G. Sorensen, "Sovereignty: Change and Continuity in a Fundamental Institution", Political Studies, Vol.47, No.3, Special Issue 1999, pp:590-604.

In summarising the implications for sovereignty from the perspectives discussed three main arguments are made. Firstly, by placing sovereignty in the context of an alternative organising principle, the EU, the frontiers of sovereignty are clearly changing. Even for Milward's "rescue of the nation-state", an intergovernmental bargain moved the traditional frontier of sovereignty. Secondly, whilst the EU has problematised certain aspects of the sovereignty of the member states, it has not yet superseded their sovereignty for most of the perspectives discussed (except in the narrower, legal sense of the EU as a "post-sovereign" entity). Thirdly, the contested nature of the sovereignty frontier has created intense academic and political discourse within the member states. Before turning to Britain the two particular EU concepts of subsidiarity and "democratic deficit" will be briefly discussed in relation to sovereignty.

### **Subsidiarity and the "Democratic Deficit"**

Subsidiarity and the "democratic deficit" are two particular EU concepts that deserve further attention in relation to sovereignty. Although used indirectly in earlier EU documentation, subsidiarity was explicitly defined in Article 3b of the Maastricht Treaty as follows;

"In the areas which do not fall within its exclusive competence, the Community shall take action, in accordance with the principle of subsidiarity, only if and in so far as the objectives of the proposed action cannot be sufficiently achieved by the Member States and can, therefore, by reason of the scale or effects of the proposed action, be better achieved by the Community."<sup>72</sup>

In addition, the preamble to the Treaty stated;

"The objectives of the Union shall be achieved ... respecting the principle of

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<sup>72</sup> Article 3b, The Maastricht Treaty on European Union 07/02/92, From M. Holland, European Integration: From Community to Union, (Pinter Publishing, London, 1994), p.210.

subsidiarity."<sup>73</sup>

The subsidiarity principle has provoked a wide degree of discussion but the key point in relation to sovereignty is that whereas sovereignty focuses on *authority*, subsidiarity focuses on the radically different aim of *efficiency*.

What are the implications of subsidiarity for sovereignty? Mackay argues that subsidiarity formalises the EU into "a species of a federal state".<sup>74</sup> This is achieved by formalising the separation of powers between the member states and the European level. Taylor argues conversely that the principle of subsidiarity has served to reinforce state sovereignty within the EU. Referring to a Commission Report on subsidiarity Taylor argues that the question of the exclusive jurisdiction given to the Community cannot be decided by the principle of subsidiarity itself but only by the Treaty. Given this presumption the Report stated that the powers conferred on the Community could not be assumed with member state powers being the rule and the Community's the exception. Taylor interprets this as an assertion of state sovereignty;

"It recognised that the powers of the states were superior, that they were the conferring agency, and that they could de-confer: in other words it asserted the continuing sovereignty of the states."<sup>75</sup>

Even if subsidiarity does serve to reinforce state sovereignty, it is carried out in a very indirect manner. Indeed some writers have argued that subsidiarity undermines the powers of the member states in favour of regions through an interpretation of Article A of the Maastricht Treaty which states that "decisions are taken as closely as possible to the

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<sup>73</sup> Article B, The Maastricht Treaty on European Union 07/02/92, From M. Holland, op.cit., p.208.

<sup>74</sup> D. Mackay, op.cit., p.20.

<sup>75</sup> P. Taylor, op.cit., p.66.

citizen".<sup>76</sup> Given the widespread discussion on subsidiarity the key argument made here is the distinction between the authority basis to sovereignty and the efficiency basis to subsidiarity.

Before discussing the particular EU concept of "democratic deficit" a few initial comments need to be made on the general relationship between sovereignty and democracy. The notion of sovereignty as developed historically initially had no democratic roots. As developed by Bodin (1529-96) and Hobbes (1588-1679) sovereignty within the state was a claim that authority was vested in a single source. In this historical context sovereignty symbolised monarchical absolutism as opposed to alternative claims of Christian universalism or local privileges.<sup>77</sup> In parallel, legal theorists, including Austin, refined the concept of legal sovereignty as the command of a sovereign who was habitually obeyed by society without owing obedience to any other authority.<sup>78</sup>

Sovereignty, originally linked to the sovereign, quickly became associated with democratic ideas. Locke (1632-1704) argued that sovereignty rests with the "people" rather than the sovereign. Hence the "people" could decide the form of institutions through which sovereignty could be rightfully exercised. The concept of popular sovereignty was further developed by Rousseau (1712-78) setting the claims of the people against the claims of the state. The development of nationalism in the 19th century led to claims that the people formed a nation and popular sovereignty represented the

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<sup>76</sup> Article A, The Maastricht Treaty on European Union 07/02/92. See K. Bradley and A. Sutton, "European Union and the Rule of Law", in A. Duff, J. Pinder, R. Pryce (Eds.), *op.cit.*, p.234.

<sup>77</sup> M. Newman, *Democracy, Sovereignty and the European Union*, (Hirst Publishing, London, 1996), p.5.

<sup>78</sup> *Ibid.*, p.6.

national will.<sup>79</sup> Although the three concepts are analytically distinct and need to be considered in specific historic and spatial contexts the conflation of sovereignty with democracy and nationhood within a defined territory presented a strong metaphor to underpin sovereignty claims.

Moving the emphasis to democracy, sovereignty provides an important analytical assumption for models of democracy. David Held argues that the majority of democracy models assume a symmetrical relationship between political decision-makers and citizen-voters allowing the citizen-voters to hold their decision-makers to account.<sup>80</sup> Other implicit assumptions have been that the political community is clearly defined and practically effective. The world outside the nation-state is deemed irrelevant for democracy.<sup>81</sup> Held argues that these assumptions need to be re-evaluated in a period of globalisation. "Disjunctures" which have undermined the implicit link between sovereignty and democracy include the internationalisation of the world economy (especially financial transactions), the growth of international organisations and regimes, international law, the globalisation of culture and environmental issues. These "disjunctures" create a need for a "cosmopolitan democracy" with international and regional structures at least supplementing traditional state structures.<sup>82</sup>

One central criticism of the EU has been the perceived "democratic deficit". The term "democratic deficit" can be defined as an implied gap between democratic practice in

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<sup>79</sup> Ibid., p.7.

<sup>80</sup> D. Held, Models of Democracy, (2nd Ed., Blackwell Publishers, Cambridge, 1996), p.335.

<sup>81</sup> Ibid., p.336.

<sup>82</sup> Ibid., pp.337-60.

theory and in reality within the EU.<sup>83</sup> This gap has two main dimensions. The first is the representative nature of the EU institutions. The European Parliament is directly elected, the Council is indirectly representative being composed of elected representatives of national governments and the Commission is arguably the least representative institution. Legally the norm of popular sovereignty was explicitly addressed in the Brunner judgement of the German Federal Constitutional Court (on the constitutionality of the Maastricht Treaty) providing limitations on the ways in which European integration can restrict this norm.<sup>84</sup> The second dimension, more significant for sovereignty, is the relationship between the European level and respective national levels. State sovereignty stresses the continued efficacy of the defined political community of the member state through which democracy is practiced as opposed to the EU level. The continued retention of sovereignty by the member states limits the relevance of the EU “democratic deficit”.<sup>85</sup> However, any acquisition of greater competencies by the EU could conceivably increase the significance of the “democratic deficit” in the wider political debate on national sovereignty.

In conclusion, the relationship between democracy and sovereignty is a complex one. From a sovereignty perspective, democracy provides an important underpinning to the political authority claim captured in the concept of popular sovereignty. From a democracy perspective, sovereignty has often provided the implicit assumption of the spatial link between citizens and their elected representatives. Within the EU the development of a strong EU polity has problematised the emphasis of sovereignty on the state as the ultimate authoritative political community. Both democracy and sovereignty, though analytically distinct, are open to multiple interpretations. Newman in his book

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<sup>83</sup> J. Lodge (Ed.), The European Community and the Challenge of the Future, (Pinter Publishers, London, 1993), p.22.

<sup>84</sup> [www.jura.uni-sb.de/Entscheidungen/abstracts/euro.html](http://www.jura.uni-sb.de/Entscheidungen/abstracts/euro.html)

<sup>85</sup> M. Newman, op.cit. p.23. See also M. Holland, European Integration: From Community to Union, (Pinter Publishers, London, 1994), p.151.

"Democracy, Sovereignty and the European Union" argues, having used the term in the title and spent a chapter elucidating the concept, that the lack of conceptual clarity undermines the term sovereignty.<sup>86</sup> He then argues that democracy is a more appropriate term. However, democracy too is an essentially contested concept with many conceptions of democracy being formulated.<sup>87</sup> The key point here for the later British debate is the underpinning of sovereignty by democracy within the state.

### **Britain and Europe: A Troubled Relationship?**

Turning to the question of the relationship between Britain and Europe the sovereignty issue has been central to a wide range of academic literature. This will be reviewed here by focusing on four main aspects. Firstly, what is the essential nature of Britain's relationship with Europe, especially since 1945? Secondly, what structural explanations of geography, history and institutions have informed this relationship? Thirdly, what other agency-level factors such as political party politics and individuals help to explain this relationship? Finally, what role has been attributed to sovereignty, especially parliamentary sovereignty?

There can be little doubt that Britain's relationship with Europe, until 1972 at least, was largely one of detachment. Even since joining in 1972 Britain has often been seen as pursuing narrow self-interest rather than being fully committed to the European ideal, leading Stephen George to argue that Britain has acquired a reputation as an "awkward partner".<sup>88</sup> Whilst "awkward" may not be the right term to use given its somewhat

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<sup>86</sup> Ibid.

<sup>87</sup> See D. Held, op.cit.

<sup>88</sup> S. George, An Awkward Partner: Britain in the European Community, (Oxford University Press, Oxford, 1994), p.1. For criticism of this approach see J. Buller, "Britain as an Awkward Partner", Politics, Vol. 15, No. 1, 1995, pp:33-42; S. George, "A Reply to Buller", Politics, Vol. 15, No. 1, pp:43-47

negative connotation other terms are "reluctant" European or "semi-detachment".<sup>89</sup> David Allen argues that, whilst governmental institutions in Britain have adapted to the EU, the wider political system has not contributing to "semi-detachment".<sup>90</sup> Before 1972 Britain had remained detached from European developments, but even after this date Britain has clearly not been at the "heart" of Europe.<sup>91</sup>

Britain's semi-detached relationship with the EU is aptly illustrated in the area of monetary politics prior to EMU.<sup>92</sup> Britain participated very briefly in the first European monetary system, the "snake". She joined in May 1972 as a clear gesture of solidarity but left after speculative flows as early as June 1972.<sup>93</sup> This brief engagement with European monetary systems was a notable precursor to later developments. Three main explanations have been advanced for the early exit of sterling. Firstly, in 1972 sterling was still widely held as a reserve currency by many states. In addition, Britain's overseas dominions held "sterling balances" as a result of war lending. These large sterling reserves made it difficult for governments to steadily devalue a clearly overvalued sterling without precipitating a wider devaluation. Secondly, Prime Minister Heath and his Chancellor Barber did not want economic policy to be focused on exchange rate factors given their desire to pursue an expansionary domestic policy. This was epitomised in the brief "Barber boom" prior to the first oil-price shock and the resultant recession. Finally, there was a sense that sterling was overvalued and that free floating of sterling

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<sup>89</sup> See J.W. Young, Britain and European Unity 1945-1992, (Macmillan Press Ltd., London, 1993); D. Watts, Reluctant Europeans, (PAVIC Publications, Sheffield, 1994); S. George (Ed.), Britain and the European Community: The Politics of Semi-Detachment, (Clarendon Press, Oxford, 1992).

<sup>90</sup> D. Allen, "Britain and Western Europe" in M. Smith, S. Smith and B. White (Eds.), British Foreign Policy, (Unwin Hyman, London, 1988), pp:168-192. Term also used by former Labour Chancellor Roy Jenkins, Federal Trust Conference, Britain and Europe: The Forthcoming British Presidency of the EU, 4/12/1997.

<sup>91</sup> J. Major, Speech to the Konrad Adenauer Stiftung, 11/3/1991.

<sup>92</sup> For detailed histories see K. Dyson, The Elusive Union: The Process of Economic and Monetary Union in Europe, (Longman Group Limited, Harlow, 1994); P. Stephens, Politics and the Pound: The Tories, the Economy and Europe, (Macmillan Publishing, London, 1996).

<sup>93</sup> K. Dyson, op.cit., p.85.

was the correct course given the breakdown of the Bretton Woods system. This was seemingly confirmed by a fall in the value of the pound of over 20% against most European currencies during 1973.<sup>94</sup>

The launch of the European Monetary System (EMS) in 1978 was the next significant episode in terms of Britain's relationship with European monetary issues. The Labour government under Callaghan with Healey as Chancellor was instinctively less pro-European but rejected membership of EMS for similar reasons to Barber. Sterling balances were less of a factor because these had been sharply reduced during Callaghan's term. The 1976 sterling crisis and recourse to financial aid from the IMF limited enthusiasm for pegged rate schemes vulnerable to speculative attacks. The main factor was again the desire to pursue domestic economic policies in favour of maintaining employment levels. Euroscepticism on the Labour backbenches for a minority government was also a restraining factor.<sup>95</sup> The then Conservative opposition, even under Mrs. Thatcher's leadership, was much more favourable toward the EMS.

The final element of Britain's historical relationship with European monetary politics was a brief but disastrous membership of the Exchange Rate Mechanism (ERM) from October 1990 to September 1992. Having stood aside from the ERM (the centrepiece of EMS) at the beginning, its seeming success in curbing inflation and providing stability, led to a widespread domestic consensus by 1990 to join the ERM. The British government eventually joined the ERM at the overvalued rate of 2.95 Deutschemarks to one pound presenting a target for speculators. After a series of speculative attacks sterling withdrew from the ERM on 'Black Wednesday', 16 September 1992. The ERM crisis was

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<sup>94</sup> P. Stephens, op.cit., p.3.

<sup>95</sup> Ibid., p.6.

international with many other currencies being devalued (Italy also left the ERM) and the ERM was effectively sidelined with the decision to move to +/- 15% bands in August 1993. The reasons were varied including a tight monetary policy by the Bundesbank (following the fiscal pressures of German unification), economic recession (which lowered political tolerance for “sound money” policies) and institutional weaknesses in the ERM (which led to a lack of co-ordinated central bank action during the crises).<sup>96</sup>

Three factors associated with the ERM crisis are key in relation to Britain. Firstly, and most significantly, the speed of Britain's withdrawal led to a serious embarrassment for the British Conservative government from which it arguably never recovered. Interest rates were raised 5% in one day before falling by the same amount when Britain suspended ERM membership and £4 billion of reserves were spent in an unsuccessful attempt to remain in the ERM.<sup>97</sup> Secondly, the tight monetary approach of the Bundesbank during the crisis further undermined British-German relations.<sup>98</sup> Thirdly, the domestic political fallout from the ERM crisis led to a higher degree of sensitivity in British government dealings with European monetary politics.

In her detailed analysis of the British government's relationship with the ERM Helen Thompson stresses short-term political considerations. These included the desire to utilise exchange rate policy to avoid recession, the need for some influence over the Maastricht Treaty negotiations and the fact that Mrs. Thatcher, having already lost Chancellor Lawson and Foreign Secretary Howe, was forced, reluctantly and eventually, to support

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<sup>96</sup> B. Eichengreen and J. Frieden, The Political Economy of European Monetary Unification, (Westview Press, Oxford, 1994), p.4.

<sup>97</sup> P. Stephens, op.cit., p.257.

<sup>98</sup> K. Dyson, op.cit., p.161.

Chancellor Major and Foreign Secretary Hurd.<sup>99</sup> In the haste to decide whether to enter the ERM the actual entry rate was not considered in much detail leading to the inappropriate rate of £1 to 2.95 Deutschemarks being used.<sup>100</sup> There was also a lack of consensus between the government, which saw the move as a medium-term stabilisation policy, and the Bank of England, which saw the move as a necessary deflationary move to combat the aftermath of the "Lawson boom".<sup>101</sup> Having entered at too high a rate Major saw the need to defend the parity rate as much in terms of maintaining credibility for his "heart of Europe" strategy as maintaining British pride in avoiding devaluation.<sup>102</sup> This made the later forced departure all the more damaging, underlined Britain's unhappy experience with European monetary politics and illustrated once again her semi-detachment.

### **Structural Explanations of Semi-Detachment**

Five structural explanations of Britain's "semi-detached" status include geographical, historical, economic, popular opinion and institutional explanations. The geographical explanation focuses on Britain's status as an offshore island which gives her a peripheral status in Europe.<sup>103</sup> Britain's policies have not traditionally been focused entirely on Europe but have had global reach. In the immediate post-war period Churchill concisely captured British foreign policy as resting at the intersection of three circles between the USA, Europe and the Commonwealth. Clearly the Commonwealth has been of declining importance in the post-war period but the Atlanticist dimension, centred on the "special relationship" with the USA, continues to be a salient factor. This was functionally the

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<sup>99</sup> H. Thompson, The British Conservative Government and the European Exchange Rate Mechanism 1979-1994, (Pinter Publishing, London, 1996), p.176.

<sup>100</sup> Ibid., p.173.

<sup>101</sup> H. Thompson, "The UK and the Exchange Rate Mechanism 1978-1990" in B. Brivati & H. Jones (Eds.), From Reconstruction to Integration: Britain and Europe since 1945, (Leicester University Press, Leicester, 1992), p.237.

<sup>102</sup> H. Thompson, The British Conservative Government and the European Exchange Rate Mechanism 1979-1994, (Pinter Publishing, London, 1996), p.194.

<sup>103</sup> See G. Radice, Offshore: Britain and the European Idea, (I.B. Tauris, London, 1990) and M. Chisholm, Britain on the Edge, (Routledge Publishing, London, 1994).

case most noticeably in foreign and defence policy but also in the realm of ideas where "Anglo-Saxon" liberalism was contrasted with the European social model. However, there were also the symbols of great power status such as nuclear weapons and a permanent seat in the Security Council. It was only after the Suez and the realisation of the economic potential of the EC that Britain moved towards membership.

Another structural explanation emphasises the different historical background in Britain vis-a-vis continental Europe.<sup>104</sup> The central theme of this approach is to stress the different war experiences in Britain as opposed to the rest of continental Europe. One of the key motivations behind the formation of the EC after 1945 was the desire to avoid further war in Europe. For Britain the war experiences had been different, especially in the Second World War where she had defiantly 'stood alone' in 1940.<sup>105</sup> Historically the strategy of Britain in Europe had been to ensure a balance of power on the continent by acting as a "balancer" in the overall power equation but without getting fully involved in continental European affairs. Other historical factors were the relative unity of the British state (following the union with Scotland in 1707), the relative absence of revolutionary activity, the progressive development of democracy, the relative absence of ethnic tensions (excluding Northern Ireland) and the idea of a common identity amongst the British people (whether English, Scottish or Welsh). These were settled nations, which consistently felt their prime identity to be national rather than European in contrast with other continental states. These factors all served to reinforce the British sense of semi-detachment.

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<sup>104</sup> See N. Parker, "The Lion and the Sheepdog: The Ex-Imperial State in the European States System", 13th Lothian Conference, London, November 1997.

<sup>105</sup> S. Bulmer, "Britain and European Integration: Of Sovereignty, Slow Adaptation and Semi-Detachment" in S. George (Ed.), Britain and the European Community: The Politics of Semi-Detachment, (Oxford University Press, Oxford, 1992), p.9.

Structural economic factors may have played a role in Britain's semi-detachment. Initially a high proportion of Britain's trade remained with states outside the EC, especially the Commonwealth. However, the trade pattern changed dramatically with the percentage of trade with EU members rising from 22% in 1958 to over 49% in 1988.<sup>106</sup> The declining trade with other states was a key factor behind British attempts to join the EC in the 1960s. However, in spite of increasing trade interdependence (especially with the launch of the Single Market) four structural economic differences have been significant. Firstly, the Common Agricultural Policy has clearly not favoured Britain. Secondly, Britain's net contribution to the EU budget has led to the specific British budget rebate which continues to cause tensions. The third factor is the limited progress towards a single market in financial services, a key and growing part of the British economy. Finally, Britain's individualist liberal capitalism contrasts with Rhineland capitalism with its greater social dimension.<sup>107</sup>

Public opinion in respect of the EU has been a factor in British semi-detachment. Neill Nugent, in a comprehensive analysis of British public opinion, concludes that overall there is a sense of moderate Euroscepticism but also a high degree of indifference.<sup>108</sup> The malleability of public opinion is stressed by Lord, in his study of the 1970-1974 period, given that initial hostility toward the EC was transformed by a positive campaign by Edward Heath.<sup>109</sup> Later a similar transformation occurred before the 1975 referendum which confirmed British membership. It seems clear that opinion on Europe to date has not generally influenced the result of recent general elections or European policy in

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<sup>106</sup> Ibid., p.19.

<sup>107</sup> Ibid., pp:18-21.

<sup>108</sup> N. Nugent, "Public Opinion" in S. George (Ed.), Britain and the European Community: The Politics of Semi-Detachment, (Oxford University Press, Oxford, 1992).

<sup>109</sup> C. Lord, British Entry to the European Community under the Heath Government of 1970-1974, (Dartmouth Publishing, London, 1993), p.118.

general.<sup>110</sup> Public opinion has only had one specific "outlet" to date, namely the 1975 referendum. However, as will be argued in Chapter 5, this situation has changed significantly under EMU.

A variety of institutional factors have been put forward to account for British semi-detachment. Wilks has argued that Britain's centralised state institutions run counter to the more decentralised institutions in the rest of Europe. This trend has been accelerated by the centralisation of power under Mrs. Thatcher against a corresponding decentralisation of power even in France.<sup>111</sup> Buller rightly criticises this view, in my opinion, by stressing the small state ethos of Thatcherism and the idea that the centralised state apparatus is a cohesive force.<sup>112</sup> Another institutional factor lies in the bargaining style of the British bureaucracy. The "game" in Brussels depended on long negotiations, flexibility and consensus, which contrasted with the relatively inflexible approach of British negotiators.<sup>113</sup> The political system in Britain characterised by adversarial politics, a first-past-the-post election system and reversible policy positions are all distinct from most EU states, undermining the consensual and continuous nature of EU decision making.<sup>114</sup> In Britain's primarily two party system the opposition is deemed to oppose government policy making continuity difficult.<sup>115</sup> A final political-cultural explanation for semi-detachment lies in British pragmatism which eschews rhetorical goals, focuses on issues 'per se' rather than linked agendas and seeks legalistic implementation.<sup>116</sup>

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<sup>110</sup> N. Nugent, op.cit., p.197.

<sup>111</sup> M. Wilks, "Britain and Europe" in C. Crouch and D. Marquand (Eds.), The New Centralism: Britain Out of Step in Europe, (Basil Blackwell Publishing, Oxford, 1989).

<sup>112</sup> J. Buller, "Britain as an Awkward Partner in the European Union (EU): A Critical Assessment of New Institutionalism", Paper presented to the PSA Conference, Keele, April 1998, p.11.

<sup>113</sup> J. W. Young, Britain and European Unity, (Macmillan Publishing, London, 1993), p.180.

<sup>114</sup> B. Laffan, Integration and Co-Operation in Europe, (Routledge Publishing, London, 1992), p.193.

<sup>115</sup> N. Ashford, "The Political Parties" in S. George (Ed.), Britain and the European Community: The Politics of Semi-Detachment, (Oxford University Press, Oxford, 1992).

<sup>116</sup> A. Forster, Britain and the Maastricht Negotiations, (Macmillan Publishing, London, 1999), p.25.

The two main criticisms of the range of structural explanations put forward for British "semi-detachment" is that they overemphasise continuity and understate external developments. Continuity is the main theme of most of the literature on Britain and Europe leading to linked policy prescriptions such as Young's ironic play on the Eurosceptic idea of a "blessed plot" to undermine Britain or Denman's Europhile stress on past "missed chances" for Britain.<sup>117</sup> Simon Bulmer loosely terms the set of explanations put forward as "new institutionalist" focusing on a broad political framework within which specific state institutions operate. The emphasis is on domestic politics because, for Bulmer, "British politics matter" in mediating the European experience.<sup>118</sup> Buller feels that this approach ignores the ideational and the role of agency.<sup>119</sup>

### **Agency Explanations of Semi-Detachment**

Agency centred explanations for semi-detachment focus on political party dynamics, pressure groups and leading individuals. These explanations do give a degree of dynamism to Britain's relationship with the EU as opposed to the continuity inherent in structural explanations. The overall structure of the political system has already been mentioned as a factor in terms of not favouring consensual politics. The adversarial party system is claimed by Ashford to be an important factor in that any moves on European policy by one party create an incentive for the other party to take an alternative position.<sup>120</sup> This may have been the case for the increasingly pro-EU policy of the Labour

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<sup>117</sup> H. Young, This Blessed Plot: Britain and Europe from Churchill to Blair, (Macmillan Publishing, London, 1998); R. Denman, Missed Chances: Britain and Europe in the Twentieth Century, (Cassell Publishing, London, 1996).

<sup>118</sup> S. Bulmer, op.cit., p.2.

<sup>119</sup> J. Buller, op.cit., p.2.

<sup>120</sup> N. Ashford, "The Political Parties" in S. George (Ed.), Britain and the European Community: The Politics of Semi-Detachment, (Oxford University Press, Oxford, 1992).

party in the late 1980s and early 1990s. George and Rosamond argue that a reaction to Thatcherism was an important factor in the Labour policy turn changing the perception of the EU as a "capitalist club" to one of a progressive organisation.<sup>121</sup>

Of equal significance to political party differences were differences within the two main parties forcing the leaderships to adopt compromise positions. The Labour Party in the 1970s and the Conservatives in the 1980s and 1990s were deeply split over the EU. Anthony Forster, in his study of the Maastricht negotiations, stresses the dynamics of internal Conservative differences which continually forced party leaders to modify their situation.<sup>122</sup> Helen Wallace, using the examples of the Maastricht treaty, the "mad cow" disease debate and the Ioannina affair (over revised QMV arrangements following the admission of Finland, Austria and Sweden), emphasises the importance of 'nested games' within the Conservative party. The Major government sought to buy off Eurosceptic opposition but these concessions only served to strengthen the opposition.<sup>123</sup>

The role of leading individuals has often been underplayed by explanatory accounts of Britain's semi-detachment. Hugo Young, in his epic study of Britain and Europe, focuses on the role of key individuals in the post-war period. These include Prime Ministers such as Winston Churchill ("Rule Britannia"), Margaret Thatcher ("Deutschland Uber Alles") and Edward Heath ("The Triumph of the Will"). However, he also includes other influential persons who have left their mark such as Roy Jenkins and Bill Cash.<sup>124</sup> By

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<sup>121</sup> S. George and B. Rosamond "The European Community" in M.J. Smith and J. Spear (Eds.), The Changing Labour Party, (Routledge Publishing, London, 1992), p.179.

<sup>122</sup> A. Forster, op.cit., p. 179.

<sup>123</sup> H. Wallace, "At Odds with Europe", Political Studies, Vol. XLV, 1997, p.684.

<sup>124</sup> H. Young, op.cit.

emphasising the role of individuals some of the changing dynamics of Britain's relationship with Europe are highlighted, a good example being Edward Heath's determined pro-European attitude.

Pressure groups can also help to explain Britain's semi-detachment. Trade unions have traditionally been reluctant Europeans. However, in the 1980s, with the growing European social dimension, the unions took a more pro-European position.<sup>125</sup> The business community has adapted to the EU, though in a selective manner. Enthusiasm for the Single Market has been matched by opposition to the Social Chapter.<sup>126</sup> Business has tended to divide between those, such as the Confederation of British Industry, who stress the EU as the key market and those, such as the Institute of Directors, who see the EU primarily as a regulatory organisation.

### **Sovereignty: Parliamentary or Other?**

What relationship does sovereignty play in relation to the myriad of structural and agency explanations outlined? Most of the focus on sovereignty has concentrated on Britain's particular conception of parliamentary sovereignty. Parliamentary sovereignty in Britain refers to the supremacy of Parliament as the legislative body that has no superior body able to override legislative decisions made for the territory over which it is sovereign.<sup>127</sup> Parliament has been the institutional embodiment of the evolutionary development of the British state. This contrasts with more revolutionary developments in many continental European states.<sup>128</sup> Since the Glorious Revolution of 1689 the central position of Parliament has been asserted within the British state in relation to the monarchy and the

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<sup>125</sup> S. Tindale, "Labour Learns to Love the Market", Political Quarterly, Vol. 63, No. 3, 1992.

<sup>126</sup> J. Greenwood and L. Stancich, "British Business: Managing Complexity" in D. Baker and D. Seawright (Eds.), Britain For and Against Europe, (Clarendon Publishing, Oxford, 1998), pp.148-164.

<sup>127</sup> C. Pilkington, Britain in the European Union Today, (Manchester University Press, Manchester, 1995), pp.96-97.

<sup>128</sup> D. Judge, The Parliamentary State, (SAGE Publications, London, 1993), p.194.

judiciary so that parliamentary sovereignty has become the defining principle of the British state.<sup>129</sup>

The classical constitutional statement on parliamentary sovereignty was made by A.V. Dicey in 1885 in the "Introduction to the Law of the Constitution" which outlined three constitutional principles. Firstly, Parliament has the right to make or unmake any law whatsoever. Secondly, no person or body is recognised by law as having the right to override or set aside the legislation of Parliament. Finally, no Parliament has the ability to bind its successors.<sup>130</sup> Parliament in this context refers to the House of Commons with the House of Lords which, together with the monarchy, are referred to by Kingdom as "the living dead of the constitution".<sup>131</sup> The absence of a written constitution has limited the relative constitutional role of the judiciary in that, for example, there is no British equivalent to the German constitutional court. The British parliamentary sovereignty tradition with its centralising principle within a unitary state can be contrasted with federal constitutions where sovereign powers are divided between different institutions.

The development of the EU has posed a series of challenges to Diceyan parliamentary sovereignty. The accession of Britain into the EC under the Heath government in 1972 was marked by a Parliamentary debate in which the European Communities Act was passed by a majority of 112 with the assistance of 69 pro-EC Labour rebels led by Roy Jenkins. Section 2 (1) gave effect to all provisions of EC law, including retrospective application, which have direct effect within member states. Section 3 requires all UK

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<sup>129</sup> Ibid.

<sup>130</sup> A.V. Dicey, An Introduction to the Study of the Law of the Constitution, (10th Ed., Macmillan Publishing, London, 1885).

<sup>131</sup> J. Kingdom, Government and Politics in Britain, (Polity Press, Cambridge, 1991), p.253.

courts to take judicial notice of European Court of Justice decisions (again retrospectively). This has, since 1972, been judicially interpreted by the UK courts to ensure that European law overrides UK law in any conflict.<sup>132</sup> In the Parliamentary debate on the Act these sections were interpreted by opponents as clearly overriding parliamentary sovereignty. Enoch Powell argued that the 1972 Act;

"...destroyed the parliamentary sovereignty of the United Kingdom by vesting the overriding power of legislation...in an external body."<sup>133</sup>

This conclusion has been supported by a number of constitutional lawyers.<sup>134</sup> However, from a political perspective two main arguments were advanced in defence of the continuing relevance of parliamentary sovereignty. Firstly, ultimate authority would still reside with the British Parliament in that it could in future repeal the European Communities Act (thereby meeting the Diceyan principles of Parliament having the right to unmake any law whatsoever and being unable to bind any successors). The second argument was that sovereignty was being pooled with other member states. The Council of Ministers would include a British representative who ultimately had the right of veto under the 1966 Luxembourg compromise agreement (which allowed any member state to veto a proposed decision against its national interest).<sup>135</sup>

As the EC developed the most obvious challenge has been the status of EC legislation, which as a corpus of law overrides national law. British courts have increasingly recognised this to be the case both in terms of the jurisprudence of the European Court of Justice and the treaties. Lord Denning in 1983 commented that EC law was "like an

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<sup>132</sup> D. Judge, op.cit., p.182.

<sup>133</sup> In Ibid., p.183.

<sup>134</sup> See C. Turpin, British Government and the Constitution, (Wiedenfield Nicholson, London, 1985).

<sup>135</sup> D. Judge, op.cit., p.183.

incoming tide, it flows into the estuaries and up the rivers".<sup>136</sup> Another feature which has challenged parliamentary sovereignty is the increased use of QMV in the Council of Ministers, especially since the development of Single Market. A third challenge is the perceived reduction in significance of the Luxembourg compromise.<sup>137</sup> Teasdale has argued that the Compromise "no longer has any significant bearing on the way the Community functions".<sup>138</sup> A more general challenge has been the gradual increase in the powers of other EU institutions including the European Parliament and the European Court of Justice. Finally, the role of parliament in the legislative process of the EU is marginal even in terms of scrutiny.<sup>139</sup> All of these challenges are contested by academic writers but the key point here is the clash between EU developments and parliamentary sovereignty.

Parliamentary sovereignty incorporates a range of historical factors. William Wallace focuses on the "historical myth" of parliamentary sovereignty, which developed historically in the struggle between King and Parliament. He links this "eighteenth century Whig doctrine" to the British sense of national identity which evolved in contrast to the European continent. Key features included opposition to Catholicism and to autocratic monarchy, pragmatic democracy, a weak state and commitment to economic liberalism. These links served to merge the conception of internal and external sovereignty and form a strong set of core values against alternative continental values. For Wallace parliamentary sovereignty may amount to a "historical myth" but "historical myths shape practical policy".<sup>140</sup>

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<sup>136</sup> P. Riddell, Parliament Under Pressure, (Victor Gollancz Publishing, London, 1998), p.41.

<sup>137</sup> N. Nugent, "Sovereignty and Britain's membership of the European Union", Public Policy and Administration, Vol. 11, No. 2, Summer 1996.

<sup>138</sup> A. Teasdale, "The Luxembourg Compromise" in M. Westlake, The Council of the European Union, (Catermill Publishing, London, 1996), p.104.

<sup>139</sup> P. Norton, Does Parliament Matter?, (Harvester Wheatsheaf Publishing, Hemel Hempstead, 1993), p.127.

<sup>140</sup> W. Wallace, "What price independence? Sovereignty and Interdependence in British Politics", International Affairs, Vol. 67, No. 3, 1986, pp.651-680.

The influence of parliamentary sovereignty has been very influential not just in political circles but also in academia. For Forster the first key historical background factor mentioned is "a constitutional doctrine which merges political and legal sovereignty".<sup>141</sup> Bulmer recognises the "myth of parliamentary sovereignty" as an historical explanation for the consistency of British desire for intergovernmental co-operation.<sup>142</sup> Pilkington stresses that parliamentary sovereignty gives the British debate an additional dimension compared with other EU member states.<sup>143</sup> Riddell criticises the historical myth of the Diceyan model arguing that Dicey himself was not consistent with his own doctrine in calling for a referendum and popular resistance over Ulster Unionism. However, he admits that Diceyan orthodoxy "still mesmerizes an influential group of politicians and political commentators in Britain".<sup>144</sup>

For some writers parliamentary sovereignty has largely been a cover for executive sovereignty, namely the authority of government decision makers to take decisions on British laws and policies free from external restraint.<sup>145</sup> Bulmer argues that parliamentary sovereignty is often a "fig leaf" for "central government's wish to maintain control over national attitudes and policy on the EC".<sup>146</sup> The seemingly uniform edifice of British parliamentary sovereignty nevertheless hides a range of contradictions. In Dicey's

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<sup>141</sup> A. Forster, op.cit., p.21.

<sup>142</sup> S. Bulmer, op.cit., p.9.

<sup>143</sup> C. Pilkington, Britain and the European Union Today, (Manchester University Press, Manchester, 1992), p.160.

<sup>144</sup> P. Riddell, op.cit., p.21.

<sup>145</sup> N. Nugent, op.cit., p.3.

<sup>146</sup> S. Bulmer, op.cit., p.26.

formulation power flows from the people to Parliament to the executive in a unidirectional manner with Parliament exercising collective control over the executive. However, in essence legislative supremacy rests with the executive operating through Parliament. This position could not just be attained through the practice of political party oligarchies but also had to be legitimised through the principle of parliamentary sovereignty. Above all, parliamentary sovereignty endorses the doctrine of "auto-limitation" of the executive (in that it recognises certain limits to its actions itself) as opposed to written constitutional limitations. Within these "auto-limits" parliamentary sovereignty provides a high degree of legitimised independence for the executive in policy formulation and implementation.<sup>147</sup> David Judge concludes that;

"Far from being immutable, therefore, parliamentary sovereignty is...a marvellously flexible thing when it is viewed politically rather than legalistically."<sup>148</sup>

The other dimension of sovereignty in respect of the EU is the wider idea of popular sovereignty which stresses that ultimate authority must reside with the citizens of the state.<sup>149</sup> This notion of sovereignty linked closely with other ideas such as democracy and national identity. The increased debate around the use of referendums has also been a notable development as will be discussed in detail in Chapter 5. On national identity the concept of nation lay at the heart of Enoch Powell's conception of sovereignty and opposition to the EC.<sup>150</sup> Mrs. Thatcher developed this linkage in her later years, most notably during her Bruges speech in 1988, where her vision was one of;

"My first guideline is...willing and active co-operation between independent sovereign

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<sup>147</sup> D. Judge, op.cit., p.184.

<sup>148</sup> Ibid., p.193.

<sup>149</sup> N. Nugent, op.cit., p.3.

<sup>150</sup> P. Lynch, The Politics of Nationhood: Sovereignty, Britishness and Conservative Politics, (Macmillan Publishing, London, 1999), p.39.

states is the best way to build a successful European Community. To try to suppress nationhood and concentrate power at the centre...would be highly damaging. It would be folly to try to fit them into some sort of identikit European personality."<sup>151</sup>

These linkages to national identity and democracy have reinforced the importance of the sovereignty dimension in the debates over Britain and the EU.

Whilst analytically distinct the three meanings of sovereignty used in the context of Britain's relationship with the EU have an essential unity. From a democratic standpoint the people elect both Parliament and the executive. This is conflated with the concepts of nation and state in that persons elected to Parliament and the executive are the representatives of the nation and of the citizens of the state. There is an internal unity in this construction whereby the real difference lies with the external institutions of the EU. The developments in the EU mentioned earlier are seen to affect all three dimensions of sovereignty at the same time. The "other" is the European Union which is territorially and functionally differentiated from the internal of the nation, state citizens, elected Parliament and an elected executive. The "fault-line" of sovereignty separates Britain from the EU. Each of the three dimensions presents an absolutist or maximalist conception of sovereignty and acquires greater strength when the three dimensions are conflated.

### **Central Thesis: The Politics of Sovereignty and EMU**

Analysing sovereignty in relation to Britain and the EU highlights the constructivist interpretation of sovereignty as a social construct in time and place. The central thesis advanced is that sovereignty, in respect of EMU, was constructed in the *British* political debate in the *1990s* in such a manner that it became a key influence on government

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<sup>151</sup> M. Thatcher, Britain and Europe: The Bruges Speech, (Conservative Political Centre, London, 1988).

policy on EMU. Many discourses of sovereignty were developed in the debate on EMU but the three conceptions of absolutist sovereignty, the pooling of sovereignty and popular sovereignty were the most influential. These key discourses influenced government policy in five explicit ways. Firstly, the focus on sovereignty reinforced government caution. Secondly, Conservative divisions crystallised around a sovereignty/interdependence axis. Thirdly, Conservative divisions fostered the referendum commitment of both main parties. Fourthly, the referendum commitment, once given, continued to constrain the Labour government after 1997. Finally, in the longer term, the alternative discourses of pooling and absolutist sovereignty used respectively by the Labour and Conservative parties prefigured the 1997 policy divergence. The politics of sovereignty operated in a dynamic and cumulative manner. For example, Conservative divisions developed during the Maastricht ratification debate engendered the 1996 referendum decision by both main parties; a decision which continued to constrain the Labour government after 1997.

In developing the thesis the first stage is to consider the academic discussion of the impact of EMU on British sovereignty. Chapter 3 outlines this discussion focusing on four aspects of sovereignty. These are monetary sovereignty, institutional sovereignty (in the form of the European Central Bank), fiscal sovereignty and ultimate political sovereignty. In this way the academic debate was able to divide sovereignty into relevant issue areas. The general conclusion advanced is the greater impact on monetary and institutional sovereignty rather than wider questions of fiscal and political sovereignty.

The second stage in developing the thesis is to consider the discourses of sovereignty developed in the political debate as advanced by key political actors with the ability to influence government policy. The political debate developed a multitude of conceptions of sovereignty but tended to coalesce around three main conceptions. Firstly, an

absolutist conception of sovereignty used by Conservative Eurosceptics. Secondly, a pooling conception of sovereignty was explicitly used by the Labour government. As the debate developed the idea of increasing sovereignty within the EU in terms of power and influence also became a key pro-EMU argument of the Labour government. Thirdly, an overall conception of popular sovereignty resonated throughout the debate. As the political debate developed the question of EMU became a litmus test of Britain's overall political relationship with the EU. Unlike the academic debate the political debate focused on overall conceptions of sovereignty rather than dividing sovereignty by specific issue.

The third, and most significant, development of the thesis is to explicitly examine in detail the five key relationships between the discourses of sovereignty and government policy on EMU. The empirical sections of the thesis directly address in detail the five key relationships and the reasons for gradual government policy change on EMU. Chapter 4 focuses on the Conservative divisions over EMU which developed during the Maastricht ratification debate. These deep divisions developed along a sovereignty/interdependence dimension with Eurosceptics arguing a consistent absolutist conception of sovereignty, which would be undermined by EMU. Chapter 5 focuses on the referendum decision by both major parties. The primary factor was internal Conservative divisions supported by a reactive Labour opposition and the wider feeling that EMU was such a critical issue that it should be subject to the popular sovereignty of the British people. Chapter 6 focuses on two further relationships. The alignment of the pooling and absolutist discourses of sovereignty with differing EMU policies of the two major parties after 1997 is discussed. In addition the continuing constraint of the referendum given public scepticism on EMU stopped the Labour government from developing a more active pro-EMU policy. The continuous caution of government policy is reflected throughout the empirical sections.

The five relationships made must be seen as mutually reinforcing. Two particular points are stressed. Firstly, the importance of the referendum decision highlighted the interrelationship and dynamism of the debate. The decision, a contrast to British political tradition, reflected the deep Conservative divisions. However, the referendum commitment placed the EMU decision into the widest possible public debate leaving the ultimate decision to the British people. Ironically the key ongoing influence of the referendum decision, engendered primarily by Conservative divisions, was to act as a constraint on the Labour government after 1997 moving in a pro-EMU direction. Secondly, the politics of sovereignty stressed the dynamic interplay between the two major political parties in that they were forced to respond to the alternative sovereignty arguments and policy changes of each other.

Whilst the five key relationships provide the specific empirical links between the sovereignty discourses and government policy on EMU how did the sovereignty discourses more generally place clear constraints on government policy on EMU? Four constraints can be identified. Firstly, focusing the debate around sovereignty reinforced the 'status quo' position of Britain staying outside EMU and government caution. A significant degree of risk was placed on actively supporting British accession to EMU. Secondly, sovereignty was seen as a clear value within the British polity. Government policy was forced to debate EMU membership in terms of British sovereignty. Whilst individual politicians denied the relevance of sovereignty no government spokesperson would do so. Thirdly, sovereignty created a major practical barrier to EMU membership in terms of the need to win a popular referendum given popular scepticism toward EMU. The referendum was engendered by Conservative divisions over sovereignty and the wider feeling that EMU was such an important issue that it must be resolved by the sovereign British people. Finally, whilst multiple discourses of sovereignty were developed, the three key conceptions were an absolutist conception, a pooling conception and a popular conception. Sovereignty in the political debate was not divided by issue, such as monetary or fiscal sovereignty, but, in the form of EMU, came to represent the

highly sensitive litmus test of the wider political relationship between Britain and the EU. In these ways the politics of sovereignty, both in the wider ways outlined above and the five explicit empirical relationships, became a key influence on government policy on EMU. In sum, the politics of sovereignty were a key influence rather than an “ex post facto” rationalisation of government policy.

The main alternative interpretations need to be considered in relation to the politics of sovereignty. On EMU three main alternative interpretations were relevant and build on the alternatives addressed earlier in understanding Britain’s overall relationship with the EU. Firstly, parties need to get re-elected and adjust their policies to maximise this possibility. Secondly, economic interest is seen as the dominant factor for voters, interest groups and political parties in deciding policies toward EMU. Thirdly, business pressure for a pro-EMU position is a key influence on government policy.

The politics of sovereignty thesis could be refuted if the evidence supported the dominance of either of these alternative interpretations. For example, did electoral considerations before the 1997 and 2001 general elections play a key role? On economic interest to what extent did this influence the Labour government after 1997? Similarly to what extent was cohesive business pressure a key influence on Labour government policy after 1997? Each of these alternative interpretations will be considered throughout the thesis in relation to the politics of sovereignty. The electoral necessity thesis will be considered throughout the empirical chapters, especially Chapter 5. The economic interest thesis is also considered throughout the empirical chapters but the focus is placed on Labour government policy in Chapter 6. A specific chapter (Chapter 7) is devoted to the business influence given the nature of the EMU issue, its inherent importance to business interests and the methods by which these interests were translated into influence on government policy. The overall argument made is that the politics of sovereignty was

the dominant interpretation. The electoral constraints were limited by the referendum decision which deferred EMU to a specific popular vote at an uncertain future date. The economic arguments for EMU were not conclusive and crucially had not been articulated clearly by the Labour government. The business community was itself divided, focused on certainty of policy rather than direction and ultimately accepted the subordination of business interest to the debate around sovereignty.

### **Conclusions**

The aims of this chapter, as set out in its introduction, were to examine the concept of sovereignty in the context of Britain and the EU and to set the context for Chapter 3 on the specific questions raised in terms of sovereignty by EMU. The key arguments made primarily relate to the conception of sovereignty. Five broad conclusions are advanced. Firstly, the key basis of sovereignty is represented by an authority claim on behalf of a political community (a state). Secondly, this claim can be assessed in relevant issue areas. Thirdly, sovereignty is a social construct which needs to be continually reinterpreted in the context of different temporal and spatial situations. Fourthly, the EU itself has represented a series of challenges to the concept of sovereignty but has not, to date, from a range of perspectives, undermined sovereignty. Finally, the series of challenges to sovereignty raised by the EU have been particularly sharp for Britain for a wide range of specific reasons, the importance of which can be illustrated by developing the distinction between sovereignty and autonomy made earlier in this chapter.

In the Britain/EU context a crucial distinction can be made between sovereignty and autonomy. Sovereignty is seen throughout this thesis as *either* formal, concerning legal rights, or as effective, in concerning the practical capability to exercise those legal rights. In contrast autonomy refers to the results achieved by their exercise in as far as they can be exercised. The importance of this distinction in the Britain/EU context is that debate in Britain has focused on the formal and visible transfer of powers to the EU. This contrasts

with the position in France where the EU is perceived as increasing autonomy over German monetary policy or the forces of Anglo-Saxon capitalism. The British focus on sovereignty highlights the dichotomy between the absolutism of popular, parliamentary and executive sovereignty and EU developments. This clash has been rationalised in a series of ways from pooling sovereignty, dividing sovereignty by issue, the keeping of sovereignty as a reserve power whilst delegating powers, the symbolic myth of sovereignty to the irrelevance of sovereignty in an interdependent, globalised world. These conceptions of sovereignty will be discussed in more detail in later chapters but the key point here is that in Britain's relationship with the EU sovereignty is not just a dry, legal concept but an essentially contested and emotive word.

What role can a discourse analysis of the idea of sovereignty play in this debate? Firstly, on the surface sovereignty seems to emphasise continuity. In particular I would argue that too much emphasis has been placed on parliamentary sovereignty, which has tended to solidify the view of sovereignty as a key element of continuity. However, using a discourse analysis approach the multiple conceptions of sovereignty developed by different actors at different times allow an element of dynamism to enter the analysis. It allows space for the agency forces of individuals and political parties with their differing views of sovereignty to play a significant role. As argued previously the discourse of the idea of sovereignty can be located in a dynamic manner between structure and agency. Secondly, the emphasis is undoubtedly at the domestic level. Sovereignty itself stresses the domestic and the discourse on sovereignty and Europe remains primarily located at the individual state level. Hence, British politics certainly do matter in the sovereignty debate. While predominantly domestic though the challenges to sovereignty are external and dynamic. Before examining the British debate on EMU the discussion turns to the substantial challenges to sovereignty posed by EMU.

## **CHAPTER 3 SOVEREIGNTY: THE CHALLENGES OF EMU**

### **Introduction**

The aim of this chapter is to consider the challenges to sovereignty raised by EMU. To what extent do monetary unions affect national sovereignty? A proposed fourfold analytical framework of "sovereignty questions" will be used throughout this and subsequent chapters. This framework is developed in the light of the conclusion of Chapter 2 as to the authority basis of sovereignty which can be considered in relevant issue areas. The first question is that of *monetary* sovereignty, namely the actions of the state in terms of monetary policy. The second question focuses on *institutional* sovereignty, which arises in terms of any particular institutional arrangements arising from monetary union. Thirdly, *fiscal* sovereignty, namely the actions of the state in terms of taxation, borrowing and public expenditure, needs to be considered. Finally, the question of *political* sovereignty arises in terms of the need for some form of political union to match monetary union. This framework will be applied in this chapter to historic monetary unions and to EMU.

Six main areas will be discussed in this chapter. Firstly, after some brief initial comments on the functions of money, EMU will be set in the context of previous monetary unions including the Gold Standard and particular monetary unions. It will be argued that none of these unions had a significant lasting impact on sovereignty. Secondly, the EMU negotiation process will be briefly considered focusing on Britain's limited role. The discussion then turns to an analysis of each of the four "sovereignty questions" raised by EMU. Within each sovereignty question three aspects need to be considered. Firstly, what meanings can be given to each of the "sovereignty questions" in EMU. Secondly, what are the appropriate provisions within the Maastricht treaty (or where relevant the 1996 Dublin Stability and Growth Pact as confirmed by the 1997 Amsterdam Treaty). Thirdly, what other key considerations need to be taken into account. The basic argument

advanced is that EMU presented considerable challenges to sovereignty, especially in the monetary and institutional questions. The challenges to fiscal and political sovereignty were more problematic but certainly placed the relevant issues at the centre of European debates. The binary nature of EMU, namely that a state had to either join EMU or remain outside, added to these challenges. These challenges set the context in which the heat of the British domestic debate can be considered. In reviewing selected EMU literature the focus throughout is on the visible transfers of formal powers rather than the wider political and economic issues raised by EMU.

### **Money and Monetary Unions: Challenges to Sovereignty**

Money is generally regarded as fulfilling three main functions in an economic system. These are acting as a medium for exchange, a unit of account and a store of value.<sup>1</sup> Hence it acts as an intermediate agent for economic transactions as opposed to direct barter. However, money has often taken a wide variety of forms over the generations ranging from the earliest coins in ancient Greece in the seventh century before Christ to the use of commodities.<sup>2</sup> The relationship between money and political authority was initially a complex one. Gilpin refers to the premodern period as the "era of specie money" in that precious metals or specie money (principally gold and silver) served as the basis for the international monetary system.<sup>3</sup> Political princes, often seeking to finance military activities, sought to enforce payment of debts, gain control over the issue of currency and even debase particular currencies. However, money ultimately relied on the social convention that it was acceptable to both parties in a transaction rather than deriving from political authority.<sup>4</sup> The value of international money was in the main dependent upon its supply and was generally outside the control of individual political authorities.

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<sup>1</sup> J. Grah, After Maastricht, (Lawrence and Wishart Limited, London, 1997), p.1. Also, D. Currie, The Pros and Cons of EMU (Economist Intelligence Unit, London, 1997), p.5.

<sup>2</sup> A. Walter, World Power and World Money, (Harvester Wheatsheaf, Hemel Hempstead, 1993), p.28.

<sup>3</sup> R. Gilpin, The Political Economy of International Relations, (Princeton University Press, Chichester, 1987), p.119.

<sup>4</sup> Ibid., p.29.

The growth of the state had a significant effect on the development of money and finance. States needed money to finance the use of resources, especially mercenaries, and to consolidate their power in an era constantly characterised by wars. A close relationship was built between political elites and private financiers who swapped the high risks inherent in sovereign lending for political influence. In addition states sought to extend their bases of ongoing taxation. Above all there was a financial revolution with governments beginning to issue paper money, modern banking and the proliferation of public and private credit instruments.

In Britain the formation of the Bank of England in 1694 was based on an agreement between the post-Glorious Revolution government and a group of London and foreign financiers. This effectively allowed the government to rationalise its outstanding debts in return for giving the Bank of England preference, and eventually a monopoly, of its business. Britain was, therefore, able to finance subsequent wars and consolidate its development as the major political and financial power. The Bank of England was gradually transformed from a standard private bank to a central bank. In 1844 the Banking Act formalised the "public" role of the Bank by dividing the Issuing department from the Banking department. In the private sphere the expansion of credit enhanced the Bank's role at the pinnacle of the hierarchy of banks. In spite of several financial crises, by 1866 the Bank's task had effectively become that of managing the financial system through acting as the lender of last resort, maintaining the discount rate and reserves and issuing currency.<sup>5</sup> A similar process can be identified in other unitary states though often in a more uneven manner (as the later examples of the USA and Germany will illustrate).

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<sup>5</sup> Ibid., pp:34-36.

The relationship between central state governments and the central banks is a close one. State legislation has underpinned the universal acceptability of money within the borders of the state as *legal* tender reinforced by the state's position as a monopoly supplier of money. Hence the general position in a world of sovereign states has been for each state to have its own national currency (often a very potent symbol of national sovereignty). The state itself gains financially in the form of seigniorage whereby through issuing money it can purchase additional goods and services at little incremental cost to itself. Monetary policy can be defined as the ability of governments (albeit transmitted through central banks) to influence monetary conditions in their national economies. Three main instruments can be defined. Firstly, the use of interest rates to influence borrowing and lending. Secondly, policy aimed at influencing the exchange rate of the national currency in relation to foreign currencies. Finally, the use of other monetary instruments including the issue of currency, the issue of government securities ("open market operations"), the holding of reserves and the regulation of the financial system. Monetary policy needs to be distinguished from fiscal policy, the latter being the direct financial activities of the government in terms of revenue raising by taxation or borrowing and public expenditure.<sup>6</sup>

Monetary unions can be defined in a variety of ways in terms of economic theory and, hence, the meanings utilised here are developed in the context of EMU. The Werner Report of 1970, the first detailed blueprint for EMU, defined monetary union as a regime that satisfies three main conditions; fully convertible currencies, complete freedom of capital movements and irrevocably fixed exchange rates. Following the shelving of the Werner report in the 1970s, the Delors Report of 1989 (the precursor to the Maastricht Treaty) added two further conditions. These were the full liberalisation of financial services and a single monetary policy. This last element is the central element of which a single European currency is an outward manifestation.<sup>7</sup> The "economic" element of EMU

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<sup>6</sup> D. Currie, The Pros and Cons of EMU, (Economist Intelligence Unit, London, 1997), pp:4-7.

<sup>7</sup> T. Padoa-Schioppa, The Road to Monetary Union in Europe, (Oxford University Press, Oxford, 1994), p.138.

comprised three main elements; the single market, regional and structural policies and fiscal and budgetary macro-economic policies.<sup>8</sup> Mica Panic makes a useful distinction between a complete monetary union and a quasi monetary union. A complete monetary union involves the creation of a single currency and monetary policy (as in EMU) whilst a quasi monetary union involves the irrevocable fixing of exchange rates (as in the Gold Standard system).<sup>9</sup> The main difference between the two types is the far higher exit costs of a complete monetary union.

### **International Monetary Union: The Gold Standard (1867-1914)**

The Gold Standard is often portrayed as an international quasi monetary union which underpinned a golden era of world economic prosperity whilst limiting monetary sovereignty.<sup>10</sup> The classical liberal interpretation of the operation of the Gold Standard system owed much to the price-specie flow theory developed by David Hume. This theory postulated a model of automatic equilibrium based on rational economic forces and gold supplies.<sup>11</sup> Central banks supplemented this process by buying and selling a given weight of gold at a fixed price to their national currency by law, using their reserves to control the level of gold reserves and using interest rates to control private levels of gold reserves. In addition, there were no capital controls over the import and export of gold. These cumulative processes led to a series of credit systems based on gold and linked by fixed exchange rates. The benign economic environment was underpinned by the political and financial hegemony of Britain, which enforced the "rules of the game" (via interest rate changes by the Bank of England). Generally these rules were accepted by other parties as the external "discipline" for stable economic growth whilst limiting their independent monetary policies.<sup>12</sup>

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<sup>8</sup> Ibid. p.139.

<sup>9</sup> M. Panic, European Monetary Union: Lessons from the Classical Gold Standard, (Macmillan Press, London, 1992), p.2.

<sup>10</sup> Ibid. p.12

<sup>11</sup> R. Gilpin, op.cit. p.121.

<sup>12</sup> Ibid. p.124.

The automaticity of the Gold Standard in classical accounts has been increasingly questioned by later writers. For a start many of the leading states were only late or intermittent members of the Gold Standard. The United States did not join until 1879, Austria-Hungary until 1892 and Russia until 1897.<sup>13</sup> In addition, the Gold Standard tended to be a "club" of leading powers in an imperial age rather than a global system.<sup>14</sup> Even the two main states that were ongoing members, France and Germany, did not necessarily follow the line of the Bank of England in interest rate movements wishing to maintain a degree of monetary sovereignty.<sup>15</sup> Panic argues that there was little automaticity in the Gold Standard. The UK and Germany ran persistent trade surpluses whilst the USA and Italy ran persistent trade deficits, contradicting the equilibrium process.<sup>16</sup> He also argues that there was an historic absence of an essential conflict of interest between the monetary conditions of the Gold Standard and the domestic economic needs of the major participants. This was due to record levels of overseas investment (especially by Britain and Germany), widespread labour migration and differentiated trade policies in accordance with the level of industrialisation (Russia and Japan widely used protective policies whilst Britain endorsed free trade).<sup>17</sup> In sum there was a coincidence of monetary and other economic policies as opposed to an erosion of monetary sovereignty.

From a political perspective the stability of the Gold Standard was seemingly based on

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<sup>13</sup> For the US see J.K. Galbraith, Money: Whence It Came, Where It Went, (2nd Ed., Penguin Books, London, 1995), p. 99. For the others see J. Foreman-Peck "The Gold Standard as a European Monetary Lesson" in J. Driffill and M. Beber (Eds.), A Currency for Europe, (Lothian Foundation Press, London, 1991), p.9.

<sup>14</sup> J. Grahl, op.cit., p.38.

<sup>15</sup> A. Giovannini, The Debate on Money in Europe, (MIT Press, London, 1995), pp:17-22.

<sup>16</sup> M. Panic, op.cit., p.62.

<sup>17</sup> Ibid., p.82.

British hegemony. Robert Gilpin is one of the writers who has argued this "hegemonic stability" thesis. Sterling was the key currency in international transactions and interest rate changes by the Bank of England helped to control the flows of gold reserves. The ideology of laissez-faire combined with British economic interests dictated an emphasis on monetary stability. Gilpin argues that the international monetary system;

"...was organized and managed by Great Britain; and the City of London, through its hegemonic position in the world commodity, money, and capital markets, enforced the "rules of the system" upon the world's economies."<sup>18</sup>

Hence the effective monetary sovereignty of other states was eroded by largely beneficial British hegemony. The "hegemonic stability" thesis has been challenged by a number of writers. Andrew Walter argues that British power was itself limited in this period.<sup>19</sup> The Bank of England did not automatically adjust every twist of monetary policy to reflect gold flows. In addition, other centres such as Paris and Berlin played a key supporting role in the international monetary system. Most significantly, according to Walter, the Bank of England did not fulfil the function of "lender of last resort" and had limited contacts with other European central banks.<sup>20</sup> The Gold Standard was, in sum;

"...the product of similar domestic monetary institutions and a commitment to the general observance of an external monetary restraint, rather than...'policy cooperation'.<sup>21</sup>

Walter's conclusions are largely supported by Latham who argues that, whilst Britain had economic dominance in the late nineteenth century, there was a lack of purposive actions by the British state.<sup>22</sup>

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<sup>18</sup> R. Gilpin, op.cit., p.124.

<sup>19</sup> A. Walter, op.cit., p.91.

<sup>20</sup> Ibid., p.107.

<sup>21</sup> Ibid.

<sup>22</sup> R. Latham, "Nineteenth Century Lessons", Review of International Studies, Vol. 23, No.4, October 1997, p.429.

Given the limited overall impact on monetary sovereignty what impact did the Gold Standard have on the other "sovereignty questions"? On political sovereignty there was clearly no impact. This also applied to fiscal sovereignty with the nineteenth century being a period of government nonintervention.<sup>23</sup> Even in the area of institutional sovereignty there were no lasting arrangements or formal treaty commitments. The independence of the Bank of England has already been noted and apart from a few isolated cases of central bank co-operation there was little active management. Indeed Panic argues that the very lack of an institutional framework was a foundation for the success of the Gold Standard;

"The decision to take the steps which, in effect amounted to joining an international monetary union was made easier by the absence of formal treaties which required the countries to 'harmonise' their economic policies, or to adopt the standard by a certain date."<sup>24</sup>

In sum, whilst the Gold Standard amounted to a quasi monetary union and served to underpin a period of relative economic prosperity, Panic concludes that;

"The question of the locus of sovereignty never arose under the classical gold standard, probably the most demanding monetary union attempted so far."<sup>25</sup>

### **Particular Monetary Unions**

There have been a variety of particular monetary unions since the 19th century, both between existing sovereign states and in newly emerging federal states. In analysing

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<sup>23</sup> R. Gilpin, op.cit., p.126.

<sup>24</sup> M. Panic, op.cit., p.202.

<sup>25</sup> M. Panic, "Monetary Sovereignty under Different Systems" in C. Taylor (Ed.), European Monetary Union: The Kingsdown Enquiry, (Macmillan Press, London, 1996), p.202.

these unions the "sovereignty questions" need to be borne in mind, especially that of the relationship between political union and monetary union. Probably the most extensive and interesting example of a monetary union was the Latin Monetary Union (LMU). This union lasted from 1865 to 1878 and was centred on France. France sought to create a European monetary zone partly in competition to the Gold Standard led by Britain. The origins can be traced to a bilateral monetary union between France and Belgium following Belgium's independence from Netherlands in 1830. Switzerland gave official status to French coins in 1848, partly to escape the chaos of cantonal currencies. Italy did likewise in 1861 and in 1865 a treaty was signed between the four states based on a bimetallic standard (gold and silver), which mutually recognised the use of each of the participatory currencies in each state at par value. Greece and Bulgaria joined the LMU in 1871.<sup>26</sup> The LMU effectively lasted until 1878 when the members joined the more successful Gold Standard and coinage exchange of silver ended in 1885 (though officially the LMU lasted until 1927). There was no single monetary policy or central institution to enforce the agreed inter-governmental rules relating to the issue of currency and the system, primarily based on French hegemony, was undermined by the defeat of France in the 1870 war with Prussia.<sup>27</sup>

An interesting development associated with the LMU was the attempt by France to extend the system to a world monetary union, which led to the convening of an international conference on this issue in Paris in 1867. This proposal was sharply opposed by the British delegation in an ironic precursor to the EMU debate today. Mr. Wilson, the British delegate, told the conference;

"So long as public opinion has not decided in favour of a change in the present system, which offers no serious inconvenience...and until it shall be incontestably demonstrated

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<sup>26</sup> C. Johnson, In With the Euro, Out With the Pound, (Penguin Publishing, London, 1996), p.29.

<sup>27</sup> J. Drifill and M. Beber (Eds.), op.cit., p. 8.

that a new system offers advantages sufficiently commanding to justify the abandonment of that which is approved by experience and rooted in the habits of the people, the English government could not believe it to be its duty to take the initiative in assimilating its coinage with those of the countries of the continent."<sup>28</sup>

The Conference sparked a debate in Britain with Bagehot arguing in the Economist for Britain to join a world currency;

"If we do nothing, what then? Why, we shall...be left out in the cold...If things remain as now, [Germany] is sure to choose the French currency...Before long, all Europe, save England, will have one money, and England be left standing with another money."<sup>29</sup>

Although the Conference reaffirmed the Gold Standard rather than a world currency the debate was an interesting historic precursor for the 1990s EMU debate.

The Scandinavian Monetary Union was formed between Sweden and Denmark in 1872 and was joined by Norway in 1875. It lasted until the outbreak of the First World War in 1914 (though Sweden officially withdrew in 1905) when differing national priorities forced a division. Three features of this union are notable. Firstly, it was one of the longest monetary unions between independent states, lasting over 40 years. Secondly, a common minted coin, the Scandinavian crown, was minted and circulated freely in the three states replacing gold (which was made illegal). In addition, there was a wide degree of co-operation between the three central banks. Thirdly, the union did not have a clear hegemon but reflected a degree of political solidarity between the Scandinavian states. However, there was no clear institutional framework and the union ultimately depended on political will.<sup>30</sup>

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<sup>28</sup> Quoted in C. Johnson, op.cit., p.31.

<sup>29</sup> Ibid.

<sup>30</sup> K. Dyson, The Elusive Union: The Process of Economic and Monetary Union in Europe, (Longman Publishing, London, 1994),

The cases of the US, Italy, Switzerland and Germany present differing perspectives on the relationship between political union and monetary union. Monetary union in the US took until the First World War, over a century after political union, an astonishing fact given the later pre-eminence of the dollar. In 1792 following the Philadelphia Congress the US federal government gained the right to tax and mint currency but early federal banks did not override individual state practices. Even after the Civil War in the 1860s monetary decentralisation continued with over 5,600 banks issuing notes in 1905 until recurring financial crises eventually led to the creation of a system of Federal Reserve Banks in 1913.<sup>31</sup> Temperley argues that the US never resolved the political "sovereignty question" until the end of the Civil War.<sup>32</sup> Galbraith stresses US specific factors such as the general feeling against taxation and centralisation.<sup>33</sup> In Italy the move to a monetary union paralleled to a degree the process in the USA. After political union in 1860 a decree of 1862 established the lira as legal tender. However, government policy tended to favour one particular bank (the BNR) without actually creating a centralised system until 1893.<sup>34</sup> The Italian case partly reflected the relative lack of a cohesive political centre in the Italian polity. A similar process was reflected in Switzerland, which remained a highly decentralised confederation after the union of 1848. After a brief period in the LMU a common currency was adopted in 1870 as a counter to the waning of French influence.<sup>35</sup> In all these cases political union preceded monetary union.

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p.28.

<sup>31</sup> Ibid. p.31.

<sup>32</sup> H. Temperley, "The US in the 1790s and the European Union in the 1990s", Lothian Foundation Conference, 11/12/1997.

<sup>33</sup> J.K. Galbraith, op.cit., p.86.

<sup>34</sup> V. Sannucci, "The Establishment of a Central Bank: Italy in the Nineteenth Century" in J. Driffill and M. Beber (Eds.), op.cit., p.45.

<sup>35</sup> D. Currie, op.cit., p.15.

The pattern in Germany was somewhat different. Establishment of the mark as the single currency in Germany was a clear act of political will. The initial impetus came with the Prussian-led customs union ("Zollverein") of 1834 which fixed exchange rates between the various currencies and called for standardised coinage. However, competition between the northern currency standard ("the thaler") and the southern standard ("the gulden") continued. Following the political unification of Germany in 1871 rapid moves were made to complete monetary union by 1875 with the passing of the Banks Act creating the centralised Reichsbank and limiting the freedom of states to issue coinage.<sup>36</sup> The key feature of the German case is the way that centralised political union accelerated monetary union. However, although political union was preceded by customs union it is significant that complete monetary union was only successful after complete political union.

20th century monetary unions have tended to date to be on a smaller scale than the 19th century unions. Relevant examples include Britain/Ireland, Belgium/Luxembourg, the German Union in 1990, the Central African Union, the Eastern Caribbean Union, the Southern African Union and the East African Union. The monetary union between Britain and Ireland actually goes back to 1826 but was maintained by the Irish Free State following independence in 1922 until 1979 when Ireland joined the European Monetary System. Ireland maintained its monetary link with Britain in 1922, in spite of nationalist pressures, largely because of the overwhelming dependence of a relatively poor state on a wealthier economy.<sup>37</sup> This link was maintained until 1979 in spite of many important events including the withdrawal of sterling from the Gold Standard in 1931, the Second World War and continued sterling devaluations in the post-war period. The breaking of the link in 1979 was partly due to long-term factors such as diminishing trade dependence on Britain and the desire to avoid the importation of inflation from the weakening British

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<sup>36</sup> K. Dyson, op.cit., p.30.

<sup>37</sup> J. Bradley and K. Whelan, "Irish Experience of Monetary Linkages with the United Kingdom and Developments since joining the EMS" in R. Barrell (Ed.), Economic Convergence and Monetary Union in Europe, (SAGE Publications Ltd., London, 1992), p.123.

economy. However, arguably the main factor was the viable policy alternative of the European Monetary System (EMS), linking the Irish pound to a hard currency area centred around the deutschmark. Given the UK's decision not to join the EMS Ireland broke its link with sterling. The Britain/Ireland monetary union was noticeable for the voluntarist actions of the smaller party, the absence of a collective decision-making process and also the absence of a link between political union and monetary union.<sup>38</sup> The Belgium/Luxembourg monetary union shows some parallels to the Britain/Ireland union. It was formed in 1923 when Luxembourg, following severance of its traditional ties with Germany, elected to link itself to Belgium.<sup>39</sup> In effect Luxembourg was an appendage of the Belgian monetary system.<sup>40</sup>

The German monetary union in 1990 followed the political unification between the West German Federal Republic and the East German Democratic Republic after the end of the Cold War. In technical terms the speed of the monetary union was extremely swift with one West German mark being exchanged at par for each East German mark. This speed reflected the dominant political will of the German government which overcame the resistance of the powerful and independent Bundesbank. Other factors included an underlying political consensus, economic inequality between the two partners and massive financial transfers from west to east.<sup>41</sup> Economically the rapid monetary union and par exchange rate (not allowing any period of convergence) has been heavily criticised by some economists.<sup>42</sup> Indeed the circumstances were radically different from those of EMU with the underlying political unity being the most salient feature.

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<sup>38</sup> Ibid., p.128.

<sup>39</sup> C. Johnson, op.cit., p.30.

<sup>40</sup> Ibid.

<sup>41</sup> W. Friedman, "German Monetary Union and Some Lessons for Europe" in R. Barrell (Ed.), op.cit., p.150.

<sup>42</sup> For example, Charles Goodhart, Lothian Conference on the European Central Bank, November 1997.

Outside of Europe a variety of other monetary unions have taken place with various degrees of success. These either represent clear cases of hegemony or involve micro-states where the loss of monetary sovereignty was relatively small compared with the economic costs. The Central African Franc Zone (under the overall management of the Bank of France) and the Southern African monetary union (led by South Africa) are clear cases of hegemony.<sup>43</sup> The Eastern Caribbean monetary union, established by 10 members in 1950, is an example of monetary union between micro-states using the East Caribbean dollar. The union has survived in spite of the withdrawal of some key participants including Barbados, Trinidad and Guyana.<sup>44</sup> Other monetary unions, such as the East African monetary union in the 1960s, have quickly collapsed illustrating the high degree of cohesion required for a successful monetary union.<sup>45</sup>

It is difficult to draw "lessons" from the diverse range of particular monetary unions each of which represents a distinct historical situation. In a similar historical review, albeit with a more limited number of cases, Cohen and Currie draw a range of conclusions. Cohen stresses the importance of a hegemon (or very strong affinities) in the sustainability of a monetary union as opposed to economic or organisational factors.<sup>46</sup> I would broadly agree with Cohen's conclusion, especially in the cases of the smaller monetary unions where a very small state has tended to attach itself to the orbit of a larger state. However, I would argue that if there are sufficient mutual economic gains this could override political differences as Cohen obliquely admits;

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<sup>43</sup> B. Cohen, "Beyond EMU: The Problem of Sustainability" in B. Eichengreen and D. Frieden, The Political Economy of Monetary Unification, (Westview Press, Oxford, 1994), pp.160-161; J. Stuart, The Economics of a Common Monetary Area in Southern Africa, (Economics Research Unit, University of Natal, 1992)

<sup>44</sup> T. Farrell and D. Worrell, Caribbean Monetary Integration, (Caribbean Information Systems and Services, Port of Spain, Trinidad, 1994), p.95.

<sup>45</sup> B. Cohen, op.cit., p.155.

<sup>46</sup> Ibid., p.162.

"Sovereign governments require incentives to stick to bargains that turn out to be inconvenient."<sup>47</sup>

The failure of the Scandinavian Monetary Union and the limited success of the Eastern Caribbean Union highlight the large degree of mutual solidarity required. Currie argues that monetary unions not followed by political integration tended to be temporary, monetary union can precede political union (though the degree of political union may be quite limited) and the road to monetary union was not necessarily smooth.<sup>48</sup> I would broadly agree with the first and third arguments. However, I would argue that there have been no cases to date where monetary union has preceded political union. As discussed the two cases quoted by Currie, Italy and Switzerland, actually show the reverse situation even if political union was relatively weak when monetary union commenced.

Three further conclusions can be drawn. Firstly, the ideological laissez-faire environment of the 19th century was a factor in the time lag of many monetary unions during this period. There was no clear agreement as to the division between the functions of central banks and commercial banks in a period of the noninterventionist state. Secondly, in many of the continuing cases of monetary unions there are usually some symbolic vestiges of monetary sovereignty (such as separate bank notes) and continued fiscal sovereignty. Thirdly, whilst monetary unions have generally followed on from political unions there is little evidence of a reverse process. Indeed the surviving monetary unions of the 20th century are either clear cases of hegemony or of micro-states. Overall one is struck by the continuing "one state, one money" position. EMU, in seeking to place economic and monetary union before political union and in its breadth of membership, was arguably unique historically.

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<sup>47</sup> Ibid.

<sup>48</sup> D. Currie, op.cit., p.16.

## **Britain and the Historical Development of EMU**

The development of EMU had a long gestation period. The initial establishment of the European Economic Community was not accompanied by moves toward monetary integration. Article 107 of the Rome Treaty referred to the need for EC members to treat their exchange rates as a matter of common concern.<sup>49</sup> The relatively stable monetary framework of the Bretton Woods system, policy differences between France and Germany and the need to develop other key policies, such as customs union, limited monetary initiatives.<sup>50</sup> After cracks developed in the Bretton Woods system the Werner Committee was established to examine the options on EMU and subsequently called for a wide ranging EMU, including a centralised monetary policy, strong fiscal centralisation and reinforced regional and structural funds.<sup>51</sup> The plan was adopted by the Council in February 1971 but never came to fruition given the recession of the 1970s.

Practical moves in European monetary co-operation did follow the Werner Plan and also built on earlier co-operation of the European Payments Union in the 1950s. After the failure of the first scheme (the "snake"), the European Monetary System (EMS) was launched in 1979 following an initiative by President Giscard D'Estaing and Chancellor Schmidt, aiming to create a "zone of monetary stability in Europe". The centrepiece of this system was the Exchange Rate Mechanism (ERM) where national currencies traded within agreed margins. After initial difficulties the EMS was increasingly being seen as a "glide path" to EMU. This aim was shattered during the speculative crises of 1992/3 when the exchange rate bands were widened from +/- 2.25% to +/- 15% in August 1993 and sterling and lira were forced to withdraw from the system.<sup>52</sup> Initially it was felt that

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<sup>49</sup> C. Taylor, EMU 2000? Prospects for European Monetary Union, (Pinter Publishing, London, 1995), p.12.

<sup>50</sup> K. Dyson, The Elusive Union: The Process of Economic and Monetary Union in Europe, (Longman Group Limited, Harlow, 1994).

<sup>51</sup> The Werner Report in A. Steinherr, 30 Years of European Monetary Integration: From the Werner Plan to EMU, (Longman Publishing, Harlow, 1994), pp:10-28.

<sup>52</sup> C. Taylor, op.cit., pp:13-18.

the EMU process was irreparably damaged.<sup>53</sup> However, it was argued that there were inevitable technical weaknesses in a pegged-rate scheme such as the ERM, which set targets for financial speculation in a world of potentially massive and fast moving capital flows.<sup>54</sup> More significant though was the depth of political will shown by key actors in the EU political process to stay the course with EMU.<sup>55</sup> EMU, as defined at Maastricht, represented a situation where internal exchange rates between members were ultimately irrelevant whereas under the EMS exchange rates were the key factor. Arguably EMU required at least a pooling of monetary sovereignty whereas the EMS required monetary co-operation.<sup>56</sup>

Britain's troubled relationship with earlier European monetary politics was outlined in Chapter 2 and continuous British resistance marked the negotiations that transformed the EMS into EMU. Given the development of the EMS, together with attention to other issues such as British budgetary contributions and the move toward a Single Market, EMU was a lower priority. However, the preamble to the Single European Act (1986), which focused on the completion of the Single Market, mentioned the eventual aim of EMU. At the Hannover Summit of June 1988 Mrs. Thatcher took a resolutely hostile stance on EMU. Outnumbered eleven to one, she reluctantly agreed to the establishment of the Delors Committee to examine the steps toward an improved EMS or EMU.<sup>57</sup> At the Madrid Summit of June 1989, which discussed the Delors Report, the government took a more conciliatory line (largely due to Mrs. Thatcher being "boxed in" by her two senior ministers, Chancellor Lawson and Foreign Secretary Howe).<sup>58</sup> There was an

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<sup>53</sup> D. Cobham, European Monetary Upheavals, (Manchester University Press, Manchester, 1994). See also J. Major, "Raise your Eyes, there is a Land beyond", The Economist, 25/9/1993, p.24.

<sup>54</sup> D. Currie, op.cit., p.25. This was a widespread view *after* the ERM crisis. See C. Taylor, op.cit., p. 76.

<sup>55</sup> K. Dyson, op.cit., p.357.

<sup>56</sup> D. Currie, op.cit., p.26.

<sup>57</sup> S. George, An Awkward Partner: Britain in the European Community, (Oxford University Press, Oxford, 1994), p.192.

<sup>58</sup> K. Dyson, op.cit., p.135.

agreement to accept the staged approach to EMU recommended by the Delors Report (though without a definite commitment), agreement to begin Stage 1 of co-ordinating economic and monetary policies and, most significantly, a commitment to an Intergovernmental conference (IGC) to incorporate EMU in the treaty process.<sup>59</sup>

The first significant break with the policy of resistance toward EMU was the "competing currency" plan of November 1989 shortly following the resignation of Nigel Lawson as Chancellor over ERM policy and his replacement by John Major. This plan sought to challenge the Delors Report vision of a staged approach to EMU with an evolutionary plan based on competing currencies. Inspired intellectually by Hayek, the plan foresaw an eventual potential monetary union based on the strongest currency as determined by market forces. The plan was designed in particular to appeal to the Bundesbank, which was a hesitant partner on EMU, seeking, at the very least, to ensure a "strong" EMU. However, the plan was rejected by the Bundesbank, which was too committed to the Delors process and saw the British scheme as potentially chaotic, undermining co-ordinated monetary policies.<sup>60</sup> In effect, however, the plan was largely seen as a diversionary tactic, which had little impact on a deeply embedded EMU process.<sup>61</sup>

In June 1990 Britain launched a revamped proposal termed the "hard ecu" proposal. Major as Chancellor sought tactically to engage in the EMU process as opposed to Mrs. Thatcher's principled opposition and this plan was, therefore, a compromise position. The plan was more practical than the "competing currency" proposal having City backing and some institutional framework. The "hard ecu" would be issued by a central institution, the

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<sup>59</sup> Ibid.

<sup>60</sup> Ibid., p.137.

<sup>61</sup> Mrs. Thatcher in her memoirs confirms the tactical nature of the plan. M. Thatcher, The Downing Street Years, (Harper Collins Publishing, London, 1993), p.716.

European Monetary Fund, and would be traded as a full currency. Thus, the ecu was turned from a weighted average basket currency, dependent on the averaging of other European currencies, to a free standing currency. It would then compete with national currencies and might, subject to market forces, eventually evolve into the key or even single currency. The plan was welcomed more widely than the "competing currency" proposal, especially in intellectual circles and also by the Spanish government. However, the Bundesbank feared the launch of a new currency could lead to an increase in the overall money supply and, hence, inflation. In his autobiography Major claims that the "hard ecu" plan was "facing up to the reality of EMU", an aim in which he was undermined by Mrs. Thatcher.<sup>62</sup> On the Continent the plan was perceived as a diversionary tactic from the Delors EMU process and was quickly sidelined due to lack of support.<sup>63</sup>

The failure of both the "competing currency" and "hard ecu" plans prefigured the eventual "opt-out" solution to Britain's policy on EMU. In March 1991 the German government clearly rejected the "hard ecu" plan leaving the central problem of keeping Britain on board, whilst recognising the need for its government to avoid a commitment to EMU. Major had originally suggested to Mrs. Thatcher the idea of an "opt-out" clause in May 1990 foreseeing the wider commitment to EMU.<sup>64</sup> Ironically Delors, a fervent proponent of EMU, revitalised the idea of a specific "opt-out" for Britain (and subsequently Denmark), whilst enabling the other member states to proceed with EMU. The "opt-out" protocol was accepted by Britain although she sought a general provision rather than a particular protocol for Britain. This aim was abortive and the acceptance of the "opt-out" further diminished any vestigial British influence on the process allowing the French government to attain a definite timetable for the implementation of EMU. The

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<sup>62</sup> J. Major, John Major: The Autobiography, (HarperCollins Publishers, London, 1999), p.151.

<sup>63</sup> K. Dyson, op.cit., p.142.

<sup>64</sup> P. Stephens, op.cit., p.162.

compromise was enough for Britain to accede to the Maastricht Treaty whilst deferring any future commitment to EMU.

A brief synopsis of the negotiating process highlights the peripheral role of Britain in the EMU process. What then were the main structural factors driving the process? In his detailed study of the political bargaining process on EMU, Kenneth Dyson highlights a particular historical convergence of four main factors. Firstly, there was a political bargain between France and Germany (France being specifically interested in EMU whilst Germany traded EMU co-operation for wider European integration), which provided the "close inner channel of co-operation within the policy process".<sup>65</sup> Secondly, there was a politically insulated process which maximised technocratic input, especially central bankers and the European Commission.<sup>66</sup> Thirdly, economic growth provided an optimistic environment, reinforced by the Single Market process, and a degree of economic convergence. Finally, there was a broad ideological consensus on sound money policy ideas anchored by "Modell Deutschland" and the need for exchange rate stability.<sup>67</sup> However, there was a "hollow core" at the centre of this process as no single political actor, not even the Bundesbank, dominated the process. Similar conclusions are advanced by Eichengreen and Frieden in their study of the political economy of EMU. They identify three main dynamics which taken together help to explain the EMU process. These were intergovernmental bargaining, linkage politics between functional issues and domestic policy spillover.<sup>68</sup> For Moravscik, EMU arose from a rational calculation of national interest by key member states.<sup>69</sup>

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<sup>65</sup> K. Dyson, op.cit., p.334.

<sup>66</sup> At the Lothian Conference, A Central Bank for Europe?, 19/11/1997. It was instructive to note the overall EMU optimism of the bankers vis-a-vis the pessimism of the academic economists.

<sup>67</sup> Ibid. Also K. McNamara, The Currency of Ideas: Monetary Politics in the European Union, (Cornell University Press, Ithaca, 1998).

<sup>68</sup> B. Eichengreen and J. Frieden, op.cit., pp.9-15.

<sup>69</sup> A. Moravscik, The Choice for Europe, (UCL Press, London, 1998).

In their voluminous study of the Maastricht negotiations Kenneth Dyson and Kevin Featherstone argue that a range of economic, political and diplomatic factors lay behind EMU. Economic factors included a set of shared ‘sound money’ economic policy beliefs, macroeconomic expansion in the late 1980s and economic spillover from other European programmes, especially the Single Market. Political factors included the ‘core executive’ character of the EMU negotiations, which effectively sidelined sectoral interests (save those of the central bankers), and the detailed institutional structuring of the negotiations favouring finance ministries and central bankers. Wider diplomatic factors included the shock of German unification and the political leadership of Mitterand and Kohl. EMU though “represented the triumph of an ideal of technical elitism over the idea of political democracy” and was, therefore, built on “fragile” foundations.<sup>70</sup>

What role did Britain play in this wider process? Dyson argues that British influence had waned dramatically after the 1949 launch of the European Payments Union;

“The launch of the EMS showed just how far that power had waned in relation to the Franco-German axis. With the relaunch of EMU after the mid-1980s British bargaining power was even less apparent.”<sup>71</sup>

This power was weakened by structural factors but also by non-participation in the ERM until October 1990. In contrast the British government had a high degree of influence in the Single Market process which fitted with the neo-liberal ideology of the Thatcher government. In the Eichengreen and Frieden study there is minimal discussion of Britain’s role. There are a few instances where British influence may have played a role.

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<sup>70</sup> K. Dyson and K. Featherstone, The Road to Maastricht: Negotiating Economic and Monetary Union, (Oxford University Press, Oxford, 1999).

<sup>71</sup> K. Dyson, op.cit., p.172.

Dyson, for example, points to the role of British negotiator, Nigel Wicks, in setting the “tough but flexible” criteria on fiscal deficits.<sup>72</sup>

In their study of the British position in the EMU negotiations Dyson and Featherstone argue that Britain diverged from the rest of her EC partners, reacting to rather than leading events. With greater flexibility Britain might have been able to materially affect the outcome of the EMU process, possibly leading to a more gradual, evolutionary process. In particular, the “hard ecu” proposal could have won support if it had been launched at an earlier stage. Generally though British policy failed to influence the debate, being hemmed in by internal Conservative party politics, a failure to acknowledge the goal of a single currency and inhibited by a narrow policy setting.<sup>73</sup> In sum, Britain was undeniably on the periphery in the EMU process. The discussion now turns to the specific challenges to sovereignty raised by EMU.

### **Monetary Sovereignty**

Monetary sovereignty, or authority over monetary policy, has traditionally been exercised by national central banks within an overall governing framework. Before discussing the specific monetary arrangements under EMU a brief overview will be made of the classical functions of central banks. These are to serve as the banker to both the government and the wider commercial banking system.<sup>74</sup> The relationship with commercial banks can be seen as a mutually beneficial one. Commercial banks leave non-interest bearing deposits with the central bank in return for the security offered by their high credit ratings. The goal of monetary policy is usually to control the domestic

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<sup>72</sup> *Ibid.*, p.155.

<sup>73</sup> K. Dyson and K. Featherstone, *op.cit.*, pp:641-643.

<sup>74</sup> T. Congdon, "Could Monetary Union Work without Political Union" in C. Taylor (Ed.), *European Monetary Union: The Kingsdown Enquiry*, (Macmillan Press, London, 1996), p. 213. I have assumed here that central banks play a key monopoly role in a national financial system. For an alternative view see P. Salin, *Currency Competition and Monetary Union*, (Martinus Nijhoff Publishers, The Hague, 1995).

price level, though sometimes other economic goals are taken into account such as promoting employment and economic growth. The monetary targets used include quantitative measures of money in circulation and sometimes exchange rate targets. Most money is issued by private commercial banks under the constraint of convertibility into central bank money (often referred to as "high-powered" money) allowing central banks to influence the overall money supply.<sup>75</sup> Four specific policy instruments can be identified. Firstly, discount policy sets the terms by which the central bank lends directly to the commercial banking system. Secondly, open market operations focus on central bank borrowings. Thirdly, central banks use reserves for exchange market interventions. Finally, some central banks have cash reserve requirements for commercial banks. In addition to these direct monetary instruments central banks usually act as the "lender of last resort" and sometimes provide prudential supervision of the financial system.<sup>76</sup>

The Maastricht Treaty sets out the main details of EMU. Article 3a refers to;

"...the irrevocable fixing of exchange rates leading to the introduction of a single currency...and the definition and conduct of a single monetary policy and exchange rate policy the primary objective of both of which shall be to maintain price stability and, without prejudice to this objective, to support the general economic policies in the Community."<sup>77</sup>

Hence the singularity of EMU and the "primary" objective of price stability are made explicit in the treaty. The "general economic policies" include balanced economic development, environmental protection, economic convergence, employment, social

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<sup>75</sup> J. Grahl, After Maastricht: A Guide to European Monetary Union, (Lawrence and Wishart Limited, London, 1997), p.15.

<sup>76</sup> S. Eijffinger, "Convergence of Monetary Policies in Europe-Concepts, Targets and Instruments" in K. Gretschnann (Ed.), Economic and Monetary Union: Implications for National Policy Makers, (Martinus Nijhoff Publishers, Dordrecht, 1993), pp:170-189.

<sup>77</sup> Treaty of European Union, Article G, Article 3a.2.

protection, raising the standard and quality of life and economic and social cohesion. The other central feature is the establishment of the European System of Central Banks (ESCB) composed of the existing national central banks and the new European Central Bank (ECB). Article 105 reaffirms the objective of price stability and sets out the basic tasks of the ESCB as the defining and implementing of the monetary policy, conducting foreign exchange operations, holding and managing official foreign reserves and promoting smooth operation of payment systems.<sup>78</sup> The ECB has the exclusive right to authorise the issue of bank notes in the Community.<sup>79</sup> However, certain tasks are reserved for the Council or national authorities including exchange rate policy to non-Community states and the prudential supervision of the financial system (though with the support of the ESCB).

The organisational structure of the ESCB stresses the importance of the ECB. The shareholders of the ECB are the national central banks in proportion to population and gross national product. The management consists of a Governing Council and an Executive Board. The Governing Council consists of the governors of national central banks and the Executive Board members. The six members of the Executive Board, including the President and Vice-President, are appointed by "common accord" by the Heads of Government. Decisions in both bodies are made by simple majority voting.<sup>80</sup> In effect strategic decisions are made by the Governing Council and operating decisions by the Executive Council.

The other clear principle enshrined in the treaty is the independence of the ECB. Article 107 states that;

<sup>78</sup> Treaty of European Union, Article G, Article 105,2.

<sup>79</sup> Treaty of European Union, Article G, Article 105a,1.

<sup>80</sup> P. Kenen, Economic and Monetary Union in Europe, (Cambridge University Press, Cambridge, 1995), pp:31-34.

"When exercising the powers and carrying out the tasks and duties conferred upon them...neither the ECB, nor a national central bank, nor any member of their decision making bodies shall seek or take instructions from Community institutions or bodies, from any government of a Member State or from any other body."<sup>81</sup>

This independence is supported by a number of practical measures. The members of the ECB executive board are appointed for non-renewable terms of eight years. They can only be removed by death or compulsory retirement by the European Court of Justice for extreme personal misdemeanour or incapacity. They are employed full-time and can have no other occupation. Although the President of the Council of Finance Ministers (ECOFIN) and a member of the Commission are entitled to attend the meetings of the Governing Council and submit motions, they are not entitled to vote.<sup>82</sup>

Six areas of the Maastricht treaty arrangements merit further attention. These are interpretations of the independence of the ESCB, the role of the national central banks in the ESCB, the subjectivity of the monetary instruments available to the ESCB, the role of the ECB in external exchange rate policy, banking relations with member governments and supervision of the wider banking system. The structure of the ECB is widely regarded as being based on the Bundesbank model given its successful record on managing inflation over many years. John Grahil argues that;

"German central bankers seem to have subscribed to the scholastic doctrine that, in order to secure the immortality of the soul, it is necessary to resurrect the body - certainly the ECB could hardly be closer than it is to a physical replication of the Bundesbank."<sup>83</sup>

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<sup>81</sup> Treaty of European Union, Article G, Article 107.

<sup>82</sup> I. Harden, "The Role of European and National Central Banks" in K. Gretschmann (Ed.), op.cit., pp: 153-4. Also, C. Taylor, op.cit., p.114.

<sup>83</sup> J. Grahil, op.cit., p.154.

The Bundesbank supported the structure of the ECB.<sup>84</sup> For Grahil the ESCB also reflects the overall neo-liberal ideology of sound money;

"Rarely, in fact, can the abstract proposition of a school of economic thought have received such complete and rapid embodiment in actual institutions as is the case for the notion of central bank independence in the Maastricht Treaty."<sup>85</sup>

The Maastricht Treaty largely endorsed the recommendations of the Delors Committee, which was composed of central bankers. Arguably the ECB is the most independent central bank in the world. This independence was designed to give the ECB credibility in the pursuit of price stability given that, unlike the Bundesbank, it has no track record and must rely on stated pre-existing commitment. In addition, in another contrast to the Bundesbank, the ECB does not have, currently at least, a high degree of public support and, therefore, relies on its formal powers.<sup>86</sup>

What role do national central banks play in the ESCB? Under the treaty the national central banks are clearly subsidiary to the ECB. In addition, the national central banks must themselves be independent of political authorities with similar practical considerations to those of the ECB.<sup>87</sup> However, although they may be legally independent, the individual Governors of the various national central banks clearly bring a national perspective with them into the decision making process of the ECB. Hence there is a similar degree of representation of regional interests in the ECB as exists in the

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<sup>84</sup> See H. Tietmeyer, Europe on the Road to Monetary Integration, Speech at the German/Finnish Chamber of Commerce, Helsinki, 23/5/1995.

<sup>85</sup> J. Grahil, op.cit., p.132.

<sup>86</sup> C. Johnson, In With the Euro, Out With the Pound, (Penguin Books, London, 1996), p.116.

<sup>87</sup> I. Harden, "The Role of European and National Central Banks" in K. Gretschmann (Ed.), op.cit., pp:154-155.

structures of the Bundesbank.<sup>88</sup> In addition a large element of task delegation of administrative functions is decentralised to the national level. Overall though, the national central banks play a subordinate role.

The Maastricht Treaty leaves a wide scope for the ESCB in terms of the monetary instruments to be used in pursuit of its objective of price stability thereby further enhancing its independence. A Protocol to the Statute of the ESCB prescribes a variety of classical central bank monetary instruments. However, the primary debate was over the use of minimum reserve requirements (traditionally favoured by the Bundesbank) or inflation targets as in Britain. The ECB initially decided to utilise both instruments of monetary policy. The main point here, though, is the overall autonomy of the ECB in the use of monetary instruments.<sup>89</sup>

The ESCB also acts as the banker to the national governments. Article 21.2 of the Protocol on the ESCB states that;

"The ECB and the national central banks may act as fiscal agents for the governments."<sup>90</sup>

This usually involves the issue of government securities to the open market. Tim Congdon argues that EMU muddles responsibility for inflation as the combination of different political authorities tends to make the identification of responsibility for lax financial policy difficult to apportion. Hence, he argues, that the ECB may need to control the amount and maturity of government debt profile in order to attain its primary

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<sup>88</sup> Ibid., p.157.

<sup>89</sup> R. Pitchford and A. Cox (Eds.), EMU Explained, (Kogan Page Limited, London, 1997), pp.222-223.

<sup>90</sup> Quoted from T. Congdon, "Could Monetary Union Work without Political Union" in C. Taylor (Ed.), European Monetary Union: The Kingsdown Enquiry, (Macmillan Press, London, 1996), p.215.

objective of price stability. This would be a clear alteration in the relationship between governments and national central banks.<sup>91</sup> One specific change in the relationship is that overdrafts and credit facilities are prohibited. This would, for example, prohibit the "ways and means" facility which the British government has traditionally held with the Bank of England if Britain accedes to Stage 3 of EMU.<sup>92</sup> Article 104 of the Maastricht Treaty prohibits any "bail out" for national governments with financial problems (this will be discussed further under fiscal policy).<sup>93</sup> In sum, EMU clearly alters the balance in the traditional relationship between national governments and national central banks.

The exchange rate provisions in Maastricht were a compromise between national governments in contrast to the relative clarity of most of the monetary provisions. The ECB has operational responsibility for exchange rate policy with non-EMU states. However, ECOFIN may formulate general orientations on exchange rate policies (using QMV) and conclude international agreements (by unanimity), which must then be implemented by the ECB (providing it does not conflict with the primary objective of price stability).<sup>94</sup> This is a clear compromise and gives ECOFIN a reserve power. However, in practice the powers of ECOFIN are likely to be minimal. The need for wide support in the unanimity and QMV requirements in ECOFIN will probably reduce the efficacy of ECOFIN's role.<sup>95</sup>

In the area of prudential supervision of the banking system the key role remains with national central banks reflecting widespread national differences. National central banks

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<sup>91</sup> Ibid. p.217.

<sup>92</sup> Ibid. p.215.

<sup>93</sup> Treaty of European Union, Article 104(b).

<sup>94</sup> Treaty of European Union, Article 109.

<sup>95</sup> I. Harden, op.cit., p.158. Also, J. Grahl, op.cit., p.131.

are given the power to act as a "lender of last resort" to assist financial institutions with liquidity problems (provided that there is no government interference). However, the ECB has some indirect powers. Firstly, national central banks must act in accordance with the primary objective of price stability. Secondly, the ECB can ultimately deprive a national central bank of its national prudential supervision role. Thirdly, there is provision for ECOFIN to grant specific tasks to the ECB.<sup>96</sup> In a sense, as argued by Grah, the relatively prescribed role for the ECB in this area reflects the focus on price stability and, hence, does not necessarily reduce its overall influence.<sup>97</sup> Congdon argues that the limited role for the ECB as a "lender of last resort" effectively prohibits any hypothetical financial rescue of a struggling British financial institution by the ECB.<sup>98</sup> In sum though the detailed provisions of the Maastricht Treaty give the ECB a high degree of monetary authority, focused particularly on the primary objective of price stability.

The wide range of monetary powers given constitutionally to the ECB would 'prima facie' seem to undermine national monetary sovereignty. Certainly control over interest rates and exchange reserves is effectively transferred to the ECB and exchange rates within the EMU area are now irrelevant. This appears to be the conclusion of many writers. Even unequivocal supporters of EMU, who may wish to deny that sovereignty is undermined, concede this point though it is often referred to as the "pooling" of sovereignty. Christopher Johnson argues that;

"The single currency means pooling sovereignty for monetary policy through the European System of Central Banks."<sup>99</sup>

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<sup>96</sup> I. Harden, op.cit., p.161.

<sup>97</sup> J. Grah, op.cit., p.150.

<sup>98</sup> T. Congdon, "Could Monetary Union Work without Political Union" in C. Taylor (Ed.), op.cit., p. 222.

<sup>99</sup> C. Johnson, op.cit., p.196.

Christopher Taylor, a sceptical supporter of EMU, comments that;

"As compared with the status quo there would be...a significant loss of monetary-policy sovereignty from joining EMU."<sup>100</sup>

Charles Goodhart, a leading academic on banking affairs, is equally direct;

"Would joining EMU mean passing monetary sovereignty to the ECB? Yes, joining EMU would mean passing the autonomy to control monetary policy over to the ECB."<sup>101</sup>

In sum, under the ECB there would no longer be an operationally independent role for British monetary policy.

Two main critiques are made against the general argument stressing the loss of monetary sovereignty. The theoretical argument is that Britain will retain the reserve power to withdraw from EMU at any time and reestablish monetary sovereignty with an independent currency and central bank. Panic argues that an important distinction needs to be made between losing control over monetary policy and retaining the sovereign power to revoke these obligations if they are not in the national interest. He argues that this distinction is not just a clever legal nuance but has a degree of operational efficacy. The dissolution of the Soviet Union, Yugoslavia and Czechoslovakia and the establishment of separate national currencies serves to underline this point.<sup>102</sup> The perceived potential inequalities and required disciplines of EMU may provide the conditions for future withdrawals.

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<sup>100</sup> C. Taylor, op.cit., p.139.

<sup>101</sup> C. Goodhart "Would it Matter if the Chancellor of the Exchequer No Longer Controlled Monetary Policy?" in C. Taylor (Ed.), op.cit., p.198.

<sup>102</sup> M. Panic, "Monetary Sovereignty under Different Systems" in C. Taylor (Ed.), op.cit., p.205.

The other more widespread argument on monetary sovereignty is that the globalisation of financial flows, in terms of both volumes and speed, has served to undermine the effectiveness of national monetary policy anyway, irrespective of the development of EMU. In the British case the withdrawal from the ERM is often seen as the prime example of the power of financial market forces over a national monetary policy. The debacle of Britain spending around £30 billion of its exchange reserves and raising interest rates by 5% before being forced to leave the ERM on "Black Wednesday" was a clear symbol of the power of financial markets. Norman Lamont, the Chancellor during the ERM crisis, conceded later the increased powers of the financial markets;

"The events of the last few years have clearly shown how much freedom we have lost to manage our own affairs."<sup>103</sup>

Ironically, though, Lamont fears the loss of powers to the EU more than the financial markets. Malcolm Crawford argues that the ERM debacle undermines the need for monetary independence;

"Such errors surely undermine the case for monetary independence, especially if the policy is operated by ministers."<sup>104</sup>

The power of the financial markets is often taken as a "given" by a variety of writers. David Currie argues that the last ten years have seen a remarkable transformation of capital markets. Previously national markets remained essentially segregated from each other giving autonomy to monetary authorities. However, Currie argues this has been changed by three factors. Firstly, there has been an enormous growth of international

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<sup>103</sup> N. Lamont, Sovereign Britain, (Gerald Duckworth & Co., London, 1995), p.44.

<sup>104</sup> M. Crawford, One Money for Europe?, (Macmillan Press, London, 1993), p.293.

liquidity. Secondly, there has been a global move toward the abolition of capital controls and exchange restrictions. Finally, the development of technological communications further speeded financial integration. The financial markets are now international, interconnected and interdependent rather than being segregated on national lines.<sup>105</sup> Grahm also argues that sterling has become a "weak and dependent" currency.<sup>106</sup> He argues that only the "very strongest" economies (Europe, USA and Japan) can have an effective monetary policy.<sup>107</sup>

The power of financial markets argument has been questioned. Goodhart argues the view is "exaggerated" with monetary policy affected to a degree rather than there being a "sea change". He agrees that the use of direct credit controls is no longer possible and argues that monetary policy must focus on the exchange rate or the use of interest rates to influence inflation. The ERM crisis, whilst demonstrating the impact of financial markets, was also due to other factors. These included the entry into the ERM at too high a rate, the German reunification shock and the lack of a domestic consensus on the required monetary disciplines. Above all, Goodhart argues, the ERM debacle illustrated the weakness of pegged but adjustable exchange rate systems. This leaves just "one golf club in the bag", namely interest rate policy. However, this remains a viable option and, hence, to give it over to the ECB would, in Goodhart's view, amount to a loss of monetary sovereignty.<sup>108</sup>

Together with the general arguments on the power of global capital a particular British

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<sup>105</sup> D. Currie, The pros and cons of EMU, (The Economist Intelligence Unit, London, 1997), p.10.

<sup>106</sup> J. Grahm, op.cit., p.234.

<sup>107</sup> Ibid.

<sup>108</sup> C. Goodhart "Would it Matter if the Chancellor of the Exchequer No Longer Controlled Monetary Policy?" in C. Taylor (Ed.), op.cit., pp:195-199.

emphasis can be added. In Britain monetary policy has historically been imbued with intensely political significance. Until 1997 British interest rates were determined by the Chancellor of the Exchequer, making monetary policy a matter of political responsibility to the government, implying in turn accountability, in theory at least, to Parliament. Even under the new arrangements giving operational independence to the Bank of England for interest rate policy, the government continues to set the explicit inflation rate target and the Bank of England is still accountable to the government. This situation can be contrasted historically to that of Germany. In Germany the independent Bundesbank fiercely followed a policy of monetary stability. In addition the Bundesbank's policy was widely supported by a political consensus (including the wider electorate) bearing in mind the shared memory of the 1923 hyper-inflation.<sup>109</sup> In Britain this consensus has historically been absent.<sup>110</sup>

The arguments on monetary sovereignty are more complex than they initially appear. As Congdon argues, within the Maastricht treaty, the "devil is in the detail". Overall the Maastricht treaty gives a high degree of monetary authority to the ECB along the lines of the Bundesbank model. This, in principle, appears to undermine Britain's monetary sovereignty given British accession to EMU. However, the primary, albeit negative, argument against this is that global financial flows have already undermined monetary sovereignty. The key question though is whether Britain can pursue an independent monetary policy. Using the *options* basis to sovereignty outlined in Chapter 2 Britain arguably retains monetary sovereignty outside of EMU. She retains "one golf club", to use Goodhart's terminology, namely interest rates and thereby has two options (the other option being giving up the golf club completely). However, the other sovereignty questions must not be overlooked in the inevitable emphasis on monetary issues.

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<sup>109</sup> See D. Marsh, The Bundesbank: The Bank that Rules Europe, (Mandarin Paperbacks, London, 1993).

<sup>110</sup> This argument is advanced in the findings of the Kingsdown Enquiry into Britain and EMU. See C. Taylor (Ed.), op.cit., p.83.

## **Institutional Sovereignty: The European Central Bank**

Closely related to the issue of monetary sovereignty is the institutional sovereignty of the ECB. The institution of the ECB is a central feature of EMU and justifies the use of the term "institutional sovereignty" as a separate sovereignty question. Although the discussion focuses on the narrower concept of accountability, the key point from a sovereignty perspective is the accountability to the political authorities of the member states. The establishment of the ECB has raised concerns about its political accountability given the high degree of operational independence. This will be discussed in four main areas. Firstly, what meanings can be given to the concept of accountability? Secondly, what are the key provisions of the Maastricht treaty? Thirdly, how does this compare to arrangements at other national central banks? Finally, what are the key political elements at the European level affecting the operation of the ECB?

Accountability within the academic literature has been given a range of meanings, three of which can be highlighted. The first is the narrow sense of "giving an account", namely reporting to relevant political authorities. The second is the wider sense of accountability where the central bank has full operational independence but within a contractual framework with political authorities. Finally, the third sense is where political authorities exercise an ongoing stewardship role based on the advisory capacity of the central bank.<sup>111</sup> Criteria of accountability include the appointment and removal of key central bankers and other persons with influence, the openness of proceedings, the establishment of overall and specific objectives, the use of necessary monetary instruments and the framework of performance reporting. Accountability and independence should not be seen as necessarily contradictory. For example, the quantification of monetary policy objectives can serve both independence and accountability.<sup>112</sup>

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<sup>111</sup> D. Mayes, "Accountability of the Central Bank in Europe", Lothian Conference, A Central Bank for Europe, 19/11/1997.

<sup>112</sup> F. Artenbrink, The Democratic Accountability of Central Banks: A Comparative Study of the European Central Bank, (Hart Publishing, Oxford, 1999).

The Maastricht provisions raised serious concerns as to the accountability of the ECB. The only specific Article on accountability is Article 109b, which states that the ECB will present an annual report to the European Parliament, the Council, the European Council and the Commission setting out monetary policy performance on the previous and current year.<sup>113</sup> This report is to be presented to the European Council and the European Parliament by the ECB President and a debate may be held. In addition, the European Parliament may request that the ECB President or any of the other executives appear before the relevant Committees of the European Parliament. The key power remaining with the political authorities is the selection of the President and five executives of the ECB who are chosen by the Heads of Government by "common accord".<sup>114</sup>

The debate over whether Dutch central banker Wim Duisenberg or French central banker Jean-Claude Trichet should be President highlighted the importance of the ECB President position. The eight year non-renewable terms of office with minimal rights of removal highlights the degree of independence of the ECB. This appeared to be undermined by the power struggle between Duisenberg and Trichet, which resulted in a British-led compromise of a "gentlemen's agreement" whereby Duisenberg would stand down after four years to allow Trichet to accede to President.<sup>115</sup> However, at this stage the ECB was still a fledgling organisation which had yet to utilise its formal powers. The minutes of key meetings are unlikely to be released for many years.<sup>116</sup> Overall, the Maastricht provisions effectively amount to accountability in the narrow sense of "giving an account" and then only to EU political bodies rather than member state bodies. Many

<sup>113</sup> Treaty of European Union, Article 109b, (3), 1992.

<sup>114</sup> Ibid., Article 109a, 2, (b).

<sup>115</sup> See M. Marshall, The Bank, (Random House Business Books, London, 1999).

<sup>116</sup> Ibid., p.315.

writers have commented on the lack of ECB accountability including Goodhart, Williamson and Kenen whilst others, such as Gros and Thygesen, argue that independence is more important.<sup>117</sup> Overall though, the provisions for accountability are significantly less than those of other national central banks as can be illustrated by considering briefly the arrangements of the Reserve Bank of New Zealand, the Bank of England and the Bundesbank.

The Reserve Bank of New Zealand (RBNZ) is often held to be an example of a central bank which balances independence and accountability. The objective of price stability was clearly established in the Reserve Bank Act of 1989 and the Policy Targets Agreement is established jointly between the governor and the Finance Minister. The governor has freedom of action in achieving the target by the appropriate use of monetary policy. The governor can be dismissed if his performance is deemed inadequate by the Finance Minister. In addition, the Minister can override the policy target for one year. This arrangement has led to an open decision making process with the RBNZ reporting every six months and appearing before the Finance and Expenditure Committee of Parliament five times a year. To date, the policy targets have generally been met so the balance has yet to be severely tested. The RBNZ has instrument independence but not goal independence.<sup>118</sup>

In Britain the revised arrangements for the Bank of England following the election of the Labour government have given the Bank of England a greater degree of independence.

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<sup>117</sup> See J. Williamson, "The Rise and Fall of Political Support for EMU" in A. Giovannini, M. Guitan and R. Portes (Eds.), *The Monetary Future of Europe*, (Centre for Economic Policy Research, London, 1993); C. Goodhart, "The Political Economy of Monetary Union" in P. Kenen (Ed.), *Understanding Interdependence: The Macroeconomics of the Open Economy*, (Princeton University Press, Princeton, 1995); P. Kenen, *EMU After Maastricht*, (Group of Thirty, Washington DC, 1992); D. Gros and N. Thygesen, *European Monetary Integration: From the European Monetary System to the European Monetary Union*, (Longman Publishing, London, 1992).

<sup>118</sup> D. Mayes, *op.cit.*

Before 1997 the Bank of England was effectively under governmental control. Gordon Brown, the Labour Chancellor, gave the Bank operational independence to use monetary instruments (including interest rates) to meet its objectives. Its monetary policy objective is, to quote the Chancellor, "to deliver price stability (as defined by the Government's inflation target) and, without prejudice to this objective, to support the Government's policy for growth and employment."<sup>119</sup> It is interesting to note that the Government sets the target, that the operational policy is carried out by a Monetary Policy Committee (MPC) including members independent of the Bank and that responsibility for prudential supervision was removed from the Bank. Should the inflation target vary by an amount of 1% (above or below) the Governor needs to send the Chancellor an "open letter" stating the reasons for the variance and the remedial action taken to restore the situation. In addition, in "extreme economic circumstances" where "the national interest" demands the Chancellor has a reserve power, subject to Parliamentary approval, to set interest rates for a limited period.<sup>120</sup>

The appointment of the Governor and two Deputy Governors is effectively made by the Prime Minister for a period of five years. The members of the MPC comprise the Governor, two Deputy Governors and six other members. Of the six other members, two are chosen by the Governor in consultation with the Chancellor and the other four are selected by the Chancellor. The terms of office are three years, very short by the standards of other national central banks. There has been debate as to whether the Treasury Select Committee should play a role in the appointment of the members of the MPC though this has been forthrightly rebuffed by the Treasury.<sup>121</sup> Minutes of the meetings of the MPC are published, an Inflation Report is published biannually and the Governor regularly attends meetings of the Treasury Select Committee. In sum, although

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<sup>119</sup> Quoted in the [Treasury Select Committee Report on the Accountability of the Bank of England](#), 23/10/1997, Paragraph 14.

<sup>120</sup> [Ibid.](#), Paragraph 37.

<sup>121</sup> P. Riddell, [Speech at Institute of Historical Research](#), 14/1/1998.

the move to operational independence for the Bank of England was a radical one by British standards, by international standards (especially the ECB) there remains a clear web of accountability to political authorities.

The Bundesbank arguably represented the icon of an independent central bank. The independence of the Bundesbank was enshrined in the Bundesbank Act of 1957 which also established a powerful executive board, albeit within an overall federal structure. The objectives of the Bundesbank covered both exchange rate stability and domestic price stability, though the focus was usually on price stability. Marsh argues that the Bundesbank, in spite of its reputation for monetary orthodoxy, was pragmatic in using a variety of monetary instruments to achieve its goals.<sup>122</sup> This pragmatism allowed the Bundesbank to gain a credible reputation as an anti-inflationary institution and, for a central bank, a high degree of legitimacy with German public opinion (strengthened by the continuing reference to the hyper-inflation of 1923 and the subsequent rise of Nazism).<sup>123</sup> This legitimacy fostered an independent attitude from the Bundesbank leaders in their dealings with government. This was illustrated in the 1997 "gold crisis" when the federal government failed in its aim of revaluing gold reserves (to help meet the convergence criteria for EMU) in the face of Bundesbank opposition. It also though led to an overall "clannishness" and tradition of secrecy within the Bundesbank.<sup>124</sup> However, the Bundesbank leaders realised that their power base was a narrow one restricted to monetary affairs. The fight with the government over German monetary unification at par (one West German mark for one East German mark) and continued hesitations over the EMU project illustrated the overall limits of the Bundesbank's influence.

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<sup>122</sup> D. Marsh, The Bundesbank: The Bank that Rules Europe, (Mandarin Paperbacks, London, 1993), p.23.

<sup>123</sup> Point emphasised by German delegates, Lothian Conference, A Central Bank for Europe, 19/11/1997.

<sup>124</sup> D. Marsh, op.cit., p.22.

The question of the accountability of the ECB must be seen in the context of the contrast between formal institutional strength and the lack of underlying political legitimacy. The strength is seen in the high degree of independence that the Maastricht Treaty gives the ECB in the area of monetary policy. The ECB operates on the basis of simple majority voting which further increases its operational independence. Above all, though the decentralised nature of the EU polity, with no clear countervailing political authority, highlights the relative power of the ECB. Unlike national central banks, whose independence may ultimately be undermined by a single central government, the statute of the ECB can only be changed by a new treaty ratified by all the EU member states.

Dunnett argues that;

"The extent of the delegated power given to the ECB is all the more remarkable in that it is virtually irreversible. To reverse the transfer of power would require an amendment of the Treaty, to be ratified with the consent of the legislation of all member states."<sup>125</sup>

For Amy Verdun EMU represents an "asymmetric" model between an independent ECB and fiscal co-ordination by many national governments.<sup>126</sup>

The asymmetrical influence of the ECB has led to moves, especially from France, to establish political counterweights. The informal Euro-X grouping of the Finance Ministers of EMU states was illustrative of these moves.<sup>127</sup> The grouping's primary role is to evaluate and monitor the stability programmes submitted by member state governments in accordance with the Stability and Growth Pact. It has also become an important venue for debate on wider economic issues related to EMU. However, it

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<sup>125</sup> D. Dunnett, "Legal and Institutional Issues affecting Monetary Union" in D. O'Keefe and P. Twomey (Eds.), Legal Issues of the Maastricht Treaty, (Chancery Law Publishing, Chichester, 1994), p.144.

<sup>126</sup> A. Verdun, "An 'Asymmetrical' Economic and Monetary Union in the EU: Perceptions of Monetary Authorities and Social Partners", Journal of European Integration, Vol.20, No.1, pp:107-132.

<sup>127</sup> R. Pitchford and A. Cox, EMU Explained, (Reuters Publishing, London, 1997). The negotiations behind the Euro-X grouping are discussed in further detail in Chapter 6.

suffers from three main weaknesses. Firstly, it lacks the cohesion of the ECB in seeking to co-ordinate the differing views of 11 different governments. Secondly, it has only an informal existence with no legal powers. Finally, ECOFIN remains the primary decision making body including the non-EMU member states such as Britain.<sup>128</sup> From a British perspective the delayed entry into EMU has reduced its potential role on either the Euro-X grouping or the Executive Board of the ECB. Even should Britain obtain a representative on the six person board of the ECB this will have minimal influence given the majority voting rule and anyway the representative will be independent of British political influence.<sup>129</sup>

Although strong in terms of capability the ECB's strength rests on a narrow base in a key number of respects. Its functional area is restricted to that of monetary policy. Most importantly though, whatever its legal independence, the ECB needs to operate in a political context. Whilst the decentralised nature of the EU polity with a variety of institutions grants a central body like the ECB greater flexibility for action it may also need to operate more sensitively given the number of interested parties. Marsh argues that the key factor for successful monetary policy is that it is ultimately understood and supported by the general public.<sup>130</sup> Whilst the Bundesbank had arguably achieved a degree of legitimacy the ECB, being both a novel institution and operating in a framework of varied political communities, faces a major task in establishing legitimacy. Indeed any crises in EMU, whether actual or perceived, are likely to lead to political attacks on the ECB. This may make it difficult for the ECB to avoid arguments for a "political counterweight" in the longer term. Nevertheless the overall monetary authority and independence of the ECB presents a considerable sovereignty challenge.

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<sup>128</sup> K. Dyson, The Politics of the Euro-Zone: Stability or Breakdown?, (Oxford University Press, Oxford, 2000), pp:18-21.

<sup>129</sup> See C. Goodhart, "The Chancellor of the Exchequer and Monetary Policy" in C. Taylor (Ed.), European Monetary Union: The Kingsdown Enquiry, (Macmillan Press Limited, London, 1995), p.198.

<sup>130</sup> D. Marsh, op.cit., p.26.

## Fiscal Sovereignty

The implications of EMU for the fiscal sovereignty of EU member states have been hotly debated. Fiscal policy is defined here as the ability of governments to tax, borrow and spend. The key question is to what extent, if any, have these powers under EMU, either by treaty or practice, been transferred to the European level. This can be considered in three main areas. Firstly, what debate has occurred in the area of fiscal deficits, including the ability of governments to borrow? Secondly, what debate has occurred in the area of taxation? Finally, the debate on public expenditure will be examined. These debates will consider the relevant provisions, if any, of the Maastricht Treaty or the 1996 Growth and Stability Pact (incorporated in the 1997 Amsterdam Treaty) and perceived impact of these provisions in practice. A brief analysis will be made of the fiscal division of powers in the existing federations of Switzerland, the USA and Canada.

Whilst emphasising monetary questions the Treaty was less specific on fiscal questions. In effect fiscal policies are essentially left in the hands of the member states.<sup>131</sup> The one exception was in the area of fiscal deficits. This can be seen in two phases; as part of the convergence criteria in Stage 2 of EMU and as an ongoing mechanism. The convergence criteria were designed to ensure that there was sufficient economic convergence between member states prior to the move to irrevocably fixed exchange rates in Stage 3 of EMU. One of the key criteria was the requirement to avoid an excessive deficit (defined as not exceeding 3% of GDP and a debt-to-GDP ratio no higher than 60%). The other criteria were exchange rate stability, a degree of price stability and convergence of interest rates. The "excess deficit" criterion received a large degree of attention, being seen as excessively deflationary in certain quarters, a factor which should be borne in mind in later discussions of the political impact.<sup>132</sup> However, it was primarily a transitional

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<sup>131</sup> P. Van Den Bempt, "The Impact of Economic and Monetary Union on Member States' Fiscal Policies", in K. Gretschmann (Ed.), Economic and Monetary Union: Implications for National Policy Makers, (Kluwer Academic Publishers, Dordrecht, 1993).

<sup>132</sup> See J. Grah, op.cit.

mechanism for selecting the initial members of EMU and the criteria were not interpreted on a strict basis. The final decision on initial members rested with the Council and eleven EU member states acceded to EMU on 1 January 1999 with the other four (UK; Denmark; Sweden; Greece) staying aside for now. The UK and Denmark have "opt-outs" enshrined in the Maastricht treaty, Sweden did not meet the exchange rate stability criterion (interpreted as two years prior membership of the wide band ERM) and Greece did not meet the criteria. However, the convergence criteria, being transitional, had only a limited ongoing impact on fiscal sovereignty, which need to be considered in respect of the more permanent provisions of Stage 3.

The main fiscal controls under Stage 3 envisaged by the Maastricht treaty were threefold. Firstly, there is the general provision for overall budgetary discipline and macroeconomic co-ordination in an open manner. Secondly, there are detailed prescriptions for constraints on monetary financing including the abolition of monetary financing of public debts, the abolition of privileged access by public authorities to financial instruments and allocation of the responsibility for public deficits to the member state involved with no "bail-out" obligations for other states. Finally, the avoidance of excessive deficits is subject to mutual surveillance and ultimately sanctions against persistent non-compliance.<sup>133</sup> The economic rationale behind the Maastricht controls was that the liberalised capital markets under EMU, together with the absence of an exchange rate risk, would provide a ready market of funds for profligate member states. The subsequent potential interest rate rise may affect other member states who would, in effect, be sharing the cost of the profligacy of a single state. Opinions vary as to whether this situation of sovereign debt can be solved by market forces or requires other measures. The Maastricht Treaty primarily supported the view that other measures were required.<sup>134</sup>

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<sup>133</sup> W. Molle, O. Sleijpen and M. Vanheukelen, "The Impact of EMU on Social and Economic Cohesion" in K. Gretschnann (Ed.), *op.cit.*, p.231.

<sup>134</sup> P. Van Den Bempt, "The Impact of Economic and Monetary Union on Member States' Fiscal Policies", in K. Gretschnann (Ed.), *op.cit.*, p.254.

The controls on fiscal deficits for Stage 3 in the Maastricht Treaty were largely seen to require further development and the Stability and Growth Pact sought to address this gap. The background to the agreement was the desire of Germany to ensure a sound basis to EMU whilst others, notably France, sought to limit the controls. The Stability and Growth Pact requires member states to develop, and annually update, stability and convergence programmes. These programmes and the budgetary performance of the member states will be monitored by the Commission and the Council who will give early warning of "any significant deterioration which might lead to an excessive deficit" and address recommendations to the relevant member state.<sup>135</sup> An excessive deficit (defined as with the convergence criteria as exceeding 3% of GDP) will be subject to a report by the Commission giving recommendations to the Council. The 3% value may not be applied if there is an unusual event outside the control of the member state or a severe economic downturn (defined as an annual fall of over 2% GDP).<sup>136</sup> The Council will ask the member state to take effective action within four months and correct the deficit within one year.<sup>137</sup> Should the deficit not be addressed sanctions may be enforced in terms of fines (up to a maximum of 0.5% of GDP) and non interest bearing deposits.<sup>138</sup>

The detailed procedures behind the Stability and Growth Pact have been outlined in order to focus the discussion on fiscal sovereignty. In principle the potential of sanctions being imposed on a sovereign state presents a considerable challenge to fiscal sovereignty. However, the long sequence of steps prior to the imposition of sanctions limits the probability of their application. Sanctions will be decided in the Council (on the basis of

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<sup>135</sup> The Stability and Growth Pact, Clause 25.

<sup>136</sup> Ibid., Clauses 27/28.

<sup>137</sup> Ibid., Clause 31.

<sup>138</sup> Ibid., Clause 35.

QMV), further minimising the probability of their application. Although the provisions appear strict at a first glance there are many areas requiring interpretation by the Council. The flexibility of interpretation inherent in the Pact reflected arguments, especially from France, that there could be no restrictions on the sovereign decisions of ECOFIN.<sup>139</sup> In sum, the practical aspects of the Stability and Growth Pact, operating as it does through the Council and QMV, limit the overall effect on fiscal sovereignty. The only option a member state has to avoid is high spending and low taxation, which is usually economically disastrous too. They can still choose in the widest sense on high tax, high spending or low tax, low spending.

The area of taxation remains largely wedded to national jurisdictions. There are already some provisions for harmonisation of VAT in terms of minimum tax rates and some measures in respect of multinationals.<sup>140</sup> These provisions are limited as illustrated by the reduction in VAT on fuel from 8% to 5% by the Labour government in 1997. However, EMU is expected to make maintaining national tax policy more difficult as price transparency and the reduction of transaction costs will highlight differences in taxation. This is particularly significant in the area of capital taxes as capital flows in a liberalised currency market are highly sensitive to national differences in taxation.<sup>141</sup> In examining the likely impact of EMU, Genser and Hauffer make a distinction between tax co-ordination and tax harmonisation. Tax co-ordination comprises all measures that align national tax systems while maintaining national tax rate autonomy. Tax harmonisation is a necessary further step should tax co-ordination measures be deemed infeasible or insufficient. They argue that tax harmonisation is particularly necessary in the areas of

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<sup>139</sup> R. Pitchford and A. Cox, Explaining EMU, (Kogan Page Limited, London, 1997), p.65.

<sup>140</sup> P. Lagayette, "Will Parliament Retain its Power to Tax and Spend if Britain Participated in a European Monetary Union" in C. Taylor (Ed.), op.cit., p.192.

<sup>141</sup> B. Genser and A. Hauffer, "Tax Competition, Tax Coordination and Tax Harmonisation: The Effects of EMU" in R. Holzmann (Ed.), Maastricht: Monetary Constitution without a Fiscal Constitution?, (NOMOS Verlagsgesellschaft, Baden-Baden, 1996), p.83.

corporation tax and interest income in the form of minimum levels.<sup>142</sup> In the long-term they argue that EMU will lead to an increasing need for tax harmonisation measures. Certainly even if no conscious harmonisation process takes place there is likely to be a narrowing of differentials due to market competition. However, for fiscal sovereignty to be challenged in the future European legislation will be required. The sensitivity of the tax harmonisation debate in the British context is discussed in further detail in Chapter 6.

The centralised European budget provides minimal scope for fiscal policy. The Werner Report on EMU in the 1970s proposed a degree of fiscal centralisation and, more specifically, the Macdougall Report in 1977 suggested that the EU budget should consist of at least 5% of member states' GDP.<sup>143</sup> In most federations around 20-25% of GDP is incorporated in a central budget. In the EU the equivalent figure is around 1.27% and this figure was declared to be a maximum ceiling at the Edinburgh Summit in 1992.<sup>144</sup> This overall ceiling was confirmed at the European Council in Berlin in 1999 following consideration of the financial implications of EU enlargement.<sup>145</sup> The EU budget is clearly insufficient to act as an automatic fiscal stabilising mechanism during economic downturns.<sup>146</sup> In addition, the budget is allocated to particular activities. Approximately 50% of the EU budget is devoted to agriculture and around 35% to Structural and Cohesion funds for regional development.<sup>147</sup> In sum, the focus on public expenditure under EMU will probably remain at a national level.

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<sup>142</sup> *Ibid.*, p.107.

<sup>143</sup> C. Johnson, *In With the Euro, Out with the Pound*, (Penguin Books, London, 1996), p.124.

<sup>144</sup> N. Nugent, *The Government and Politics of the European Union*, (3rd Ed., Macmillan Press, London, 1994), p.342.

<sup>145</sup> "The European Council: Presidency conclusions", Europa Web Site ([http://europa.eu.int/council/off/conclu/mar99\\_en.htm](http://europa.eu.int/council/off/conclu/mar99_en.htm)).

<sup>146</sup> J. Grah, *op.cit.*, p.196.

<sup>147</sup> N. Nugent, *op.cit.*, p.345.

Although EMU has largely been considered in terms of the Maastricht Treaty it is often argued that, whatever the current provisions, EMU will inevitably lead to fiscal centralisation in the longer term. Two economic arguments are put forward for this view. Firstly, in EMU there will be a greater emphasis on fiscal policy as a stabilising factor in cyclical economic management at a member state level, given that they can no longer use the monetary policy option.<sup>148</sup> Secondly, EMU may lead to greater regional differences whereby states, being unable to devalue, may need to use active fiscal policy to mediate any downturn. The particular situation which has attracted academic attention has been the possibility of an "asymmetric shock" (such as German unification), whereby a region or state is affected to a far greater extent than other regions or states.<sup>149</sup> This is deemed to be of greater relevance in Europe due to the very low degree of labour mobility.

Proposals have been made for a system of "fiscal federalism", whereby taxes and expenditure would be allocated to the most efficient level in accordance with the principle of subsidiarity.<sup>150</sup> Oskar Lamfalussy, previous President of the European Monetary Institute (the forerunner to the ECB), has called for a common fiscal policy for monetary union to work.<sup>151</sup> The Munster agreement in October 1997 between France and Germany led to an agreement to co-ordinate fiscal policies in the build up to EMU.<sup>152</sup> However, co-ordination needs to be clearly distinguished from a common policy at a European level. Linkage between monetary policy and fiscal policy is not necessarily automatic and no agreed moves to centralise fiscal sovereignty have yet been made. In that sense, as Holzmann argues, the Maastricht Treaty could be seen as a "monetary

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<sup>148</sup> J. Grah, op.cit., p.198.

<sup>149</sup> C. Johnson, op.cit., p. 124.

<sup>150</sup> A discussion of "fiscal federalism" is outlined in L. Feld and G. Kirchgassner, "Ome Agens Agenda Perficitur: The Economic Meaning of Subsidiarity" in R. Holzmann (Ed.), op.cit., pp.203-207.

<sup>151</sup> Quoted in The European, 19/1/1998.

<sup>152</sup> Ibid.

constitution without a fiscal constitution".<sup>153</sup> In addition, fiscal sovereignty is arguably more fundamental than monetary sovereignty, because of the range of functions covered by tax and expenditure together with the more direct linkage to democratic legitimacy.

What indications does fiscal practice in other federations hold for EMU? In Switzerland fiscal powers are split between three levels; the centre, the cantons and localities. The centre obtains most of its revenue from indirect taxation whilst direct income and corporation taxes provide the cantons and localities with their revenue. Indeed direct tax rates vary to locality level with two tax havens (Zug and Liechtenstein (which has an economic union with Switzerland)) attracting a high degree of top earners in a small state with free labour mobility. Feld and Kirchgassner in their study of Switzerland argue that the localities and cantons have maintained their fiscal powers over time, that the redistributive mechanisms are of a similar value to other federations and the provision of public goods is maintained in spite of the effect of tax competition. Interestingly tax competition has not led to a notable degree of tax convergence and arguably the system of direct democracy serves to limit centralisation tendencies.<sup>154</sup> Switzerland's fiscal system seems to support arguments that EMU will not necessarily lead to fiscal centralisation and the subsequent loss of fiscal sovereignty. However, with federal level expenditure of 6.3% of GDP in 1989 this level remains well above the current EU level of 1.27%.<sup>155</sup>

In Canada and the USA the federal level plays a more significant fiscal role than Switzerland. In both cases, unlike Switzerland, the bulk of direct taxation goes to the

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<sup>153</sup> R. Holzmann (Ed.), op.cit., p.9.

<sup>154</sup> L. Feld and G. Kirchgassner, op.cit., pp.207-214.

<sup>155</sup> Ibid., p.213. See also D. Mackay, "Policy Legitimacy and Institutional Design", Journal of Common Market Studies, Vol.38, No.1, March 2000, pp.25-44.

federal level. In 1990 the federal level accounted for 11.9% of GDP in the USA and 16.4% in Canada, much higher than the Swiss central level.<sup>156</sup> However, there are also key differences between the two systems. Canada has a more decentralised system with provinces having a considerable degree of fiscal freedom without being constrained by balanced budget provisions as in the USA. Overall in Canada there is a higher level of taxation and an explicit aim at the federal level to redistribute income to poorer provinces. Bayoumi and Masson argue that, unlike the EU, Canada and the USA are less likely to face one-off region specific shocks. However, stabilisation flows (a redistribution of income to states/provinces more affected by an asymmetric shock) amount to around 30 cents in a dollar in both states. This figure is similar to that in other European states but, as discussed earlier, the EU currently has virtually no stabilisation role.<sup>157</sup> In addition both states have significant redistribution functions (22% to the dollar in the USA and 39% in Canada), well beyond those of the current EU Structural or Cohesion Funds.<sup>158</sup>

Radaelli in his analysis of the general lessons from the fiscal federations of the USA, Canada and Switzerland, argues that four conclusions can be drawn. Firstly, all types of taxes will vary with different levels of authority. Secondly, it is customary to find a variety of rates between different sub-units allowing tax competition though generally within an overall framework. Thirdly, mitigation of socio-economic differences between the sub-units is assured by significant fiscal transfer mechanisms. Finally, after a period of greater centralisation the pendulum is swinging towards greater autonomy for the sub-units.<sup>159</sup> Clearly the EU currently has few, if any, of these features and the main contrast under EMU is the cleavage between fiscal and monetary policy. Whether this cleavage is

<sup>156</sup> T. Bayoumi and P. Mason, "What can the Fiscal Systems of the United States and Canada tell us about EMU?" in P. Welfens (Ed.), *European Monetary Developments: EMS Developments and International Post-Maastricht Perspectives*, (3rd Ed., Springer Verlag, Heidelberg, 1996), Table 1, p.325.

<sup>157</sup> *Ibid.*, pp:318-319.

<sup>158</sup> *Ibid.*, p.321.

<sup>159</sup> C. Radaelli, *The Politics of Corporate Taxation in the European Union*, (Routledge Publishing, London, 1997), p.191.

sustainable in the longer term is an essentially contested argument. For Radaelli the conclusion is a highly tentative and conditional outcome;

"It is not inconceivable to argue, in conclusion, that the road to monetary union, will require, at some point, an explicit consideration of fiscal federalism as a complementary aspect of EMU."<sup>160</sup>

In sum, none of the existing fiscal federations would seem to supply an appropriate comparative model to the EU. As currently conceived fiscal arrangements under EMU will be considerably more decentralised than those of the three federal states of Canada, the USA or Switzerland.

### **European Political Union?**

The debate over a potential link between EMU and European political union can be analysed in three main areas. Firstly, what meanings are given, in the literature, to European political union? Secondly, given the political motivations identified by a number of writers to the EMU process, what linkages are perceived in the process (especially for Germany which sought moves toward political union)? Thirdly, the question also arises as to whether the sustainability of EMU or potential divergences within the EU could lead to moves away from European political union.

There are many views on the meaning of European political union. This debate links closely to the current conceptions of the European Union outlined in Chapter 2, ranging from an intergovernmental association of sovereign states to a putative federation. Clearly the impact of EMU on political union depends to a large extent on the starting point of the author. Currie argues that, as the EU is already, in his opinion, a loose form

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<sup>160</sup> *Ibid.*, p.196.

of federation the choice is between degrees of federalism, of which EMU is one component.<sup>161</sup> The Kingsdown Enquiry into Britain and EMU identified four meanings to political union; limited political impacts from EMU, economic union, political and constitutional changes to the EU and a full federal state.<sup>162</sup> These meanings portray differences in scale as to the overall political effect of EMU. The first two meanings have been addressed in the discussions on monetary sovereignty and fiscal sovereignty so the attention here will be focused on the latter two meanings of additional political and constitutional changes beyond these issue areas including the ultimate position of a federal Europe.

The debate on the linkage between EMU and political union has been bedevilled by an absence of precise meaning and the lack of detailed analysis on potential links leading to assertions as to the presence or absence rather than complex elaboration. Unlike the inevitable dualism prompted by EMU (to join or not to join), political union is much more a matter of degree making the links between the two very complex. Little guidance can be found from either the Maastricht or Amsterdam treaties other than general phrases such as "an ever closer union". To take some examples of general views, Johnson argues that EMU will not lead to a "single state" but that political union of a limited kind may occur. This would include topics like extensions of the powers of the European Parliament, extensions of QMV, closer foreign and security policy and home affairs.<sup>163</sup> Christopher Taylor argues that EMU will not lead inexorably to political union. Even so he also points out that EMU is compatible with political union and perhaps essential to it.<sup>164</sup> Currie stresses that EMU could lead to a centralised federation or a very decentralised model on the Swiss basis. The key point though is that this is a political

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<sup>161</sup> D. Currie, The pros and cons of EMU, (Economist Intelligence Unit, London, 1997), pp:17-18.

<sup>162</sup> C. Taylor (Ed.), op.cit., p.90.

<sup>163</sup> C. Johnson, op.cit., p.196.

<sup>164</sup> C. Taylor, op.cit., p.146.

choice for Europe.<sup>165</sup> There is then an overall sense that EMU is a *necessary* condition for political union but not a *sufficient* one.

One of the ironies of EMU is that for all the writings on the economics of EMU many writers stress the political motivation behind the process. From an economic perspective and having completed a book on "The *Economics of Monetary Integration*" De Grauwe provides a typical example of this characteristic;

"The decision to go ahead with monetary union has clearly been inspired by the political objective of European unification. In the dynamic towards political union, many objections expressed by economists...have been brushed aside."<sup>166</sup>

From a political science perspective Martin and Garnett argue that EMU is being promoted vigorously to hasten European political union.<sup>167</sup> There is both the element of the wider ideological vision of a united Europe together with the intergovernmental bargaining of national interests. The key element is believed to be the central bargain between France and Germany. France is deemed to obtain a stable currency whilst Germany obtains an independent foreign policy.<sup>168</sup> Whilst a clear oversimplification amongst a range of other factors, the specific aims of the German government toward political union provide one explicit method of discussing the linkage between EMU and political union.

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<sup>165</sup> D. Currie, op.cit., p.17.

<sup>166</sup> P. De Grauwe, The Economics of Monetary Integration, (2nd Ed., Oxford University Press, Oxford, 1994), p.210.

<sup>167</sup> L. Martin and J. Garnett, British Foreign Policy: Challenges and Choices for the 21st Century, (Pinter Publishing, London, 1997), p.124.

<sup>168</sup> C. Johnson, op.cit., p.7.

The position of the German government was central to the successful launch of EMU. However, economically the advantages of a wide EMU to Germany were problematic given the successful, long-term record of the Bundesbank in providing price stability.<sup>169</sup> Hence it is argued that Germany's motives were primarily political, seeking to underpin EMU in return for moves to political union. An explicit linkage strategy by the German government can be identified prior to Maastricht. Woolley argues, utilising Putnam's concept of two-level games, that Kohl explicitly sought to link EMU and political union. At the Strasbourg European Council in December 1989 Kohl tried to delay the EMU IGC by six months in order to consider the overall EU institutional structure. In spring 1990 he succeeded at the Dublin European Council in setting up a parallel IGC on political union to run alongside the EMU IGC.<sup>170</sup> The explicit linkage was outlined by Kohl in a speech ten days before the Maastricht conference;

"Political union and monetary union are inseparably linked. The one is the unconditional complement of the other. We cannot and will not give up sovereignty over monetary politics if political union remains a 'castle in the air'."<sup>171</sup>

The German government position arose from a mix of domestic and international factors. On the international front German unification required reassurance to their European partners that Germany would remain embedded in European arrangements. On the domestic front the long-standing political consensus in favour of European integration, the need to maintain the support of the coalition partner (the strongly pro-European liberal party (the FDP)) and the aim of dividing the opposition SPD can be seen as motivational factors for Kohl's linkage strategy.<sup>172</sup> The other interested party was the

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<sup>169</sup> P. De Grauwe, op.cit., p.162.

<sup>170</sup> J. Woolley, "Linking Political Union and Monetary Union" in B. Eichengreen and J. Frieden, The Political Economy of European Monetary Unification, (Westview Press, Oxford, 1994), pp:71-73.

<sup>171</sup> Quoted in D. Marsh, op.cit., p.242.

<sup>172</sup> J. Woolley, op.cit., pp:76-83.

Bundesbank whose very existence was directly threatened by EMU. The Bundesbank clearly could not openly oppose the EMU process given the strength of the political forces in favour. They, therefore, sought to ensure that EMU would reflect the Bundesbank model with tight financial convergence criteria on potential members, legally based independence for the ECB, an overriding objective of price stability and further steps toward political union. The importance of political union was underlined in a Bundesbank statement in September 1990;

"A monetary union is an irrevocably sworn cofraternity - "all for one and one for all" - which, if it is to prove durable, requires, judging from past experience, even closer links in the form of a comprehensive political union."<sup>173</sup>

The interesting point here though is that the Bundesbank perceived political union as primarily economic union, whilst the German government were more concerned with institutional reforms. In addition, whilst the Bundesbank was quite prepared to delay or even cancel EMU the German government was not prepared to go that far.<sup>174</sup>

Even if there was an explicit linkage strategy operated by the German government the outcome of the Maastricht treaty must also be taken into consideration. It can be argued that the centrepiece of the Maastricht treaty was the arrangements for EMU and that, by comparison, the arrangements for political union were limited. In particular the arrangements for foreign and security policy and justice and home affairs in intergovernmental "pillars", clearly separated from the main European Community framework, highlighted the limits to the "ever closer union". Within Germany itself Kohl came under fire for the lack of symmetry between EMU and political union. The popular press attacked him for giving up the Deutschemark and the Bundesbank openly criticised

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<sup>173</sup> Quoted in D. Marsh, op.cit., p.242.

<sup>174</sup> D. Marsh, op.cit., p.246.

the lack of progress in the Maastricht Treaty.<sup>175</sup> The subsequent Amsterdam Treaty also revealed only limited progress toward political union. Duff argues that Amsterdam left much remaining to be done in order to attain a full constitutional settlement.<sup>176</sup> In the same volume Lamberto Dini comments that Amsterdam was "a bitter disappointment" from a federalist perspective.<sup>177</sup> These comments highlight the limitations on the automaticity of the linkage between EMU and political union.

The limitations of moves toward European political union are also illustrated in the area of labour market and employment policy. Following the convergence in power of Social Democratic governments increased emphasis was placed on employment policy. The Amsterdam treaty agreed the objective of promoting employment as a matter of common concern. This was followed by a series of initiatives at following European Councils. The Luxembourg summit in December 1997 focused on measures to improve the efficiency of the labour market and the Cardiff summit in June 1998 focused on benchmarking structural economic reform. These initiatives culminated in the European Employment Pact at the Cologne summit in June 1999. This process was marked by a divergence in perspectives ranging from the labour market flexibility approach of Blair's British government to the neo-corporatist emphasis of the German government through to the statist emphasis of the French government. From a sovereignty perspective though the key words in the European Employment Pact were "enhanced and appropriate policy co-ordination", "dialogue" and "exchange of ideas". In sum there were no major moves toward integration in an area of crucial economic and political significance.<sup>178</sup>

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<sup>175</sup> For details see D. Marsh, *op.cit.*, pp:239-251.

<sup>176</sup> A. Duff (Ed.), *The Amsterdam Treaty*, (Federal Trust, London, 1997), p.xxxvi.

<sup>177</sup> L. Dini, "The European Union after Amsterdam" in A. Duff (Ed.), *op. cit.*, p.xxvii.

<sup>178</sup> K. Dyson, *The Politics of the Euro-Zone: Stability or Breakdown?*, (Oxford University Press, Oxford, 2000), pp:37-42.

Whilst the link between EMU and European political union is usually discussed in terms of the further development of political union, there is a converse argument that the possible failure of EMU may irreparably damage political union. Cohen argues that the sustainability of EMU is ultimately dependent on the political will of the members to integrate. This "political will" cannot be replaced by economic or organisational factors.<sup>179</sup> Thus, there can be no assurance that EMU will prove irreversible.<sup>180</sup> Any failure of EMU would have a clearly adverse impact on demands for a European political union. Beber has elucidated this argument from a "worried Europhile" perspective. He regards EMU as a major political project which diverted attention from other integration moves. The risks of the project must be seen in the context of the decreasing influence of states vis-a-vis markets and also the decreasing influence of national central banks vis-a-vis markets. In particular the lack of federal fiscal stabilisers may cause severe strains as does the division of EMU into "ins" and "outs".<sup>181</sup>

### **Conclusions**

The challenges to sovereignty presented by EMU are complex and wide ranging. Three central arguments are put forward in this chapter. Firstly, from an analysis of historic and contemporary monetary unions it is argued that, although they shed light on certain features, EMU represents a unique situation in terms of both the breadth and depth of the project. I would agree with Panic that EMU is;

"...the most ambitious attempt ever made to create a complex international economic and monetary union while retaining national political institutions and sovereignty."<sup>182</sup>

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<sup>179</sup> B. Cohen, "Beyond EMU: The Problem of Sustainability" in B. Eichengreen and J. Frieden, *op.cit.*, pp:162-163.

<sup>180</sup> *Ibid.*, p.150.

<sup>181</sup> Arguments presented to the Lothian Foundation Conference, *A Central Bank for Europe*, 19/11/97; Lothian Foundation Conference, *Can Britain Stay Outside the Euro?*, 7/11/97.

<sup>182</sup> M. Panic, *European Monetary Union: Lessons from the Classical Gold Standard*, (Macmillan Press, London, 1992), p.8.

The second argument put forward is that, considering the challenges of EMU across the four sovereignty questions, there is a marked divergence between the monetary and institutional aspects compared with the fiscal and political questions. Considering the twin aspects of sovereignty developed in Chapter 2, namely political authority and a degree of effective capability, the monetary and institutional arrangements for EMU present considerable challenges to these sovereignty questions. The creation of the ECB with clearly defined and extensive monetary authorities which are unlikely to be reversed was the central feature of EMU. In contrast, the fiscal and political arrangements were more uncertain. EMU was clearly a *European monetary union*. However, it was an incomplete economic union leaving crucial economic issues such as fiscal arrangements and labour market flexibility unresolved. On wider political union the arrangements were even more uncertain.

The third and crucial argument advanced is that the challenges to sovereignty presented by EMU were sufficient to generate an intense political debate in Britain. Whilst the fiscal and political arrangements were unclear under EMU they were nevertheless placed on the agenda. There can be no denying the political element and significance of EMU, which was arguably a necessary, if not sufficient, step toward European political union. For Britain two other factors were significant. Firstly, Britain's unhappy experiences with European monetary politics and limited role in the development of EMU, symbolised by the "opt-out", heightened the overall sense of isolation from the majority of EU members. Secondly, EMU itself crystallises the situation for Britain in that she either joins or stays outside. Unlike the multiple conceptions that can be given to the EU, EMU presents a binary dilemma for Britain. As the Kingsdown Enquiry into Britain and EMU noted;

"Monetary union is fairly easy to describe: you either have it or you don't. Opinions may differ about the conditions and the criteria for membership, or about the surrounding

institutions and instruments needed to make monetary union work satisfactorily. But either you have a single currency or you don't; and if there is a single currency for some members of the European Union, then either Britain joins, or it stays out."<sup>183</sup>

It is within this context that the British domestic debate can be considered.

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<sup>183</sup> C. Taylor (Ed.), op.cit., p.95.

## **CHAPTER 4: MAASTRICHT TREATY RATIFICATION: SOVEREIGNTY SETS THE AGENDA**

### **Introduction**

The British debate on EMU and sovereignty will be considered from the Maastricht treaty ratification debate (1992-1993) through to the aftermath of the 1999 European election. The Maastricht treaty, with EMU as its central component, defined the terms within which the British domestic debate occurred. This chapter examines the discourses of sovereignty during the lengthy treaty ratification process in Parliament. Four main aspects will be addressed. Firstly, the EMU policies of the Major government and the Labour opposition after Maastricht will be outlined together with related arguments on sovereignty. Secondly, the ratification process will be discussed, focusing on the sovereignty arguments advanced by proponents and opponents of the treaty. Thirdly, a review will be made of a selection of publications written by Eurosceptics involved in the Maastricht treaty debate. Finally, an appraisal of the overall ratification process will be made.

The basic argument advanced in this chapter is that the lengthy and troublesome ratification process allowed the EMU debate in British politics to be defined in terms of sovereignty. The Eurosceptic opponents of the treaty, though a clear minority, were able to set the agenda of the debate. The Eurosceptics were clearly helped by other events including the small parliamentary majority of the Major government, Britain's forced withdrawal from the ERM and the Danish "No" vote. A significant development was that the Eurosceptics built on the traditional idea of parliamentary sovereignty and developed two other elements of sovereignty, popular sovereignty (through the demand for a referendum) and executive sovereignty. When combined with free market ideas this wider conception of sovereignty became a potent cocktail. The overall effect was that, in spite of the ultimate ratification of the treaty, including the British EMU "opt-out", the

emotion of the debate had been heightened and sovereignty had become a central component. In particular the divisions in the Conservative party along a sovereignty/interdependence axis widened during the ratification process and were to dominate the remaining years of the Conservative government.

### **EMU Policies Post-Maastricht**

For Britain the key feature of the Maastricht treaty on EMU was the "opt-out" on joining Stage 3 of EMU, the key stage for forming a single currency. The EMU "opt-out" provided an open option for Britain which set the framework for the domestic debate. The very negotiation of the "opt-out" illustrated the desire of the government to defer such a critical issue. Forster, in a detailed study of Britain and the Maastricht negotiations, located the "opt-out" in British isolation (other than Denmark) over EMU.<sup>1</sup> There was a clear divergence of positions between Britain and the other EU states who were determined to press ahead with EMU leaving the "opt-out" as the only way to resolve the situation. The "opt-out" was officially suggested by Delors and served to ultimately reconcile the positions of the two groups. British attempts to negotiate a generalised "opt-in" rather than a specific "opt-out" (which would demonstrate British isolation) were also a failure.<sup>2</sup>

Interpreting Britain's "opt-out" Forster argued that Britain's attitude to EMU was derived from internal divisions within the Conservative party, a failure to understand the serious intentions of other states in creating EMU and concerns over the sovereignty and economic implications of EMU. Alasdair Blair also argued that government policy was based on short-term considerations, especially the need to maintain the unity of the Conservative party.<sup>3</sup> Dyson and Featherstone too stressed internal Conservative divisions

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<sup>1</sup> A. Forster, *Britain and the Maastricht Negotiations*, (Macmillan Publishing, London, 1998), p.46.

<sup>2</sup> *Ibid.*, p.65.

<sup>3</sup> A. Blair, "A Very British Affair: The Major Government and Maastricht", PSA Conference, Keele University, April 1998.

but additionally the incompatible policy styles between Whitehall and the EU and Britain's overall lack of structural power to influence other EU member states.<sup>4</sup> Discussion in this thesis is focused on the domestic debate *following* the Maastricht treaty for three main reasons. Firstly, and most significantly, it allows the debate to be located within a clear treaty framework rather than unconfirmed proposals. Secondly, the focus moved from the executive negotiations leading up to EMU to the wider British political debate. This debate itself, previously concentrated on the ERM issue, began to move toward detailed consideration of EMU. Finally, there has been a plethora of academic literature focused on the Maastricht negotiations leading to EMU.<sup>5</sup>

The initial reactions to the conclusion of the Maastricht Treaty were not as hostile as may have been expected from later developments. Major sought to proclaim the Treaty as a victory for British negotiating strategy which had reversed the trend towards federalism in the EC. His spokesman proclaimed that it was "game, set and match" to Britain given the "opt-outs" over EMU and the Social Chapter, the inclusion of the principle of subsidiarity and the avoidance of the word "federalism" in the preamble to the treaty. Given that one of the factors behind the "opt-out" was to maintain party unity over EMU it was important for Major to play the domestic game and highlight Britain's negotiating achievements.<sup>6</sup> The need to defend the negotiating "success" partly explains the resolution with which the Maastricht Treaty was pushed through Parliament (especially in respect of whipping tactics) and the contempt in which Major held the Eurosceptic

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<sup>4</sup> K. Dyson and K. Featherstone, The Road to Maastricht: Negotiating Economic and Monetary Union, (Oxford University Press, Oxford, 1999), pp:686-689.

<sup>5</sup> See also K. Dyson, The Elusive Union: The Process of Economic and Monetary Union in Europe, (Longman Publishing, London, 1994); W. Sandholtz, "Monetary Bargains: The Treaty on EMU" in A. Cafruny and G. Rosenthal (Eds.), The State of the European Community: the Maastricht Debates and Beyond, (Longman Publishing, London, 1993); A. Blair, "The UK and the Negotiation of the Maastricht Treaty 1990-1991", Ph. D. Thesis, Leicester University, 1997; D. Andrews, "The Global Origins of the Maastricht Treaty on EMU: Closing the Window of Opportunity" in A. Cafruny and G. Rosenthal (Eds.), The State of the European Community: the Maastricht Debates and Beyond, (Longman Publishing, London, 1993); D. Dinan, Ever Closer Union?, (Macmillan Publishing, London, 1994).

<sup>6</sup> S. Ludlam, "The Spectre Haunting Conservatism: Europe and Backbench Rebellion" in S. Ludlam and M.J. Smith (Eds.), Contemporary British Conservatism, (Macmillan Publishing, London, 1996), p.111.

opposition who failed to recognise this "success". Seldon, Major's biographer, argued that Major himself felt that Britain's reputation for keeping agreements was at stake in the ratification process.<sup>7</sup>

The relatively quiescent initial domestic reaction was highlighted in a House of Commons debate in December 1991 following the conclusion of the Maastricht Treaty. Only six Conservative MPs voted against a motion approving the treaty whilst another 20 were absent or abstained.<sup>8</sup> Mrs. Thatcher, in spite of her opposition to the treaty, only abstained. Whilst this small rebellion can partly be explained by the clear Conservative parliamentary majority of 88 at the time and the imminence of the forthcoming general election it is notable that leading Eurosceptics, including Teddy Taylor and William Cash, did not oppose the motion. The debate itself was notable for the number of speeches made in support of the government's negotiating achievement, especially the EMU "opt-out". Eurosceptic MP Nicholas Winterton commented that the "leadership that he [John Major] has shown at the Maastricht conference and his toughness in the negotiations clearly display that he is the only party leader competent to govern this country".<sup>9</sup> Even Teddy Taylor was able to support the government as a "small gesture of gratitude and goodwill".<sup>10</sup>

The normally Eurosceptic press was also relatively complimentary towards Major's negotiated outcome at Maastricht. For the Daily Mail Major had "stood firm" and

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<sup>7</sup> A. Seldon, Major: A Political Life, (Wiedenfeld and Nicolson, London, 1997), p.295.

<sup>8</sup> Those voting against were John Biffen, John Browne, Nicholas Budgen, Richard Shepherd, Norman Tebbit and Bill Walker. See R. Ware, "Legislation and Ratification: the Passage of the European Communities (Amendment) Act 1993" in P. Giddings and G. Drewry (Eds.), Westminster and Europe, (Macmillan Publishing, London, 1996), p.262.

<sup>9</sup> HC Deb 10/12/1991 c876.

<sup>10</sup> HC Deb 18/12/1991 c361.

"prevailed".<sup>11</sup> The Daily Telegraph commented that Major deserved the "heartfelt gratitude" of his party.<sup>12</sup> For the Times the whole event was described as an "emphatic success".<sup>13</sup> Young argued that the Treaty was "as good as Britain could have expected".<sup>14</sup> Stephens commented that "Major's assured performance at the Maastricht summit...secured him the best treaty available to the leader of such a divided party".<sup>15</sup> Although the Maastricht Treaty had been finalised just before the 1992 election it actually failed to make a major impact during the election campaign. Given their internal divisions over Maastricht both of the main parties sought to keep the issue of Europe out of the campaign. Butler and Kavanagh, in their analysis of the election, suggested that Europe was the "lost issue". They noted that;

"Europe (which a few months earlier in the days of Mrs. Thatcher and of Maastricht had seemed so important) attracted little notice."<sup>16</sup>

The brewing storm was not noticeable during the election campaign.

The Conservative policy on EMU must be seen in the context of their wider policy on the EU. After supporting the Single Market Mrs. Thatcher had taken a considerably more Eurosceptic line when faced with proposals for EMU. This vehement opposition was illustrated in the 1988 Bruges speech where she attacked moves toward a United States of Europe of which EMU was a central component.<sup>17</sup> Following Mrs. Thatcher's replacement by Major the tone changed significantly with Major's famous comment in

<sup>11</sup> Daily Mail, 12/12/1991.

<sup>12</sup> Daily Telegraph, 12/12/1991.

<sup>13</sup> Times, 12/12/1991.

<sup>14</sup> H. Young, This Blessed Plot, (Macmillan Publishing, London, 1998), p.433.

<sup>15</sup> P. Stephens, Politics and the Pound, (Macmillan Publishing, London, 1997), p.203.

<sup>16</sup> D. Butler and D. Kavanagh, The British General Election of 1992, (St. Martin's Press, London, 1992), p.110.

<sup>17</sup> M. Thatcher, Britain and Europe: The Bruges Speech, (Conservative Political Centre, London, 1988).

1991 that he aimed at putting Britain "where we belong", which was "at the very heart of Europe, working with our partners in building the future".<sup>18</sup> Hogg and Hill argued that this speech was misinterpreted because the rest of the speech, stressing Britain's desire for a decentralised, free trade Europe based on nation-states, could have almost been made by Mrs. Thatcher herself.<sup>19</sup> Major's biographer, Seldon, pointed out that he meant specifically that Britain should be at the heart of the debate over the future of Europe. However, he further suggested that Major had no deep beliefs on Europe unlike the gut feelings on identity, national pride and sovereignty which were felt by other Conservatives such as Mrs. Thatcher.<sup>20</sup> In his autobiography Major admitted that he was a "pragmatist" on the EU and that being at the heart of Europe was "self-evident" if Britain was to stay in Europe.<sup>21</sup> It was very difficult to envisage a similar comment being made by Mrs. Thatcher. Major's pragmatic approach to the EU provided the context in which the EMU policy was set.

Given the "opt-out" and the long time period prior to eventual EMU membership the government followed a strict "wait and see" policy over British membership of EMU. In his autobiography Major stressed the forces within which government policy was established. The divisions within the Conservative party were clearly the major constraint with the European issue capable of splitting the party and "hurling it into the wilderness" or "even destroying it for good".<sup>22</sup> Interestingly he stressed the divisions at Cabinet level between the "fundamental opposition to entry" of Michael Howard, Peter Lilley and Michael Portillo and "support for the principle" from Ken Clarke, Michael Heseltine and John Selwyn Gummer. Major claimed to have "stood apart from both sides" and "decided

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<sup>18</sup> In A. May, Britain and Europe Since 1945, (Addison Wesley Longman Limited, Harlow, 1999), p.80.

<sup>19</sup> S. Hogg and J. Hill, op.cit., p.78.

<sup>20</sup> A. Seldon, John Major: A Political Life (Wiedenfield and Nicolson, London, 1997), p.110.

<sup>21</sup> J. Major, John Major: The Autobiography, (HarperCollins Publishers, London, 1999), p.265.

<sup>22</sup> Ibid., p.584.

upon the policy I believed to be right".<sup>23</sup> He claimed that he had serious reservations over EMU, which was "a weakening of our own sovereign responsibility for domestic decisions".<sup>24</sup> However, given potential long-term economic advantages to EMU, a "wait and see" policy was established. Major insisted, contrary to his critics, that the policy was dictated by the "long view" not "short term expedient to postpone conflict".<sup>25</sup> In sum, sovereignty can be seen to be an important initial consideration on policy in terms of both Major's own position and Conservative divisions. This influence was to be extended and deepened by the Maastricht ratification debate.

The other initial driving force behind government EMU policy was the inherent uncertainty of EMU in 1992. Indeed for the government the EMU "opt-out" was as much a result as an option. Even during the final Maastricht negotiations on EMU Major, whilst hinting that Britain might eventually join an economically strong EMU, failed to address the crucial sovereignty questions.<sup>26</sup> Minister of State, Tristan Garel-Jones, did comment on the potential economic benefits and political costs of EMU;

"The Prime Minister made it absolutely clear that some benefits could flow from a single currency. However, if we were to go down that route, substantial political sacrifices would have to be made not least by this House."<sup>27</sup>

However, the main theme was to keep options open as Chancellor Lamont succinctly summarised the position during the Maastricht negotiations. EMU was;

"...a very serious issue and we ought to decide it on its merits at the time. When we see

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<sup>23</sup> Ibid., p.273.

<sup>24</sup> Ibid., p.272.

<sup>25</sup> Ibid.

<sup>26</sup> A. Forster, op.cit., p.67. Forster argues that Major "sidestepped the thorny sovereignty issue completely".

<sup>27</sup> HC Deb 18/12/1991 c424.

whether it is going to work, Britain would have the complete freedom to decide to do what it wanted to do on the merits of the case and we don't think we should make up our minds today."<sup>28</sup>

The underlying assumptions were the long time frame before the realisation of EMU and the considerable uncertainty over whether EMU would ever take place. It is significant that in his introduction of the Second Reading of the European Communities (Amendment) Bill, which would ratify the Maastricht Treaty in the British Parliament, Major hardly mentioned EMU.<sup>29</sup> However, Chancellor Lamont, later to become one of the leading Eurosceptics, did comment further on the government's policy. Whilst pointing to some of the economic advantages of EMU such as reduced transactions costs and exchange rate stability he stressed that joining EMU would be an "irreversible commitment". Such a step would involve transferring important powers over economic policy from national governments to an independent monetary authority. The key point, though, was that such a decision was far in the distant future and, even if EMU remained on course, "we do not know what economic conditions will prevail when the time to make a decision comes".<sup>30</sup> In sum, the "opt-out" was the key element of a strict "wait and see" policy.

Labour's EMU policy must be understood in the context of its wider EU policy and own modernisation process. Having disastrously lost the 1983 election on an anti-EC platform policy moved in a pro-EC direction. However, the transition was a gradual one. In 1986 the party was still opposed to aspects of the Single European Act on national grounds. The key turn came after the 1987 election defeat and partly represented a reaction to Mrs.

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<sup>28</sup> In S. Hogg and J. Hill, op.cit., p.149.

<sup>29</sup> HC Deb 20/5/1992 cc261-272.

<sup>30</sup> HC Deb 21/5/1992 cc587-588.

Thatcher's Bruges speech and Conservative Euroscepticism.<sup>31</sup> Other factors were that the EC seemed less of a "capitalist club" with the social dimension of Delors and the need for a European wide economic strategy following the perceived failure of national reflation policies. Traditional domestic concern with parliamentary sovereignty declined in the light of these other developments. However, whilst arguably a "true conversion", to quote Tindale, a notable caution persisted as Labour sought, in Denis MacShane's terms, to "protect its flank" from sceptical public opinion.<sup>32</sup> The Policy Review Process tended to focus on domestic issues.<sup>33</sup> The rhetoric of modernisation was applied to European issues (such as seeking a "people's Europe") but it could be argued that there was no substantive European vision.<sup>34</sup> In sum, Labour maintained a cautious pro-European position under Kinnock and Smith within which they developed their EMU policy.

Labour's EMU policy initially tended to mirror the Conservative government policy in terms of no definite decision over British membership of EMU. However, the language was significantly different in places. During the late 1980s the party was clearly split over the ERM, let alone EMU, between the pro-European views of Shadow Chancellor Smith and the Euroscepticism of Shadow Industry spokesman Bryan Gould.<sup>35</sup> Indeed a Policy Review document in 1989 stated opposition toward EMU.<sup>36</sup> However, Gould was removed in November 1989 and in 1990, during the genesis of detailed EMU proposals, Labour edged toward supporting the general principle of EMU providing it was built on genuine economic convergence and a politically accountable central bank.<sup>37</sup> Gould's

<sup>31</sup> S. George and B. Rosamond, "The EC" in M.J. Smith and J. Spear (Eds.), The Changing Labour Party, (Routledge Publishing, London, 1992), p.173.

<sup>32</sup> S. Tindale, "Learning to Love the Market: Labour and the EC", Political Quarterly, Vol 63, No. 3, July-September 1992, pp:276-300; D. MacShane, "Europe's Next Challenge to British Politics", Political Quarterly, Vol. 66, No. 1, Jan-March 1995, p.26.

<sup>33</sup> See R. Holden, "New Labour's European Challenge", PSA Conference, University of Keele, April 1998, Vol 2, pp:781-793.

<sup>34</sup> Ibid.

<sup>35</sup> D. Butler and D. Kavanagh, The British General Election of 1992, (Macmillan Press Ltd., London, 1992), p.50.

<sup>36</sup> A. McSmith, John Smith, (Verso Publishing, London, 1993), p.153.

<sup>37</sup> P. Daniels, "From Hostility to 'Constructive Engagement': The Europeanisation of the Labour Party" in H. Berrington (Ed.), Britain

removal effectively marked the acceptance of neo-liberal economic policy by Labour and the abandonment of radical plans for industrial modernisation, removing a key obstacle to EMU entry.<sup>38</sup> Kinnock himself was keener on EMU given its support by other European socialist parties whilst the more pragmatic Smith stressed the need for genuine convergence.<sup>39</sup> The new policy was endorsed by the National Executive Committee (NEC) in November 1990.<sup>40</sup> However, they refused to set a timetable preferring a pragmatic convergence, stressed the need for increased regional transfers to stabilise EMU and the requirement for an ECB to be statutorily accountable to ECOFIN.<sup>41</sup>

Within the broad position outlined above Labour elaborated three general arguments in favour of a positive attitude toward EMU. Firstly, there was a perceived recognition that EMU was likely to occur given the political will of EU members. In addition EMU was regarded, secondly, as providing some economic benefits. These were not just the obvious short-term benefits of the avoidance of transaction costs or exchange rate certainty but perceived longer-term benefits such as lower interest rates and lower inflation. Finally, and most significantly, the sovereignty question was either generally denied or interpreted in terms of the need for influence within the EU. EMU was regarded as primarily an economic rather than a political issue.<sup>42</sup> Whilst Labour presented three main arguments in favour of EMU there were also four main arguments which qualified support for EMU. The first, and most significant, was the need for EMU to be in the overall economic interests of Britain. A related argument was the need for convergence between the EU member state economies. This was interpreted by Labour,

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in the Nineties: The Politics of Paradox, (Frank Cass Publishers, London, 1998), p.85.

<sup>38</sup> Point made by Colin Hay at the conference "New Labour: Two Years On", University of Birmingham, 9/5/1999. Hay argued that it was not until after 1994 that the move to neo-liberalism was accompanied by an emphasis on globalisation discourse.

<sup>39</sup> A. McSmith, op.cit., p.165.

<sup>40</sup> NEC Statement on Economic and Monetary Union, Tribune 12/12/1990.

<sup>41</sup> Guardian, 29/11/1990.

<sup>42</sup> Economic Renewal in the EU: UK Labour and the Delors White Paper, (Labour Party, London, 1994).

not just in terms of the narrow financial convergence criteria of the Maastricht treaty, but also included wider criteria such as economic growth and unemployment. The third argument was the need for strengthened accountability arrangements for the ECB, probably through ECOFIN.<sup>43</sup> Finally, EMU would require the "consent" of the British people either in a referendum or at a general election. Given these considerations official policy remained the cautious one of qualified support subject to economic conditions.

The EMU "opt-out" policy of the government was vigorously attacked by Labour. Kinnock attacked the "opt-out" as not an "assertion of sovereignty" but a "resignation of sovereignty".<sup>44</sup> For Kinnock, Major had "contrived to get a two-speed Community" with Britain in "the slow lane" utilising "escape clauses" rather than being at the heart of Europe. However, Labour argued that the Maastricht treaty did not commit Britain to joining EMU due to economic conditions. Several stages were deemed necessary before EMU could occur including strict economic convergence, the need for approval of Stage 3 by the European Council and the need for a minimum number of members for EMU to proceed. However, if successful in the longer run, it was difficult to stand aside because otherwise Britain would be a "satellite" orbiting around EMU with "no pull, no power and no leverage".<sup>45</sup> Nevertheless, Labour would not commit itself "in advance of 1997 to enter a single currency irrespective of what the state of the economy was".<sup>46</sup> The stress again was on EMU as an economic issue divorced from political considerations. The 1992 Manifesto called for an "active part" to be played in future EMU negotiations, Europe-wide policies focused on solving unemployment and increasing economic growth rather than just the narrower financial convergence criteria, the location of the ECB in London and a political counterweight to the ECB in the form of ECOFIN.<sup>47</sup>

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<sup>43</sup> P. Mandelson and R. Liddle, *The Blair Revolution: Can New Labour Deliver?*, (Faber and Faber Limited, London, 1996), p.169.

<sup>44</sup> HC Deb 20/5/92 cc277-278.

<sup>45</sup> HC Deb 18/12/1991 c289.

<sup>46</sup> HC Deb 18/12/1991 c292.

<sup>47</sup> HC Deb 21/5/1992 c563.

The comparison of the EMU policies of the two main parties revealed a basically similar position of deciding eventual membership at a later date. However, underlying this basic convergence were significant differences which were to become more pronounced in the future. Whilst the Conservative government was stressing the "opt-out" itself it still foresaw significant political factors which would inhibit future EMU membership. For Labour EMU was primarily addressed as an economic issue which seemed to override political considerations. This implied that future membership of EMU would be less of a strategic issue for Labour. The party itself had moved away from a national Keynesian economic policy toward a more free market stance in a European context. This meant that the instrumental use of sovereignty for a national economic policy was diminished.<sup>48</sup> However, concerns remained as to the monetarist ideology behind the Maastricht treaty. Paddy Ashdown, the Liberal Democrat leader, neatly summarised the policy positions of the two parties in 1992. Whilst Labour were willing to join the "club" (EMU) they would not pay the entrance fee in terms of economic convergence. The Conservatives meanwhile were not certain whether to join the "club" but were prepared to pay the entrance fee.<sup>49</sup>

The key point about the relatively quiescent initial reaction to the Treaty and approximate similarity in ultimate policy positions was that the multiple discourses of sovereignty had yet to be articulated by leading actors. Both the initial reaction and the 1992 General Election campaign had not placed EMU at the centre of the debate, primarily because of the continued belief that EMU was either unlikely to occur or was a problem for the longer term. However, the 1992/3 ratification debates were to lead to the articulation of a

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<sup>48</sup> P. Daniels, *op.cit.*, p.91.

<sup>49</sup> HC Deb 20/5/92 c297.

wide range of arguments on EMU focused around sovereignty.

### **The Ratification Debates**

The ratification of the Maastricht Treaty by the European Communities (Amendment) Bill was a parliamentary process which lasted from the spring of 1992 to July 1993 involving all types of procedural intricacies.<sup>50</sup> Given that EMU was the central feature of the Treaty the debates focused on EMU issues. The Second Reading of the Bill was comfortably passed by over 200 votes. However, the progress of the bill was suspended following the Danish "No" vote in their referendum on the Treaty. As one former Conservative MP commented, the Danes, by saying "Boo" to the treaty, greatly emboldened the British Eurosceptics.<sup>51</sup> Major, though reportedly "depressed" after the ERM debacle, was determined to see through the ratification process given that he had personally negotiated the treaty and it was a matter of honour that it should be implemented.<sup>52</sup> A "paving" motion was only won by the government by three votes due to the support of the Liberal Democrats. After a detailed Committee stage, on the floor of the House for such a constitutionally important Bill, the Third Reading tended to repeat previous arguments and focus on procedural intricacies around the Social Chapter as Labour sought to defeat the government and the Conservative Eurosceptics sought to defeat the Treaty. The government eventually attained ratification of the Treaty in July 1993 after a confidence motion. The discussion below will focus on the varied meanings given to sovereignty throughout these debates, especially in relation to EMU. Mention will also be made of the impact of the ERM debacle in September 1992 following Britain's forced withdrawal and the attempts by the Eurosceptics to attain a referendum on the Treaty.

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<sup>50</sup> For an overview of the ratification process see R. Ware, "Legislation and Ratification: the passage of the European Communities (Amendment) Act 1993" in P. Giddings and G. Drewry (Eds.), Westminster and Europe, (Macmillan Publishing, London, 1996).

<sup>51</sup> Author's interview.

<sup>52</sup> Author's interview. See also John Major interviewed by Alan Clark for his TV series "History of the Conservative Party: Part 4", 5/10/1997 and M. Stuart, Douglas Hurd: The Public Servant, (Mainstream Publishing, Edinburgh, 1998), p.299.

The Second Reading of the Bill illustrated a wide range of meanings given to sovereignty in the light of EMU. Following a speech by Major in which EMU was hardly mentioned EMU became the central issue of the debate provoking a wide range of responses in terms of sovereignty. These can be loosely grouped into three broad categories. Firstly, conceptions focused on the locus of sovereignty in terms of classical parliamentary sovereignty, executive sovereignty and popular democratic sovereignty. Secondly, other conceptions stressed the divisibility of sovereignty in terms of the differentiation of sovereignty between functional areas, the instrumental sharing or pooling of sovereignty and an absolutist conception of indivisibility. Finally, a range of other conceptions, which whilst not so prevalent nevertheless deserve separate mention, included the myth of sovereignty, sovereignty as a reserve power and sovereignty as a symbol. These various conceptions naturally overlap and interweave but their broad contours were visible in the debate. Whilst necessarily selective these conceptions highlight the range of reactions to the sovereignty issues raised by EMU. Interestingly though there was little detailed analysis of the specific sovereignty questions posed by EMU, namely questions of monetary, fiscal, institutional and political sovereignty. Instead they tended to focus on either the wider idea of sovereignty 'per se' or in relation to the EU in general.

The classical parliamentary sovereignty arguments were well expressed by two anti-EC veterans, the Conservative John Biffen and Labour's Peter Shore. For Biffen the Treaty showed a "great deal of centralist commitment". Thus, EMU meant both economic union and, in one of the rarer detailed comments, tax centralisation as expressed in Article 99 of the Treaty. He stressed that, unlike the prevailing common view in the "tearooms", EMU would happen as it reflected deep political will within the EU.<sup>53</sup> For Shore the Treaty was a clear federalist move with EMU as the "heart" of the matter. Federalism was a "simple concept" in wanting a tier of government above the national level and to which the

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<sup>53</sup> HC Deb 20/5/1992 cc281-282.

national level is subordinated. The "pillars" of the Treaty, in terms of foreign and home affairs, will merge into a "trunk". He argued that he had "never heard of a sovereign independent country which did not have its own currency".<sup>54</sup> This subordination is permanent so that even when the IMF bailed out Britain in 1976 it was only restricting independence for two months.<sup>55</sup> In sum, for Biffen and Shore the Treaty was a federalising move which inevitably undermined parliamentary sovereignty. Another veteran Eurosceptic, Teddy Taylor, argued that the Treaty created a unitary state rather than a federal state where at least some powers would reside with the member states. For Michael Spicer the "irrevocable" nature of EMU undermined the crucial principle of parliamentary sovereignty that no parliament can bind its successor.<sup>56</sup> A more specific point raised by the Conservative Eurosceptic Christopher Gill was that, given one of the historic rights of Parliament was to raise taxes, this could be undermined by Article 99 of the Treaty on tax harmonisation. This was rejected by the Foreign Secretary, Douglas Hurd, on the grounds that the unanimity rule applied to this Article.<sup>57</sup>

The idea of executive sovereignty was not at the centre of the debate given that this was a Parliamentary debate focused on the authority of Parliament. However, some MPs did extend further the notion of parliamentary sovereignty to executive sovereignty. Labour MP Derek Enwright, defining sovereignty as the "ability of people to control their own lives", argued that this effectively resided with the executive rather than Westminster. This was illustrated most effectively by the lack of early scrutiny on European legislation (unlike Denmark).<sup>58</sup> For Conservative MP Michael Lord EMU was a major issue for executive sovereignty. For Lord what was at stake was the "fundamental" issue of "the

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<sup>54</sup> HC Deb 4/11/1992 c333.

<sup>55</sup> HC Deb 20/5/1992 cc283-286.

<sup>56</sup> HC Deb 13/1/1993 c982.

<sup>57</sup> HC Deb 21/5/1992 cc515-516.

<sup>58</sup> HC Deb 20/5/1992 c308.

power and purse strings of government".<sup>59</sup>

The conception of popular democratic sovereignty was resonant throughout the debates. One strand built on the idea of parliamentary sovereignty, namely that parliament being elected by the people was the centre of democratic sovereignty. This was the kernel of the argument put forward by veteran anti-EC campaigner Labour MP Tony Benn. For Benn the main point was democracy and particularly the corresponding lack of democracy within the EU. The essence of democracy was whether "we have the right to respond to a situation over which we have no control".<sup>60</sup> This would be best achieved by member states given the lack of democracy in the EU and, hence, Benn's plan to turn the EU into a commonwealth of independent member states. Benn also laid emphasis on the need for a referendum, the denial of which was an "outrage". The claim for the expression of popular sovereignty through a referendum was supported by a number of MPs. A related argument stressed the lack of democratic accountability of the ECB. For Labour MP Llew Smith EMU decisions would be made by unelected bankers who are not accountable to either elected governments or elected, sovereign parliaments.<sup>61</sup> Conservative MP Peter Tapsell argued that;

"People should not be under the illusion that a central bank will show a degree of political independence when faced with ruthless and corrupt politicians...If we lose control over our currency the House will lose the rock on which our democracy is founded-control over the money supply."<sup>62</sup>

This line of argument was supported by a wide range of MPs on both sides of the debate.

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<sup>59</sup> HC Deb 20/5/1992 c438.

<sup>60</sup> HC Deb 20/5/1992 c317.

<sup>61</sup> HC Deb 20/5/1992 c351.

<sup>62</sup> In T. Gorman, The Bastards, (Pan Books, London, 1993), p.150.

A variant of the democratic sovereignty conception focused on the idea of sovereignty as residing with the people outside of any specific emphasis on Parliament. This conception was largely linked to the Liberal Democrats. For Paddy Ashdown;

"I do not believe in the sovereignty of this place. I believe in the sovereignty of the people."<sup>63</sup>

This led Ashdown to support the idea of a referendum on the Treaty.<sup>64</sup> Liberal Democrat Russell Johnston developed further this conception of sovereignty. He supported federalism, which led to "a dispersal of government between different levels of democratic authority - supranational, national, sub-national - in which all levels are co-ordinated but none are subordinated".<sup>65</sup> The key phrase here was "none are subordinated" in that Parliament in this case does not possess ultimate authority. Ultimate authority resided with the people who vest this authority in a variety of institutions.

The idea of sovereignty as indivisible was strongly reflected in the debates. This was not just by proponents of sovereignty 'per se' but also the conception of sovereignty as an instrument which can be used for other ends. This had particular resonance on the Labour Eurosceptic wing which saw EMU as a monetarist vision of Europe. For these rebels sovereignty was the essential tool for a national economic strategy. Austin Mitchell argued that EMU would;

"...throw away all the weapons of economic management that we need to rebuild British

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<sup>63</sup> HC Deb 20/5/1992 c292.

<sup>64</sup> HC Deb 4/11/1992 c317.

<sup>65</sup> HC Deb 21/5/1992 c536.

industry."<sup>66</sup>

For Labour MP Denzil Davies EMU was a "substantial shift of power" to "bankers and bureaucrats" leading to the "Hegelian ideal of a universal class of expert civil servants whose loyalties and duties lie primarily with institutions".<sup>67</sup> There were clear links here with the arguments on the undemocratic nature of the ECB and wider criticisms of monetarist ideology. The key point though was the transfer of powers to the ECB, which would inhibit the instrumental use of sovereignty to develop a national economic policy. A similar argument can be found amongst the Conservative Eurosceptics though they wished to use the instrument of sovereignty for the spread of free market ideas. This was the view of Michael Spicer whose ideas are discussed in detail later.

An alternative conception was the idea of sharing or pooling sovereignty. John Smith, Shadow Chancellor, developed these ideas, which were to play a key role in Labour policy on EMU. He talked of "shared sovereignty in commonly agreed policies and common institutions".<sup>68</sup> This shared sovereignty was increasingly important as the EU enters new spheres of economic competence. Whilst Smith stressed the importance of true economic convergence and the need for direct ECB accountability to ECOFIN he interestingly concluded that it was "hard to envisage circumstances in which the UK could afford to "opt-out" when convergence has occurred and a sufficient number of countries are ready to join".<sup>69</sup> In sum, sovereignty was not a barrier to EMU. Indeed, to Smith, it seemed;

"...to be essential that we should recognise the limits of theoretical national sovereignty that the real world we live in imposes...In order to regain a lost sovereignty, a sovereignty

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<sup>66</sup> HC Deb 20/5/1992 c358.

<sup>67</sup> HC Deb 20/5/1992 c300.

<sup>68</sup> HC Deb 21/5/1992 c582.

<sup>69</sup> HC Deb 21/5/1992 c584.

lost by the internationalisation of economics it is necessary to share it."<sup>70</sup>

Other MPs stressed the idea of sharing sovereignty which can actually enhance or reclaim sovereignty through collective action. There was a feeling that with globalisation and interdependence sovereignty could only be regained at a European level. For Labour MP Peter Hain sovereignty had to be reclaimed by the European Parliament.<sup>71</sup> For Claire Short the European level, rather than the nation-state, was now needed to regulate capitalism.<sup>72</sup> For Conservative MP David Howell Britain regained sovereignty by influencing the overall debate.<sup>73</sup>

The idea of dividing sovereignty between functions (for example, monetary sovereignty or fiscal sovereignty) received some, though relatively few, mentions. Peter Hordern, in a rare reference to the specifics of EMU, placed it in the historic context of previous global financial regimes including the Gold Standard and the Bretton Woods regime. He concluded that the loss of sovereignty in respect of EMU was an illusion.<sup>74</sup> A related argument was that sovereignty can be temporarily delegated to other institutions but that the reserve power was available to retrieve this power if necessary. For Edward Garrier "in delegating power to Europe we do not abdicate it".<sup>75</sup>

Whilst most MPs stressed the loss or reclamation of sovereignty others felt that

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<sup>70</sup> HC Deb 21/5/1992 cc580-581.

<sup>71</sup> HC Deb 20/5/1992 c408.

<sup>72</sup> HC Deb 21/5/1992 c581.

<sup>73</sup> HC Deb 20/5/1992 c304.

<sup>74</sup> HC Deb 20/5/1992 c331.

<sup>75</sup> HC Deb 20/5/1992 c378.

sovereignty was a myth in the modern world. Labour MP Tony Banks argued that the day of the sovereign nation-state was finished.<sup>76</sup> Gerald Kaufman exclaimed, in typically dramatic terms, that the idea of an independent policy on your own currency was "living in cloud cuckoo land".<sup>77</sup> In a similar vein Conservative MP Roger Evans argued that it was ironic that arguments over sovereignty included the right and freedom "to debauch the currency at will".<sup>78</sup> George Robertson stressed the difference between the "trappings of sovereignty", such as flags, and "real sovereignty", which is an illusion for all but the strongest economies.<sup>79</sup> Brian Sedgemore distinguished between sovereignty and accountability arguing that sovereignty was a myth and attention should be focused on the narrower concept of accountability.<sup>80</sup> To say sovereignty was a myth was not synonymous with irrelevance. Geoffrey Evans stressed the fear of the loss of sovereignty even if this fear was irrational in the modern world.<sup>81</sup> For Derek Enwright sovereignty was equal to arrogance which needed to be set aside to overcome national egoisms.<sup>82</sup> The symbolism of sovereignty was significant, even to those who argued that the actuality of sovereignty was largely a myth in the modern world.

In sum, the Second Reading debates postulated a wide variety of conceptions of sovereignty. Most of these conceptions approached the general theory of sovereignty rather than dealing with specific aspects of EMU. However, sovereignty was at the heart of the debate from a variety of viewpoints. In spite of a rebellion of 26 Conservative MPs the government successfully won the vote on the Second Reading. However, external events, including the initial rejection of the Treaty by the Danish electorate and the

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<sup>76</sup> HC Deb 21/5/1992 c568.

<sup>77</sup> HC Deb 21/5/1992 c525.

<sup>78</sup> HC Deb 20/5/1992 c435.

<sup>79</sup> HC Deb 20/5/1992 c460.

<sup>80</sup> HC Deb 21/5/1992 c571.

<sup>81</sup> HC Deb 21/5/1992 c436.

<sup>82</sup> HC Deb 18/12/1991 c386.

ignominious withdrawal of Britain from the ERM, served to accelerate the tensions which were inherent in the debate over the Second Reading.

The Danish "No" vote in June 1992 galvanised opposition to the Maastricht Treaty. An Early Day Motion urging the government to suspend the Bill was signed by 84 Conservative MPs. However, it was the forced withdrawal from the ERM on "Black Wednesday" which also raised the stakes on the ratification process. The debate following "Black Wednesday" was instructive in the way it highlighted the link between the ERM and EMU. For Major the implication of the ERM debacle was that EMU was unlikely;

"I must tell those who have exaggerated ambitions for a single currency that it must now be an ambition postponed."<sup>83</sup>

In another interesting comment which encapsulated Major's attitude to EMU;

"This decision, as I said then, is too important to be an act of faith; it must also be an act of judgement, and that judgement cannot sensibly be made until we see the economic circumstances of the day."<sup>84</sup>

Deferral was definitely the order of the day. The ERM debate also served to exacerbate existing differences. For pro-EMU supporters the failure of the ERM was a very good reason for pushing ahead with EMU which would, by definition, avoid speculative activity. Ashdown argued that the problem can be solved only "by going into a single currency and not by running away from it".<sup>85</sup> For Heath it was time to give "serious

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<sup>83</sup> HC Deb 24/9/1992 c8.

<sup>84</sup> HC Deb 4/11/1992 c292.

<sup>85</sup> HC Deb 24/9/1992 c33.

consideration" to EMU, especially as continental Europeans would forge ahead with the project.<sup>86</sup> Correspondingly opponents of EMU saw the ERM debacle as a reason for not pursuing EMU. For Ken Baker the ERM failure tore "a gaping hole" in the Treaty.<sup>87</sup> For arch Eurosceptic Cash the ERM was the "Maginot line" on the road to Maastricht which had "failed spectacularly".<sup>88</sup> In sum, the ERM debacle only served to accelerate the divergences over EMU. By diminishing severely the credibility of the government's economic policy it simultaneously strengthened the resistance of the Eurosceptic wing of the Conservative party. Focusing their arguments around sovereignty the Conservative Eurosceptics increasingly extracted concessions from the government.

The demand for a referendum on the Maastricht Treaty was an early demand of the Eurosceptics given that they were unlikely to be able ultimately to stop ratification of the Treaty in Parliament. The referendum idea was opposed by both main parties on the grounds that both parties had indicated support for the Treaty in their 1992 election manifestos.<sup>89</sup> Seldon, in his biography of Major, argued that he was initially sympathetic to the referendum idea. However, given Mrs. Thatcher's open call for a referendum Major felt that this was an attack on his authority which needed to be resisted at all costs.<sup>90</sup>

The referendum debate was ironic in the sense that the keenest supporters of parliamentary sovereignty called for a referendum which would inevitably bind Parliament. However, the referendum was justified on the grounds of popular sovereignty given the constitutional significance of the Treaty. The referendum proposal was also

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<sup>86</sup> HC Deb 24/9/1992 c25.

<sup>87</sup> HC Deb 24/9/1992 c58.

<sup>88</sup> HC Deb 24/9/1992 c69.

<sup>89</sup> See HC Deb 24/9/1992 c10.

<sup>90</sup> A. Seldon, Major: A Political Life, (Wiedenfield and Nicolson, London, 1997), p.244.

supported by some pro-Treaty supporters such as many Liberal Democrats (in accordance with their view of popular sovereignty). For opponents of the referendum it was a contradiction to the very principle of parliamentary sovereignty. This was the basis for Major's rejection of the demand;

"We are a parliamentary democracy, and the House is the place in which to consider the Bill-line by line and clause by clause. Other nations may have a tradition of referendums...That is not our parliamentary tradition, and I do not believe that it would be acceptable to the House."<sup>91</sup>

This statement was interesting in the light of subsequent developments. However, it was widely supported in the House. Other arguments against a referendum included the difficulty of setting an appropriate question for complex issues and the belief that a referendum would get mixed up with the political climate of the day. The key argument though was that it contradicted parliamentary sovereignty, an argument ironically made by supporters of the Treaty, who were not so forthcoming in assessing the effect of the Treaty itself on parliamentary sovereignty. For Hugh Dykes a referendum was irreconcilable with parliamentary sovereignty;

"I can think of nothing that more undermines the sacred constitutional sovereignty of the House of Commons."<sup>92</sup>

For Benn the issue was equally sacred but from a favourable perspective for a referendum;

"We are not entitled to decide this matter ourselves...I beg all hon. Members...to agree with the principle that the matter must be determined by everybody in our land."<sup>93</sup>

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<sup>91</sup> HC Deb 24/9/1992 c9.

<sup>92</sup> HC Deb 2/12/1992 c338.

<sup>93</sup> HC Deb 2/12/1992 c336.

## Eurosceptic Discourses

As well as their vehement opposition in Parliament it was noticeable that a number of Conservative Eurosceptics decided to write detailed publications both during and after the Treaty ratification process. Four such publications are chosen to illustrate a range of Eurosceptic positions. These are Michael Spicer's "A Treaty Too Far", William Cash's "Europe: The Crunch", Teresa Gorman's "The Bastards" and Norman Lamont's "Sovereign Britain".<sup>94</sup> The diversity is shown in the market emphasis of Michael Spicer, the legalism of William Cash, the populism of Teresa Gorman and the later conversionism of Norman Lamont. In spite of these differences the central argument made here is the overwhelming emphasis on an absolutist conception of sovereignty which was under threat from developments in the EU.

Michael Spicer's book was arguably the most comprehensive of the Eurosceptic treaty critiques. For Spicer the Treaty required the most far reaching legal changes to the British constitution and was a move to a unified, centralised European state.<sup>95</sup> The central element was the "irrevocable" EMU;

"Irrevocable means unalterable, gone beyond recall, in other words, for ever. It is impossible, in my view to exaggerate the significance of this notion of eternity into the provisions of the Maastricht Treaty. It is what sets Maastricht apart from everything that has gone before. If it were to be ratified it would, indeed, quite literally be the point of no return."<sup>96</sup>

This affected the "very foundation" of the constitution based on the "supreme authority"

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<sup>94</sup> M. Spicer, A Treaty Too Far, (4th Estate Limited, London, 1992); N. Lamont, Sovereign Britain, (Gerald Duckworth & Co., London, 1995); W. Cash, Europe: The Crunch, (Gerald Duckworth & Co., London, 1992); T. Gorman, The Bastards, (Pan Books, London, 1993).

<sup>95</sup> M. Spicer, op.cit., p.3.

<sup>96</sup> Ibid., p.13.

of parliamentary sovereignty. Irrevocability was a direct challenge to the parliamentary principle of not binding successors. For Spicer sovereignty was an absolute, you either had final authority or you did not. Under EMU you did not;

"A single currency means a single monetary authority, means a single government [for] everything that counts."<sup>97</sup>

The right to raise taxes and to choose expenditure priorities was the very essence of national democratic sovereignty. Thus, Maastricht's "monumental historic significance" was the single currency, which was the "most damaging single act" to a nation's existence. It was a "treaty too far" as Britain's previous membership was based on guarantees defending sovereignty. However, the "unelected, unaccountable and secretive ECB" was;

"...most likely to consummate the development of a politically united Community. Control over monetary policy is central to the function of government. Just as the transfer of power from Crown to Parliament was born essentially out of parliamentary control of economic policy, so is the transfer of economic policy from national Governments to a European body intended to herald a fundamental shift in political power."<sup>98</sup>

EMU was not just a technical, economic view but;

"The real issues surrounding a move towards a Single Currency are above all political. They involve in their essence the consideration of the future of the nation state. This is because, as the Treaty of Maastricht makes plain a Single Currency is for ever. When a country surrenders its right to issue its own coinage, and does so irrevocably, it loses its

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<sup>97</sup> Ibid., p.15.

<sup>98</sup> Ibid., p.52.

sovereignty and thus the basis of its existence as a separate nation state."<sup>99</sup>

However, Spicer was still optimistic that the trend could be halted;

"I have consistently maintained the position throughout this book that sovereignty has not yet changed hands. I am persuaded by the majority of legal opinion, which suggests that Britain, her people and her political leaders retain ultimate control over their own destiny. This means that essential choices are left open; above all, it means that what has already been done is not yet irrevocable."<sup>100</sup>

However, the clash of principles between the EU and parliamentary sovereignty was irreconcilable;

"In particular, the doctrine of parliamentary sovereignty which lies at the root of British democracy cannot be squared with European political union as it is currently proposed. Parliamentary sovereignty allows for there to be no limit on the power of the people's elected representatives in Westminster."<sup>101</sup>

Spicer stressed the variety of opposition, both Conservative and Labour, to the Treaty. Four elements of Conservative opposition were identified. Firstly, traditional anti-Marketeers such as Roger Moate, Richard Body, John Biffen, Teddy Taylor, Toby Jessell. Secondly, the "Constitutionalists", who stressed the institutional and legal changes of the EU, included William Cash, Richard Shepherd, Christopher Gill, James Cran and Ian Duncan-Smith. Thirdly, the "Patriots" included Tony Marlow, John Carlisle, Nicholas Winterton, Ann Winterton, Harry Greenway, Bill Walker, Trevor Skeet, David Porter and Andrew Hunter. Finally, the "Marketeers", who emphasised the

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<sup>99</sup> Ibid., p.102.

<sup>100</sup> Ibid., p.187.

<sup>101</sup> Ibid., p.194.

protectionist nature of the EU, included Spicer himself, John Biffen, Nick Budgen, John Butcher, Roger Knapman, Patrick McNair-Wilson, Peter Tapsell, David Howell and Tom Arnold. For Labour three strands were apparent. These were those who stressed democratic sovereignty (Peter Shore), those who saw the EU as a "capitalist club" (Dennis Skinner) and those who saw the EU as an "economic straitjacket" (Bryan Gould).<sup>102</sup> However, in Spicer's view Labour resistance was fading and only the Conservative party could be the main force in halting the Treaty.

William Cash's book, also written during the ratification process, was a political tract with short sections on various arguments surrounding the Treaty. Each section was organised on the basis of replying to "arguments" from Treaty supporters. The key theme was the stress laid on the undemocratic nature of the Treaty when compared with British traditions;

"Our open and accountable parliamentary system in Britain is a great historical inheritance...It is not something which can be created out of the blue by a legislative act, but is the achievement of generations."<sup>103</sup>

On EMU by not using the veto (accepting the "opt-out") Britain "lost the war";

"Opposition to EMU is based on the democratic principle that the control of the monetary, economic and fiscal policies of the European Community cannot and should not be concentrated in the hands of unaccountable bankers...To accept the irreversible process towards a monetary union for a tight core of powerful countries at the centre of

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<sup>102</sup> Spicer quotes an interesting early reference to a potential EMU from Labour's 1975 pro-European referendum document (Britain's New Deal in Europe) which stated that;

"...there was a threat to employment in Britain from the movement in the Common Market towards an Economic and Monetary Union. This could have forced us to accept fixed exchange rates for the pound restricting industrial growth and putting jobs at risk. This threat has now been removed". (In Ibid., pp:184-5).

<sup>103</sup> W. Cash, op.cit., p.25.

the continent, grouped around Germany, would be to deny the future of the Community of twelve, and to accept the creation of a continental superstate"<sup>104</sup>

Interestingly Cash saw the ECB as only having the "illusion of independence". In effect it would be controlled by majority voting in the Council of Ministers, namely Germany given its overall influence. The only loss was "democratic control";

"...far from liberating monetary policy from political control, EMU simply reimposes it at the European level, without the safeguard of democracy."<sup>105</sup>

The other emphasis was on the EU as a "legal order". The principle of subsidiarity was seen as being based on "effectiveness", which favoured centralisation rather than "democracy", and would anyway be ultimately interpreted by the ECJ, the most integrationist institution. "Decentralisation" was a misnomer as this conceded that the EU had a "centre";

"The use of the word 'decentralisation' explicitly accepts that sovereignty (ultimate legal authority) resides in the Community, from which individual powers may or may not be devolved...The Community should not be regarded as a 'centre', for the nation-states should guard their legal and effective sovereignty"<sup>106</sup>

The Single European Act was where "the line should be drawn" but even here the Commission had interpreted Art 100A to strengthen their powers;

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<sup>104</sup> Ibid., pp:27-29.

<sup>105</sup> Ibid., p.32.

<sup>106</sup> Ibid., pp:38-39.

"The British government has recently given in, yet again, over VAT harmonisation and reduced Britain's independence in the process to less than that of a state in the USA, where different sales taxes already apply in a federal country."<sup>107</sup>

Cash quoted a White Paper by the Heath government with approval on sovereignty;

"...the Treaty of Rome commits its signatories to support agreed aims; but the commitment represents the voluntary undertaking of a sovereign state to observe policies which it has helped to form. There is no question of any erosion of national sovereignty."

to which he added ironically;

"How far, how very far, we have come since then."<sup>108</sup>

The integration process then was a linear one accelerated by a reassertiveness of Germany since unification. Indeed the treaty was "largely dreamed up by the German government."<sup>109</sup> The new Europe would be a German Europe just as the German customs union had led to a German political union;

"Accepting EMU will entrench the German domination of Europe, committing Britain to remain eternally peripheral to Europe's central monetary and economic considerations, destroying jobs, the economy and any hope of recovery...We are simply giving away control over our own economy."<sup>110</sup>

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<sup>107</sup> Ibid., p.44.

<sup>108</sup> Ibid., pp:48-49.

<sup>109</sup> Ibid., p.50.

<sup>110</sup> Ibid., p.59.

Teresa Gorman's idiosyncratic book, "The Bastards" focused on the whipping tactics used by the government and the rebels, the daily events of the rebellion and the variety of persons and views within the rebellion. Gorman admitted to not understanding the details of the Maastricht Treaty;

"For me trying to grasp its implications was like swimming through porridge and I felt a certain sympathy for Kenneth Clarke, who once admitted he had not read it."<sup>111</sup>

For Gorman the rebellion was an instinctive attempt "to save our democracy from being submerged in Brussels".<sup>112</sup> Cash was the 'de facto' leader of the rebels in terms of mastering the details of the Treaty, especially during the Committee stage. Gorman stressed the variety of the rebels in similar terms to Spicer but emphasised the common goal of securing the promise of a referendum.

Norman Lamont's work was an interesting contrast to the other three books given that Lamont was on the "other side" as Chancellor during most of the ratification saga. However, once dismissed by Major, Lamont became a fervent Eurosceptic even considering the ultimate option of withdrawal from the EU. In his book he dealt extensively with the sovereignty issues raised by EMU. Lamont argued that Europe was shaped by the interests of France and Germany, which were intrinsically different from Britain's;

"We should recognise that Europe is more important to France and Germany than it is to us. The European Union has been and will continue to be created in their image and not in ours."<sup>113</sup>

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<sup>111</sup> T. Gorman op.cit., p.85.

<sup>112</sup> Ibid., p.57.

<sup>113</sup> N. Lamont, op.cit., p.25.

This meant that it was futile to try to influence the development of Europe as Britain's interests differed from the rest of Europe. The conception which underpins Lamont's Euroscepticism was the idea of the nation-state where Lamont approvingly quoted De Gaulle's emphasis on the loyalty that the nation-state engenders.<sup>114</sup> Whilst the UK was a nation-state, albeit based on a number of nations, Europe was a geographical expression.

Within this broader conception of Europe the ERM was regarded as a mere staging post for EMU. For Lamont the major reason for the failure of the ERM was the asymmetric shock of German unification and the response of high public expenditure and high interest rates. On EMU Lamont expressed his opposition on both economic and political grounds. Economically there was a denial that EMU was necessary to complete the Single Market. Convergence was regarded as impossible with such a diverse range of economies, especially in terms of debt levels. Above all structural adjustment would be more difficult under EMU.<sup>115</sup>

Lamont's main opposition to EMU was based on political grounds. He regarded EMU as being driven for political reasons, namely the "inevitable" creation of a European government. The link between EMU and European political union is very explicit in Lamont's rejection of EMU;

"Having our own currency is vital to our continuing to govern ourselves."<sup>116</sup>

All of the sovereignty issues are addressed in Lamont's analysis of EMU as a move to

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<sup>114</sup> Ibid., p.101.

<sup>115</sup> Ibid., p.42.

<sup>116</sup> Ibid., p.44.

complete European government. On monetary sovereignty the ECB was seen as requiring "powers of such magnitude" in order to keep inflation down and control borrowing. This in turn would hit fiscal sovereignty;

"We would soon lose our freedom to decide how much tax we pay and how much public money the Government should spend."<sup>117</sup>

The institutional sovereignty ceded to the ECB would mean that "our way of governing ourselves" would be "empty theatre". Being unrepresentative there would be a move to elected Euro-commissioners and real powers being given to the European Parliament. In sum, Lamont saw EMU as leading to a "pan-European state".<sup>118</sup>

Lamont also considered the process by which a sovereign state may no longer be sovereign. This is discussed in the context of the 1975 White Paper, which stated that there would be no move to monetary union. Hence EMU was again regarded as central to sovereignty. Other key issues on sovereignty were authority over immigration policy, taxation policy, foreign policy and general legislative measures. He argued that when a state has given up most of these functions it ceased to be a sovereign state. Admitting that it was difficult to prescribe a precise point when sovereignty is lost he argued that this point was now approaching which would leave Britain equivalent to the state of Delaware rather than a sovereign state.<sup>119</sup> Overall the individual differences between the Eurosceptic writers were minor when compared with their overwhelming emphasis on an absolutist conception of sovereignty which would be undermined by EMU.

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<sup>117</sup> Ibid.

<sup>118</sup> Ibid.

<sup>119</sup> Ibid., p.68.

## The Ratification Debates: Appraisal

The first point that needs to be made on the backbench rebellion over Maastricht was its relative strength in a comparative historical perspective. Ludlam argued that, taking the traditional distinction between dissent and more serious factionalism, the rebellion had crossed the boundary to the latter.<sup>120</sup> The importance of the Maastricht rebellion was heightened by the fact that overall the Conservative parliamentary party was no more rebellious than previous Conservative governments, according to statistical analysis used by Cowley and Norton.<sup>121</sup> Given the long tradition of Conservative loyalty and unity the Maastricht rebellion was clearly a significant event.

Although a significant rebellion the focus on the debate 'per se' must be balanced against the fact that opposition to the treaty was carried out by a clear minority in Parliament. Ware, in a statistical analysis of contributions made to the debate, pointed out that over half of all MPs did not make any contribution at all during the ratification process. Only 68 MPs made more than eight contributions in total. Of these, 38 were clear opponents of the treaty. Top of the list was Tony Marlow closely followed by Teddy Taylor and Bill Cash. Other leading speakers were Peter Shore, Nigel Spearing, Nicholas Budgen and Bill Walker. Leading proponents to make frequent contributions included, for the Conservatives, Edwina Currie, Ian Taylor, Ray Whitney, Stephen Milligan, Hugh Dykes and Andrew Rowe. For Labour leading proponents included Peter Mandelson, Giles Radice, Geoff Hoon, Stuart Randall and Calum Macdonald.<sup>122</sup> In sum, the debates were dominated by MPs with strong convictions on either side of the debate and they were in a minority on both sides. Overall though most MPs from the three main parties supported the Maastricht treaty and the Eurosceptics were a clear minority. Their influence was

<sup>120</sup> S. Ludlam (Ed.), Contemporary British Conservatism, (St. Martin's Press, New York, 1996), p.99.

<sup>121</sup> P. Cowley and P. Norton, "Rebels and rebellions: Conservative MP's in the 1992 Parliament" in British Journal of Politics and International Relations, Vol 1, No. 1, pp:84-103.

<sup>122</sup> R. Ware, "Legislation and Ratification: the passage of the European Communities (Amendment) Act 1993", in P. Giddings and G. Drewry (Eds.), Westminster and Europe, (Macmillan Publishing, London, 1996), pp:269-271.

undoubtedly increased by the pursuit of narrow party political advantage by both of the main parties. Of the Conservative rebels on all the Maastricht votes the number voting against never exceeded 51.<sup>123</sup>

Whilst the Eurosceptics were a clear minority in both parties they did cut across ideological cleavages in both parties. In the Conservative party the differentiation between the Eurosceptics has been noted in a variety of contributions. Spicer's typology has already been discussed. For Williams the Eurosceptics varied as much in personalities as ideological convictions.<sup>124</sup> Cowley and Norton argued that the Eurosceptics were divided into those who opposed membership of the EU 'per se', opposition on constitutional grounds and opposition on economic grounds.<sup>125</sup> However, they also argued that the Eurosceptics could be incorporated into the standard framework of the internal divisions within the Conservative party developed by Norton in 1990.<sup>126</sup> These were Thatcherite (subdivided into Neo-Liberal, Old Right, Pure Thatcherites), Populist, Party Faithful and Critic (subdivided into Wets and Damps). On Maastricht the main opposition came from the Thatcherite grouping and the Populist grouping but rebels came from all groupings.<sup>127</sup>

The wide range of Euroscepticism has led some writers to reappraise typologies of the Conservative parliamentary party. Baker et al. argued that Norton's categories were no longer relevant given the Conservative divisions over Europe. They proposed an

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<sup>123</sup> S. Ludlam, op.cit., p.105.

<sup>124</sup> H. Williams, Guilty Men: Conservative Decline and Fall 1992-1997, (Aurum Press Ltd., London, 1998), p.85.

<sup>125</sup> P. Cowley and P. Norton, op.cit., p.91.

<sup>126</sup> Ibid., p.95.

<sup>127</sup> Ibid., p.98.

alternative typology based on attitudes to European integration as opposed to traditional Left/Right analyses. This incorporated a new axis termed the sovereignty/interdependence axis which, when combined with an extended government/limited government axis, allowed a more complete picture to be derived.<sup>128</sup> For example, the positions of Geoffrey Howe (pro-European and monetarist) and Nigel Lawson (Eurosceptic and less monetarist) could be clearly identified. For Baker et. al. Europe was a strategic "split" as opposed to less serious "divisions".<sup>129</sup> The striking feature of the internal splits was the ideological dimension, derived from the fusion of traditionalist and Thatcherite supporters, with particular emphasis on the idea of the EU as antithetical to free market ideas. Young stressed the importance of former Thatcherites who felt that their careers were limited in the Major government.<sup>130</sup> For Berrington and Hague the emphasis should be placed on the traditionalists.<sup>131</sup> For Sowemimo sovereignty was now the main dividing line.<sup>132</sup>

Whilst there were differences in the individual personalities and beliefs of the Conservative Eurosceptics there was nonetheless a clear underlying cohesion. As Baker, Gamble and Ludlam argued "what unites all shades of right-wing and Thatcherite opinion over Europe is a rejection of full economic and monetary union".<sup>133</sup> Organisationally the Eurosceptics were cohesive in terms of parliamentary tactics. Ideologically on sovereignty their arguments were essentially based on an absolutist doctrine of

<sup>128</sup> D. Baker, A. Gamble and S. Ludlam, "The Parliamentary Siege of Maastricht 1993: Conservative Divisions and British Ratification", Parliamentary Affairs, Vol 47, No. 1, Jan. 1994, pp:37-60.

<sup>129</sup> D. Baker, A. Gamble and S. Ludlam, "1846...1906...1996? Conservative Splits and European Integration", Political Quarterly, Vol. 64, No.4, Oct-Dec. 1993, p.421.

<sup>130</sup> H. Young, This Blessed Plot: Britain and Europe From Churchill to Blair, (Macmillan Publishing, London, 1998), p.385.

<sup>131</sup> H. Berrington and R. Hague, "Europe, Thatcherism and Traditionalism: Opinion, Rebellion and the Maastricht Treaty in the Backbench Conservative Party 1992-1994" in H. Berrington (Ed.), Britain in the Nineties: The Politics of Paradox, (Frank Cass Publishers, London, 1998), p.65.

<sup>132</sup> M. Sowemimo, "The Conservative Party and European Integration 1988-1995", Party Politics, Vol. 2, No. 1, Jan. 1996, pp:77-98.

<sup>133</sup> D. Baker, A. Gamble and S. Ludlam, "Whips or Scorpions? The Maastricht Vote and the Conservative Party", Parliamentary Affairs, Vol. 46, No. 2, April 1993, p.160.

sovereignty. Whilst they developed the sovereignty arguments on three grounds (executive; parliamentary and popular) the key point was that all three of these nuances would be undermined by EMU. A useful distinction can be made between defending sovereignty 'per se' and the use of sovereignty for other goals such as the spread of free market ideas.<sup>134</sup> However, they all visualised sovereignty as being absolute and indivisible on all the sovereignty questions. Thus, the monetary, fiscal, institutional and political sovereignty questions were rolled together into a single concept, absolutist sovereignty, which through EMU was transferred to the EU. This transfer effectively undermined executive, parliamentary and popular sovereignty of Britain in one transaction.

Like Conservative Euroscepticism, Labour Euroscepticism combined a number of elements. Probably the most telling distinction was between the fundamental democratic stress of Tony Benn and Peter Shore and the more economic arguments of Denzil Davies and Austin Mitchell in seeking to use sovereignty as an instrument for socialist economic policies within the nation-state. However, unlike the Conservatives, the Euroscepticism of the Labour parliamentary party was decreasing rather than increasing. A cutting remark by Tessa Blackstone was that Labour Eurosceptics were "mainly extinct volcanoes".<sup>135</sup>

A 1995 survey by Baker and Seawright sought to test the European views of Labour MPs.<sup>136</sup> 30% of MPs surveyed agreed with the statement that "sovereignty cannot be pooled" compared with 59% cent who disagreed. On EMU only 21% felt that it would

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<sup>134</sup> H. Berrington and R. Hague, *op.cit.*, p.53.

<sup>135</sup> *Observer*, 15/5/1994.

<sup>136</sup> D. Baker and D. Seawright, "A 'Rosy' Map of Europe?" in D. Baker and D. Seawright (Eds.), *Britain For and Against Europe*, (Clarendon Press, Oxford, 1998), p.60.

"signal the end of the UK as a sovereign state" against 74% who disagreed with this statement. Opinion was split on the need for a referendum and as to whether EMU would institutionalise neo-liberal policy. However, a small majority (42% against 38%) felt that "Britain should never permit its monetary policy to be determined by an independent ECB" even though this was the central feature of EMU.<sup>137</sup> Baker and Seawright further analysed the survey data to argue that more recent Labour MPs were less Eurosceptic.<sup>138</sup> In sum, whilst arguably not reflecting the depth of Conservative divisions, there remained a significant degree of EMU scepticism, if not wider Euroscepticism, amongst Labour MPs. This scepticism was centred on questions of sovereignty, particularly the institutional sovereignty of the ECB. Like the Conservatives a sovereignty/interdependence cleavage was helpful in analysing divisions within the party cutting across the traditional Left/Right cleavage. The fact that 71 Labour MPs defied the party line on the Third Reading of the Bill (a greater number than Conservative rebels) illustrated the continuing significance of the Labour Eurosceptic minority.<sup>139</sup>

Baker's term "parliamentary siege" was a highly appropriate one for the ratification debate. The parliamentary context was important. As discussed in Chapter 2 the sovereignty of Parliament was often a cover for executive sovereignty through Parliament. Indeed Parliament was increasingly under pressure from a variety of angles. Riddell argued that Parliament had come under pressure from the media, European legislation, the speed of current events, judicial review and semi-independent regulators.<sup>140</sup> However, in the circumstances of a small parliamentary majority, parliamentary sovereignty took on a substantive meaning. This was the situation in the ratification debate. The length and procedural complexity of the parliamentary process certainly produced plenty of confusion. The Economist concluded that;

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<sup>137</sup> *Ibid.*, p.63.

<sup>138</sup> *Ibid.*, p.76.

<sup>139</sup> S. Ludlam, *op.cit.*, p.105.

<sup>140</sup> P. Riddell, *Parliament Under Pressure*, (Victor Gollancz, London, 1998), p.12.

"The British Parliament has been ridiculed. The public is baffled...This week saw the nadir of confusion."<sup>141</sup>

However, in spite of widespread confusion and seeming irrelevance to daily life, Ware argued that the process did, in the absence of a popular referendum, reflect wider anxieties about the Maastricht treaty.<sup>142</sup> The very length of the process was used tactically by the Eurosceptics in, for example, attempting to ensure that ratification was delayed until after the second Danish referendum in the hope that another "No" vote would torpedo the treaty. It was ironic that, when the Eurosceptics stressed both the executive and popular aspects of sovereignty, it was parliamentary sovereignty that allowed them opportunity for influence. This influence was used to raise the stakes in the debate for which the Eurosceptics passion exceeded their party loyalty.

There was also the feeling that they had wider support in the parliamentary party. Major's unscripted comments to a television interviewer about the three "bastards" in his Cabinet illustrated the depth of feeling on both sides.<sup>143</sup> A survey of Conservative MPs and MEPs in 1994 seemed to confirm the wider support for some Eurosceptic views.<sup>144</sup> Whilst the great majority of MPs supported EU membership there were significant differences over EMU. Only 27% "strongly agreed or agreed" with joining EMU compared with 66% "disagreeing or strongly disagreeing". Asked whether EMU would signal the end of the UK as a sovereign nation 48% agreed compared to 41% disagreeing. The MPs were equally split on the referendum question and agreed with the statement that "sovereignty cannot be pooled" by a margin on two to one. Significantly the MEPs were far more

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<sup>141</sup> Economist, 8/5/1993.

<sup>142</sup> R. Ware, op.cit., p.276.

<sup>143</sup> Quoted in H. Williams, op.cit., p.41.

<sup>144</sup> In S. Ludlam, "The Cauldron: Conservative Parliamentarians and European Integration" in D. Baker and D. Seawright (Eds.), op.cit., p.39.

favourable towards EMU compared to the MPs.

In interpreting the survey data Ludlam argued that sovereignty had become a major fault line in the Conservative party, even as it became ever more complex or problematic in academia;

"However unsatisfactory sovereignty may have become as a concept in political science...it nevertheless remains a crucial concept for the Conservatives."<sup>145</sup>

This fault line of sovereignty/interdependence needs to be added to the traditional Left/Right (or in Conservative terminology Wet/Dry) cleavage in order to explain Conservative divisions. The fault line can also be classified as those that take an absolutist conception of sovereignty and those that support the idea of pooling sovereignty, developed in similar ways to the conceptions of sovereignty discussed earlier. The application of these two conceptions of sovereignty outlined by Ludlam is not easy to apply to individual circumstances. He compared Mrs. Thatcher's support for QMV in respect of the Single Market with her hostility to EMU.<sup>146</sup> In my view this highlights the importance of the issue itself in assessing the application of sovereignty conceptions. EMU is a binary issue of greater significance to sovereignty when compared to the Single Market issues subjected to QMV.

The key point though was the depth of the divisions within the Conservative party around the cleavage of sovereignty. One loyalist Conservative MP, who had served across several Parliamentary sessions, stated how deep and personal the divisions became during

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<sup>145</sup> Ibid., pp:41-42.

<sup>146</sup> Ibid., p.43.

this period.<sup>147</sup> Ludlam concluded that the divisions were "fundamentally irreconcilable" and;

"The disputes over sovereignty, complex and intellectually messy though they may be, are thus clearly central to understanding the divisions in contemporary Conservatism."<sup>148</sup>

Hurd concluded that the ratification process was a "fierce tussle within our own party...by a stalwart group, basing themselves on their convinced interpretation of Conservative tradition".<sup>149</sup> However, he also regarded the ratification process as an essential success of the Major government. Major commented that the ratification process was "the longest white-knuckle ride in recent British politics".<sup>150</sup> For veteran Conservative Alan Clark in his TV series of the Conservative party the depth of the divisions prefigured the looming 1997 election disaster.<sup>151</sup> For Hurd, whilst the ratification debate had been successfully completed, Major increasingly felt that he could not win with the Eurosceptics.<sup>152</sup>

Major's own views on the EU became more sceptical after the ERM debacle and the next four years were to be focused on a process of attempting and failing to heal party divisions.<sup>153</sup> According to his biographer, Seldon, Major did not see the EU as an emotional issue but as one for negotiation and diplomacy. Hence the ERM debacle was a particular disappointment which led him on a more sceptical path personally as outlined in the Leiden lecture in 1994 stressing the need for a flexible, variable geometry EU.<sup>154</sup>

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<sup>147</sup> Author's interview.

<sup>148</sup> *Ibid.*, p.45.

<sup>149</sup> HC Deb 23/7/1993 c713.

<sup>150</sup> J. Major, *op.cit.*, p.384.

<sup>151</sup> Alan Clark, TV series "History of the Conservative Party: Part 4", 5/10/1997.

<sup>152</sup> M. Stuart, *op.cit.*, p.315.

<sup>153</sup> Author's interview.

<sup>154</sup> A. Seldon, *Major: A Political Life*, (Wiedenfield & Nicolson, London, 1997), p.486.

His main aim, though, or even "obsession" according to Seldon, was to keep the Conservative party together after 1993.<sup>155</sup> The important point here is that these divisions were arguably increasing both in terms of numbers and hostility as the "parliamentary siege" of the ratification saga allowed conceptions of sovereignty to take centre stage in the debate.

## **Conclusions**

The debates on the ratification of the Maastricht Treaty helped to develop a set of discourses focused around the idea of sovereignty. EMU was deemed to provide a series of challenges to sovereignty. For some this meant that EMU was 'per se' an inadmissible policy option whatever the economic consequences. For others it was a consideration to be taken into account. For yet others it was either dismissed or rationalised in terms that meant that it was not a barrier in itself to EMU membership, which could be decided by other factors. Sovereignty though was not a singular idea but a varied multiplicity of discourses, of which three broad groups of conceptions can be identified. Firstly, absolutist conceptions of sovereignty included the ideas of executive, parliamentary and popular sovereignty. Sovereignty was seen as a key value both inherently and as an instrument for other actions, whether free market or collectivist. The strength of this perspective was the conflation of traditional parliamentary sovereignty with the democratic strain of popular sovereignty reflected in calls for a referendum. The second grouping focused around the idea of pooling or sharing sovereignty. This was often linked with the argument that Britain must use its influence in the EU. The third grouping centred on the idea of dividing sovereignty. This included the idea of dividing sovereignty between functions or issues, between institutions, between the symbolic and actual aspects in the modern world and the between the delegation of operational competence and the maintenance of reserve powers. The political debate tended to polarise between the absolutist and pooling groupings but a wide variety of conceptions were prevalent reflecting the overall resonance of sovereignty.

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<sup>155</sup> *Ibid.*, p.727.

The key result of the multiple discourses of sovereignty articulated in the ratification debate was to set the agenda for the ongoing debate over EMU in terms of sovereignty. This was not a necessary or inevitable step but required articulation in a contingent and dynamic external environment. The initial reaction to the Maastricht negotiations and even the 1992 General Election had not produced the heat of the debate that was to follow. Whilst external events were very important including the small Conservative majority, the ERM debacle and the Danish "No" vote, the articulations of a Eurosceptic minority set the agenda of the debate. This led to a protracted debate focused around Parliament. This minority though was shown later to have significant and eventually majority support within the Conservative party. The Labour opposition leadership did not place sovereignty at the centre of their analysis (though they utilised the notion of pooling sovereignty) focusing instead on economic factors. However, they themselves had a significant minority which continued to argue for instrumental sovereignty, were themselves concerned at the independence of the ECB and were ultimately in opposition rather than government.

The varying discourses of sovereignty were yet to be directly aligned with the EMU policies of the two main parties. At the surface both parties adhered to a "wait and see" policy which left a decision on EMU to an undefined future date when circumstances would become clearer. This inevitably reflected the then prevailing belief throughout the British political system that EMU was not necessarily going to occur, a belief that permeated Parliamentary debates throughout the long ratification process. However, beneath the surface the details of the policy positions were quite different. The Conservative government was strictly wedded to the EMU "opt-out" negotiated at Maastricht and did not consider the detailed political and economic factors which could precede British entry into EMU. The Labour opposition supported EMU in principle but

stressed the need for true economic convergence and political accountability for the ECB. The seeds for the future divergence of policies had been sown.

The hallmark feature of the Maastricht ratification debate was that it was very much an elite debate. As Wincott, Buller and Hay argued, policy was conducted in the “existing mystifying and elitist terms of discourse within Britain – in itself an important form of structural constraint”.<sup>156</sup> The idea of a popular referendum over EMU had entered the political debate as the opponents of the Maastricht Treaty sought to gain an alternative channel to halt the Treaty. The referendum debates developed an intensive debate on the distinction between parliamentary and popular sovereignty. The debate was not just between supporters and opponents with, for example, many Liberal Democrats supporting a referendum in principle. However, both of the main parties rejected a referendum largely on the grounds of parliamentary sovereignty. The issue was, nevertheless, placed on the agenda and having failed on the Treaty the opponents turned their attention to ensuring that any future British entry into EMU was subject to a referendum. It is to this debate that the discussion now turns.

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<sup>156</sup> D. Wincott, J. Buller and C. Hay, “Strategic Error and/or Structural Binds? Major and European Integration” in P. Dorey (Ed.), The Major Premiership, (Macmillan Press, London, 1999), p.89.

## **CHAPTER 5: INTO THE PUBLIC SPHERE: THE 1996 REFERENDUM AND 1997 GENERAL ELECTION DEBATES**

### **Introduction**

The aim of this chapter is to analyse the key policy shift which took the EMU issue from the parliamentary sphere during the Maastricht ratification debate to the wider public sphere. This shift followed the 1996 decision by the main parties to pledge a referendum over any future decision by Britain to enter EMU. The origins of this decision will be examined together with the wider debate during the 1997 General Election. Four main aspects will be considered. Firstly, a brief analysis will be made of the 1975 referendum, which took Britain into the EC, focusing on the role sovereignty played in the debate. Secondly, the 1996 decision of the Major government to pledge a referendum will be discussed. Thirdly, the corresponding decision of the Labour Shadow Cabinet will be analysed. The chapter concludes with an examination of the EMU debate during the 1997 general election. The overwhelming need for electoral victory meant that the policies of the two main parties remained convergent even as the discourses of sovereignty diverged.

The importance of the 1996 referendum decision cannot be understated. Five key arguments are made in this chapter. Firstly, the referendum decision was itself a change of policy by both main parties. Secondly, the primary reason for the Conservative referendum commitment was the split within the Conservative party (including Cabinet level). As argued in Chapter 4 sovereignty was a key component of the Conservative split. Thirdly, illustrating the dynamics behind the debate, the Labour opposition reacted to the Conservative decision with its own referendum commitment. Fourthly, underlying the party political debate was the wider notion that the EMU issue was so fundamental that popular consent was ultimately required. Finally, and most significantly, the referendum commitment moved the debate firmly into the wider public sphere. This created a major constraint to EMU accession given popular scepticism. The 1997 general

election debate reaffirmed the referendum commitment by both parties, underlined the importance of the EMU issue in the public debate and highlighted an increasingly sceptical tone towards potential EMU membership by the two major parties.

### **The 1975 EC Referendum**

A referendum can be defined as the act, practice or principle of submitting the direct decision of a question at issue to the whole body of voters.<sup>1</sup> It can thus be clearly distinguished from an election at which the voters choose between individuals or parties. Other comparative terms used are representative democracy, where elected representatives follow their own consciences, and direct democracy, where referendums are often used for major decisions. Another distinction which is sometimes made is that between referendums and plebiscites. Plebiscites tend to symbolise a wider notion as a general expression of public opinion rather than being restricted to a question at issue.<sup>2</sup> Referendums in pure form should be focused on a clear issue and should either be binding on the government or be given major consideration in reaching the final decision.

There is almost a complete absence of a direct democracy tradition in British politics. This is partly due to the entrenched concept of parliamentary sovereignty which, by emphasising the supremacy of Parliament in the making of all laws, undermines any distinction between constitutional law and ordinary law. Constitutional law, which deals with the basic rules of the political system and basic liberties, is often embodied in written form with provisions restricting easy change in many Western democracies. Any changes are often subject to popular referendum. However, Britain's unwritten constitutional laws are subordinated to the concept of parliamentary sovereignty where Parliament has the right to make or unmake any law whatsoever.<sup>3</sup> Other traditions which

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<sup>1</sup> J. Grimond and B. Neve, The Referendum, (Rex Collings, London, 1975), p.53.

<sup>2</sup> Ibid., p.54.

<sup>3</sup> Ibid., p.58.

have mitigated against the use of referendums included those of centralised government, the idea of an MP as a free-thinking representative and the idea that governments once elected should govern (subject to Parliamentary scrutiny and approval).<sup>4</sup> Occasionally referendums have entered the political debate including the Conservative 1910 referendum proposal over constitutional reform, the 1930 proposal over Empire Free Trade and Churchill's 1945 proposal to continue the wartime Parliament but none of these proposals came to fruition.<sup>5</sup>

When the issue of British membership of the EC arose in 1970 anti-EC campaigners quickly raised the question of a referendum over British entry. However, they failed to stop the pro-EC Conservative government led by Heath from joining the EC in 1972 without a referendum. The primary cause of the 1975 referendum was the severe internal divisions within the Labour party with the referendum offering a device to resolve these divisions. Labour's Jim Callaghan in 1970 commented prophetically that the referendum idea was "a little rubber life raft into which the whole party may one day have to climb".<sup>6</sup> Labour leader Harold Wilson had initially been against a referendum. Indeed in the 1970 election campaign he commented that;

"The answer to that [a referendum] is no. I've given my answer many times...I shall not change my attitude on that."<sup>7</sup>

However, faced with party disunity the referendum allowed all sides to express their views without the party reaching a final decision until just before the referendum. The referendum commitment was made in 1972 and carried through to the two general

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<sup>4</sup> Ibid., pp:28-42.

<sup>5</sup> Ibid., p 212.

<sup>6</sup> P. Goodhart, The Referendum, (Tom Stacy Ltd., London, 1971), p.27.

<sup>7</sup> Quoted in Ibid., pp:12-13.

elections in 1974 where Wilson defeated Heath. After the "so-called renegotiations" of Britain's EC membership in 1975 the referendum campaign commenced with the Wilson government, minus a few anti-EC ministers, advocating a vote to remain within the EC.<sup>8</sup>

The 1975 referendum campaign was marked by an active debate about sovereignty. However, sovereignty was not the central issue of the campaign. King argued that the wider issue of sovereignty was secondary to the narrower issues of food prices and purported economic advantages of the "Common Market" area. He argued that sovereignty only exercised the minds of a minority of anti-EC voters;

"It also appeared to be the case that, although some voters were greatly moved by the question of sovereignty, most were not moved at all. It was an issue of intense interest to only a small minority, and that minority was already mobilised on the anti-European side."<sup>9</sup>

George also argued that the referendum campaign was largely dominated by "bread and butter" issues such as food prices, income levels and overall economic security.<sup>10</sup>

Whilst sovereignty may not have been the central issue of the campaign it was certainly debated. The Referendum Bill debate in Parliament provided a classic example of the discourse on sovereignty in the clash between bitter rivals Heath and Enoch Powell. Powell argued that the EC directly contravened the rights of Parliament;

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<sup>8</sup> A. King, Britain Says Yes, (American Public Policy Research, Washington, 1977), p.69.

<sup>9</sup> Ibid., p.114.

<sup>10</sup> S. George, An Awkward Partner: Britain in the European Community, (2nd Ed., Oxford University Press, Oxford, 1994), p.93. See also M. Steed, "The Landmarks of the British Referendum", Parliamentary Affairs, Vol. 30, 1977, pp:130-133.

"Membership of the European Community requires from this House and this country a renunciation of Parliament's sole right to authorise the laws and taxes of this country."<sup>11</sup>

His explanation for the Conservative party, the party that supposedly was devoted to the protection of British institutions, joining the EC was that of an attempt to regain an area of power or influence to replace the loss of Empire. In sum the EC was a "surrogate" for Empire. Heath took an alternative view of sovereignty. Accusing Powell of wishing to "carefully protect" sovereignty in a "greatcoat with its collar turned up" Heath stressed the "purpose" of sovereignty;

"Sovereignty is something for us as custodians to use in the interests of our own country...I answer without hesitation that the sacrifice of sovereignty...or the sharing of sovereignty, the transfer of sovereignty or the offering of sovereignty is fully justified...I believe, therefore, that the purpose of sovereignty is for this House to use in the way it thinks best."<sup>12</sup>

Heath's key point though reflected the "influence" discourse in that there was no alternative to the EC;

"Going it alone undoubtedly means the loss of our political influence."<sup>13</sup>

The clash between the two was the classic statement of the opposing discourses on sovereignty in Parliament. However, the sovereignty debate was also carried to the local political party level, according to Kitzinger.<sup>14</sup>

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<sup>11</sup> Ibid., p.142.

<sup>12</sup> Ibid., p.143.

<sup>13</sup> Ibid., p.144.

<sup>14</sup> Point made at the Institute of Contemporary British History Conference, Britain and Europe, April 1997.

The literature of the umbrella campaign organisations also directly addressed the sovereignty debate. The "Britain in Europe" campaign leaflet, "Why You Should Vote Yes", reportedly read by 82% of voters, addressed the sovereignty issue directly. The main argument put forward was that Britain could not go it alone in the modern world;

"That is why so much of the argument about sovereignty is a false one. It's not a matter of dry legal theory. The real test is how we can protect our own interests and exercise British influence in the world. The best way is to work with our friends and neighbours. If we came out...we would be clinging to the shadow of British sovereignty while its substance flies out of the window."<sup>15</sup>

The Government pamphlet "Britain's New Deal in Europe" laid greater stress on the "re-negotiations" of Britain's accession terms together with economic factors. However, there was also a detailed consideration of sovereignty both in terms of the advancement and protection of British national interests and as being unaffected by EC membership. The government argued that continuing membership of the EC was dependent on the continuing assent of Parliament, which retained the final right to leave the EC. In addition the veto arrangements were stressed in the government pamphlet;

"No important new policy can be decided in Brussels or anywhere else without the consent of a British minister answerable to a British Government and a British Parliament."<sup>16</sup>

Hence the government pamphlet sought to use the continued efficacy of sovereignty argument alongside the more common "influence" discourse resonant in the "Britain in Europe" literature.

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<sup>15</sup> D. Butler and U. Kitzinger, The 1975 Referendum, (2nd Ed., Macmillan Press, London, 1996), p.292.

<sup>16</sup> In Ibid., p.298.

The "National Referendum Campaign" was the umbrella organisation for those groups opposed to continued British membership of the EC. Sovereignty, or more specifically the loss of British sovereignty to the EC, was a major theme of their campaign. The main pamphlet "Why You Should Vote No" dealt with sovereignty as one of its key issues. The direct message was that;

"The fundamental question is whether or not we remain free to rule ourselves in our own way."<sup>17</sup>

Laws were now being decided by unelected Commissioners in Brussels which meant that the "Yes" campaign effectively foresaw no independent future for "our country". The conclusion was that we should be "living in friendship with all nations - but governing ourselves".<sup>18</sup> Whilst increased food prices and the loss of jobs were other major themes, sovereignty was clearly a major theme of the "No" campaign.

To what extent did the sovereignty debate influence the course of the referendum campaign? It does seem that the conclusions of King and George were borne out by the available polling data. A Harris poll found that 24% mentioned that "we can't go it alone", 17% "bigger markets" and 17% "because we are in now" as reasons for pro-EC positions. Of the anti-EC arguments 14% mentioned "lower prices", 12% "we were better off before" and 11% "independence".<sup>19</sup> Butler and Kitzinger, in their analysis of the press coverage of the campaign, also pointed to food prices rather than sovereignty as the key

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<sup>17</sup> In Ibid., p.301.

<sup>18</sup> In Ibid., p.302.

<sup>19</sup> In A. King, op.cit., p.108.

issue in an overwhelmingly pro-EC press.<sup>20</sup> The "EC causes high food prices" argument of the anti-EC campaign was effectively spiked by high world prices at the time. Sovereignty was itself difficult to explain given its complexity and non-tangible characteristics. King made the valid point that sovereignty was not a new argument of the anti-EC camp and given that Britain had already joined the EC it was difficult to bring this point home to the voters. Also important though was that the debate on the EC was constantly referred to as the "Common Market" rather than the "European Community" with a correspondingly reduced connotation of any serious implications for British sovereignty. The EC at this time was still far from acquiring the range of competencies it was later to develop.

With its two key arguments over food prices and sovereignty effectively spiked the referendum result was a clear victory for the pro-EC camp with 67.6% in favour and 32.4% against. There were many reasons for the victory of the pro-EC campaign in addition to the central arguments advanced. Undoubtedly the campaign of "Britain in Europe" was better organised and financed than the "National Referendum Campaign". Most leading interest groups including business, the farmers and consumers groups supported the pro-EC camp as did the vast majority of the press. Above all, the personalities of key political leaders in the pro-EC camp appeared to be a key factor with the ill-assorted group of anti-EC leaders failing to win popular support. In addition, having already joined the EC in 1972 the public were voting cautiously for a 'status quo' situation rather than positive change.<sup>21</sup> Butler and Kitzinger concluded their study by arguing that support for the EC was "wide but not deep".<sup>22</sup> King argued that it proved that, whilst the British generally preferred co-operation to integration in the EC, they ultimately preferred integration to isolation if a stark choice was required.<sup>23</sup> The EC

<sup>20</sup> D. Butler and U. Kitzinger, op.cit., p.292.

<sup>21</sup> S. George, op.cit., p.95.

<sup>22</sup> D. Butler and U. Kitzinger, op. cit., p.280.

<sup>23</sup> A. King, op.cit., p.144.

referendum set a constitutional precedent for the 1996 EMU referendum debate and also effectively settled the question of EC membership which had dogged British politics for many years.<sup>24</sup>

### **The 1996 Referendum Commitment: The Conservative Discourse**

The 1996 EMU referendum debate within the Conservative party needs to be seen in the context of the wider divisions over Europe highlighted in the Maastricht debate discussed in Chapter 4. Following the ratification of the Maastricht treaty by Parliament in 1993 there had been a temporary truce. However, this truce was shattered at the October 1994 party conference in Bournemouth when leading speakers including Norman Lamont and Norman Tebbit gave Eurosceptic speeches. In November 1994 an EU budget vote, agreed by the government as part of the Maastricht negotiations, was made an issue of confidence by the government. Although the government won the vote comfortably, eight Conservative MPs voted against the Bill and subsequently had the Conservative whip withdrawn, an unprecedented action by a government.<sup>25</sup> However, this action only served to exaggerate the importance of the "whipless eight" and reduce the government's own perilous majority. In April 1995 the whip was reinstated. The leadership challenge by John Redwood in the summer of 1995, whilst unsuccessful, attracted the significant support of 89 MPs (20 others abstained).<sup>26</sup> It was against this background that the EMU referendum debate took place.

Given the Eurosceptic offensive the government maintained its "negotiate then decide" policy on EMU, based on the "opt-out" negotiated at Maastricht. They argued that this stance allowed them to be part of the EMU decision making process where they could

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<sup>24</sup> Ibid., p.137.

<sup>25</sup> P. Norton, "The Conservative Party" in A. King (Ed.), New Labour Triumphs: Britain at the Polls, (Chatham House Publishers, London, 1998), p.87.

<sup>26</sup> Ibid., p.100.

negotiate in the national interest.<sup>27</sup> There was an underlying theme that this process would take some time so no firm decision could be made. This meant that all options on timing were kept open including the 1999 start date. However, when this decision was required Major confirmed that;

"We should need to consider not only the economic conditions but the political and constitutional implications."<sup>28</sup>

The government refused to indicate where the balance of potential advantages or disadvantages of EMU would lie unlike the Labour position of supporting EMU in principle, albeit subject to a number of rigorous conditions. The ultimate decision on EMU then would be, to quote Chancellor Clarke, based on a "hard-nosed judgement of British interests judged when we see what the details are".<sup>29</sup> One of the few clear policy implications was a determination not to re-enter the ERM following the 1992 debacle.<sup>30</sup> Hurd, in 1995, referred in the House of Commons to the "wariness" of the government over EMU, a comment which was interpreted by some MPs as "weariness".<sup>31</sup>

The demand for a referendum was primarily a tactical move by the Eurosceptics. Given their minority position in Parliament a referendum provided another potential block to EMU membership, which they felt was opposed by popular opinion. Even after his defeat in the leadership contest Redwood argued openly for a referendum on EMU in view of its seminal importance. His proposal prompted an immediate joint statement from Lord Howe, Lord Kingsdown and Leon Brittan arguing that the Conservative party should not

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<sup>27</sup> Statement by FCO Minister, David Davis, HC Deb 7/6/1995 c206.

<sup>28</sup> HC Deb 8/6/1995 c316.

<sup>29</sup> HC Deb 15/6/1995 c875.

<sup>30</sup> HC Deb 21/6/1995 c446.

<sup>31</sup> HC Deb 21/6/1995 c364.

deny its "capacity to share in one of the most important economic developments of the coming decades".<sup>32</sup>

Whilst the referendum was initially a Eurosceptic demand it increasingly found favour within the government. The key point is that the referendum idea was not an immediate decision but had been considered ever since the end of the Maastricht ratification debate.<sup>33</sup> As seen in Chapter 4 Major considered a referendum on the Maastricht treaty and following the ratification he investigated the idea of an EMU referendum primarily to placate Eurosceptics. Hurd (though himself initially sceptical) was given the task of securing Cabinet support but met severe opposition from Europhiles Clarke and Heseltine and Eurosceptic Portillo (a differing cleavage from the usual EMU divide). In his autobiography Heseltine claimed that he was "resolutely opposed" to a referendum. His reasons included opposition to referendums in principle, a belief that a referendum move would embolden the Eurosceptics and that a referendum would, in the longer term, inhibit ultimate British membership of EMU. However, in seeking to help Major, he eventually supported a proposal for a referendum in "the next Parliament", a move he later regretted.<sup>34</sup> Clarke and Portillo were also against referendums in principle. However, whilst Clarke primarily felt that such a move was a needless concession to the Eurosceptics, Portillo felt that a referendum supporting EMU membership would be irreversible.<sup>35</sup>

The key turning point was the Ioannina Compromise (spring 1994) when Britain initially opposed changes in the QMV arrangements required given the EU enlargement to

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<sup>32</sup> Daily Telegraph, 13/12/1995.

<sup>33</sup> Author's interview.

<sup>34</sup> M. Heseltine, Life in the Jungle: My Autobiography, (Hodder and Stoughton Press, London, 2000), pp:520-521.

<sup>35</sup> Author's interview.

Austria, Finland and Sweden before compromising shortly afterwards. From this point Major felt that the referendum was a necessary concession to the Eurosceptics in order to reunite the Conservative party prior to the general election.<sup>36</sup> The idea was formally put to the Cabinet in autumn 1994 by Hurd who sought to link the referendum proposal with an assertion that it would only occur should a united Cabinet support and campaign for future entry into EMU.<sup>37</sup> He argued that a referendum commitment would be a popular electoral move, a pre-emption of the Labour party (which was considering such a move) and, above all, a new move to restore some degree of party unity. However, the resistance of Portillo and Clarke delayed the proposal.

In December 1995 Major commented in a Commons statement that there may be a possibility of a referendum which "had been in [his] mind for a long time" for "a decision of such magnitude" as EMU.<sup>38</sup> Here was an explicit recognition that EMU was such an important issue that a referendum needed to be considered. However, ardent Europhiles were still opposed to the idea. Heath argued forcefully that "the Conservative Party in its history has never supported a referendum, never".<sup>39</sup> The delay reflected continued opposition from Clarke who argued that it was no way "to run a mature industrial democracy".<sup>40</sup> In contrast the Foreign Secretary Malcolm Rifkind argued in favour of a referendum, whilst stressing that joining EMU was an "historic decision" which would be "irrevocable".<sup>41</sup> He also emphasised the political nature of EMU both in terms of "the transfer of significant control over economic decision-making to the European level" and in terms of the motivation of European states for greater political integration. This led

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<sup>36</sup> M. Stuart, Douglas Hurd: The Public Servant, (Mainstream Publishing, Edinburgh, 1998), p.380.

<sup>37</sup> Independent, 2/4/1996.

<sup>38</sup> Times, 19/12/1995.

<sup>39</sup> Ibid.

<sup>40</sup> Sunday Times, 24/12/1995.

<sup>41</sup> Daily Telegraph, 27/12/1995.

him to argue that Britain should only join EMU if there were "substantial" economic benefits. Again the emphasis was on the highly significant nature of the EMU decision, which underpinned the referendum debate.

As well as Cabinet divisions the referendum decision was delayed by the government's continued belief that EMU might never happen or would be significantly delayed. The difficulties of economic convergence and the political ramifications of EMU membership were still significant uncertainties at this stage and were utilised by the government as part of its delaying strategy. The government also sought to ensure that EMU was based on a strict interpretation of the Maastricht criteria. In an interview in January 1996 Major argued that he had "growing doubts about the timetable" including the 1999 start date. It was important that "the economics are right" and this was doubtful in the European situation at that time. Major argued that "if you look at what is happening to the European economies, the German economy is slowing down, the French economy is slowing down, a number of European economies self-evidently are not going to be in any state of convergence for monetary union in 1999, or...for some time afterwards".<sup>42</sup> The message was clearly that EMU was not the foregone conclusion laid out in the Maastricht treaty.

The primary factor behind the delay though was the position of Chancellor Clarke who seemed prepared to make the issue a resigning matter. He was angry at the perceived creeping appeasement of the Eurosceptics.<sup>43</sup> He felt that any concession of a referendum to the Eurosceptics would merely lead to further concessions in the future. Clarke had been a consistent advocate of maintaining a viable option of entering EMU even at the 1999 start date. He also underplayed the constitutional significance of EMU. In an outspoken speech to the European Movement in February 1995 Clarke refuted any major

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<sup>42</sup> Sunday Telegraph, 28/1/1996.

<sup>43</sup> Independent, 2/4/1996.

constitutional implications arising from EMU. He argued that Britain's role in the world was dependent on;

"...Our position as a European power. It depends on our ability to develop as one of the movers and shakers in European Union affairs...We must not allow Britain to become marginalised in Europe."<sup>44</sup>

He was equally direct on the relationship between EMU and European political union;

"It is quite possible to have monetary union without political union. It is a mistake to believe that monetary union need be a huge step on the path to a federal Europe."<sup>45</sup>

Philip Stephens has commented that Clarke's speech was originally diluted by senior officials but that he went along with his original draft in spite of the advice of his own political adviser, Tessa Keswick.<sup>46</sup>

Almost as equally outspoken from a Eurosceptic perspective was Defence Minister Portillo. In a 1994 TV interview he openly opposed EMU. He argued that it would lead to the undermining of sovereignty because of the centralisation of economic decision-making. In a classic statement flatly contradicting Clarke's argument he argued that;

"No British government can give up the government of the UK. That's impossible."<sup>47</sup>

In a direct reaction to Clarke's February 1995 speech he declared the speech as

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<sup>44</sup> K. Clarke, Speech to the European Movement Gala Dinner, (HM Treasury, 9/2/1995).

<sup>45</sup> Ibid.

<sup>46</sup> P. Stephens, Politics and the Pound, (Macmillan Publishing, London, 1997), p.314.

<sup>47</sup> Ibid., p.312.

"unhelpful" and urged all his Cabinet colleagues to keep their personal opinions as to the future unfolding of EMU private.<sup>48</sup> The views of two key Cabinet heavyweights could not be more openly or diametrically opposed. Yet in spite of their divergent views on EMU they were both initially sceptical of the referendum proposal. Portillo foresaw the situation that a referendum under the conditions put forward by Hurd would imply, firstly, government support for EMU and, secondly, a campaign in favour of EMU with which Portillo would have severe difficulties. However, he gradually withdrew his opposition given the position of other Eurosceptics and the majority of Cabinet.

Another contributory factor at this time was the launch of the Referendum Party by wealthy businessman James Goldsmith in October 1995. This party sought a referendum on Britain's future in Europe between being part of a "federal Europe" or a "common trading market".<sup>49</sup> Goldsmith's party added pressure to Conservative backbenchers who felt that it would appeal to disaffected Conservative voters. Its populist democratic appeal focused on the idea of a referendum was also significant when the Conservative government was openly discussing the EMU referendum idea. Carter et. al., in their study of the Referendum Party, charted its increasingly Eurosceptic tone following the intervention of businessman Paul Sykes (who offered money to any Conservative candidate standing on an anti-EMU platform).<sup>50</sup> Its overall impact in the final EMU referendum decision by the main parties was difficult to assess but it certainly "added to the pressure".<sup>51</sup> Clearly the main forces lay within the Conservative party given the long gestation period of the referendum commitment.<sup>52</sup> In his autobiography Major admitted that he met Goldsmith but denies that the topic of an EMU referendum was even

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<sup>48</sup> Ibid., p.315.

<sup>49</sup> N. Carter, M. Evans, K. Alderman, S. Gorham, "Europe, Goldsmith and the Referendum Party", Parliamentary Affairs, Vol 19, No. 4, Winter 1998, pp.470-485.

<sup>50</sup> Ibid., p.475.

<sup>51</sup> Ibid., p.479.

<sup>52</sup> Author's interviews.

discussed.<sup>53</sup> However, there was some evidence of unrest amongst Conservative backbenchers who felt that an EMU referendum was an ideal solution to pre-empt the Referendum Party.<sup>54</sup>

Under these pressures events proceeded at a faster pace. Backbench pressure in favour of an EMU referendum was articulated by Marcus Fox, chairman of the influential backbench 1922 Committee, who openly called for a referendum. A survey of over 30,000 grassroots Conservative members, planned as part of the manifesto process, found an increasingly Eurosceptic position.<sup>55</sup> The timing of the findings in March 1996 was significant and was exploited by Party Chairman Brian Mulwhinney. He played a key role in gaining the support of the majority of the Cabinet in favour of the referendum option. There was also the increasing fear that Labour could pre-empt the government with their own EMU referendum commitment.<sup>56</sup> In the Commons on 7 March 1996 Major announced that the Cabinet, under the leadership of Rifkind, was looking into the detailed circumstances of a referendum option.<sup>57</sup> Rifkind himself spoke in favour of the principle of referendums when "certain issues cannot be resolved through a general election because there is not the clear division of labour between the two main parties".<sup>58</sup> With Major himself in favour of a referendum the Chancellor was increasingly isolated.

Although isolated Clarke put up a fierce resistance, even going off on an African trip

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<sup>53</sup> J. Major, John Major: The Autobiography, (HarperCollins Publishing, London, 1999), p.703.

<sup>54</sup> Author's interviews.

<sup>55</sup> Financial Times, 28/3/1996.

<sup>56</sup> A. Seldon, John Major: A Political Life, (Wiedenfield and Nicolson, London, 1997), p. 636. As Seldon notes "the [Cabinet] balance in favour was overwhelming".

<sup>57</sup> Daily Telegraph, 8/3/1996.

<sup>58</sup> Financial Times, 19/3/1996.

refusing to deny resignation speculation.<sup>59</sup> Stephens reported that, at the Cabinet meeting of 7 March, Clarke was reportedly furious at his isolated position and was reported by one minister as either about to have a heart attack or liable to hit someone.<sup>60</sup> Realising his isolated position Clarke sought to extract the maximum concessions in return for an acceptance of the principle of a referendum. At the Cabinet meeting of 3 April Clarke gained a guarantee that the Maastricht option to join EMU, including at the 1999 start date, would be the Conservative position in the 1997 general election. At the press conference following the announcement of the conditional referendum decision Clarke insisted that he had not changed his "well-known" views on referendums and had secured the EMU option.<sup>61</sup>

Reaction to the referendum decision was mixed. The *Guardian* interpreted the decision as a victory for the pro-European elements whilst Marr of the *Independent* saw the move as a victory for the Eurosceptics.<sup>62</sup> This mixed reaction reflected the cross-cutting cleavages generated by the referendum debate. Portillo's Eurosceptic reticence on referendums was paralleled by the pro-European Lord Howe's enthusiasm that "as in 1975 any government advocating a 'yes' vote would be well placed to win".<sup>63</sup> Hence it was not easy to draw parallels between the Europhile/Eurosceptic axis and the pro/anti-referendum axis. Underlying the debate was the idea that EMU was a fundamental issue requiring a referendum. Even Clarke admitted that a referendum in the specific circumstances of EMU may be appropriate given that the Government would not have a clear mandate from the general election.<sup>64</sup> However, Clarke's initial anti-referendum argument that the Eurosceptics would be emboldened by another concession was reflected in the aftermath

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<sup>59</sup> *Independent*, 14/3/1996.

<sup>60</sup> P. Stephens, *op.cit.*, p.340.

<sup>61</sup> *Ibid.*, p.344.

<sup>62</sup> *Guardian*, 4/4/1996; A. Marr, *Independent*, 4/4/1996.

<sup>63</sup> P. Riddell, *Times*, 4/4/1996.

<sup>64</sup> *Independent*, 4/4/1996.

of the government's referendum decision.<sup>65</sup> Redwood quickly called for a wider referendum commitment on Britain's future relationship with the EU.<sup>66</sup> A former Conservative MP who worked hard for the referendum commitment concluded that the tactic failed miserably as the Eurosceptics effectively pocketed the concession.<sup>67</sup> The referendum debate within the Conservative party had been effectively a microcosm of the ongoing divisions within the party.

### **The 1996 Referendum Commitment: The Labour Discourse**

Following John Smith's death in 1994 and Tony Blair's accession to leadership Labour moved slowly to a more pro-EMU position. A detailed and influential statement was developed by Mandelson and Liddle on the sovereignty issues raised by EMU. The central argument was that sovereignty would be "pooled" under EMU;

"Sovereignty would be pooled in order to bring about the benefits...for...the economy as a whole. This would mean sharing responsibility for monetary policy with our European partners and the European Central Bank (in which we would actively participate)."<sup>68</sup>

There was an explicit rejection of the argument that EMU would mean that Britain would cease to be an independent nation-state. Instead Britain would play a "leading role" in Europe by forging a new London-Paris-Bonn axis.<sup>69</sup> Sovereignty was portrayed in terms of influence rather than independence which is seen as a theoretical diversion;

"In fact the loss of national sovereignty in these arrangements would be more theoretical than real. At present, because of the scale of international capital flows and currency

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<sup>65</sup> In a later typically blunt comment Clarke commented that "give them an inch and they will take a mile". K. Clarke, TV interview, Sky News, 18/6/1999.

<sup>66</sup> Times, 9/5/1996.

<sup>67</sup> Author's interview.

<sup>68</sup> P. Mandelson and R. Liddle, The Blair Revolution: Can New Labour Deliver?, (Faber and Faber Limited, London, 1996), p.168.

<sup>69</sup> Ibid., p.179.

transactions, markets are more sovereign than ministers. True, the markets cannot prevent governments making foolish decisions, but they make them pay a heavy price for their folly...The question about a single currency, therefore, is not primarily political or constitutional but economic."<sup>70</sup>

The primacy of the economic over the political is then again highlighted. In particular the reference to markets mirrored the acceptance of globalisation discourse which had been a marked feature of the modernisation process in the Labour party.<sup>71</sup> In sum, EMU was seen as a way of managing globalisation by a "further pooling" of sovereignty at the EU level.<sup>72</sup> Similar arguments were advanced by Layard, in a book outlining "What Labour Can Do" (with a foreword by Shadow Chancellor Gordon Brown). In a strongly pro-EMU article he argued that there were "very many" arguments for joining and a need for EMU membership so that Britain can "join in" the leadership of Europe.<sup>73</sup> Official policy though remained that of qualified support subject to economic conditions.

The Labour referendum debate intriguingly paralleled the Conservative debate. Part of the Conservative fear was that Labour may "trump" their policy by being the first party to announce a referendum commitment. However, Labour persevered with a wider idea of "consent". In a Commons statement on 12 March 1996 Shadow Foreign Secretary Robin Cook argued that no British government could join EMU "without the consent of the British people".<sup>74</sup> Consent could only be obtained either at a general election or at a referendum. However, the logic of EMU's timing muddled the "consent" approach. Given EMU's start date in 1999 and the improbability of Labour declaring a policy of joining

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<sup>70</sup> Ibid., p.169.

<sup>71</sup> See C. Hay, "The Discourse of Globalisation and the Logic of No Alternative", PSA Conference, University of Keele, April 1998, Vol 2, pp:812-822.

<sup>72</sup> D. MacShane, "Europe's Next Challenge to British Politics", Political Quarterly, Jan-March 1995, p. 26.

<sup>73</sup> R. Layard, What Labour Can Do, (Warner Books, London, 1997), pp:144-145.

<sup>74</sup> Guardian, 13/3/1996.

EMU before the 1997 general election, any post-1997 decision to join EMU in 1999 would inevitably be subject to a referendum.<sup>75</sup> However, Labour refused to make an immediate explicit referendum commitment. Like the Cabinet the Shadow Cabinet was divided. Brown, arguably then the most pro-EMU member, was reportedly against a referendum commitment whilst Cook, arguably then the most EMU-sceptic member and Shadow Home Secretary Jack Straw, favoured such a commitment. Blair was reportedly undecided and given this schism the "consent" policy continued.

The main arguments advanced against the referendum commitment reflected the overall economicistic as opposed to political discourse surrounding EMU by Labour. Four arguments were advanced against an early referendum commitment. The first was the uncertainty surrounding EMU in early 1996, especially the conditions surrounding the stability agreement. With three years still to go to the launch an early referendum commitment was felt to be premature. The second argument reflected the "influence" discourse alluded to earlier. Labour wished to build its relationship with its potential EU partners, especially France and Germany. Any move toward a referendum may have been interpreted as an anti-EU move. Related to this was the general argument that a referendum move was essentially a Eurosceptic move, which should be avoided given Labour's general pro-EU rhetoric. Finally, from a party political perspective any pre-emptive move before the Conservatives could be portrayed as opportunism.<sup>76</sup> Overall though the key arguments, largely put forward by Brown, in an intriguing parallel to the position of Clarke, reflected the discourse on EMU as largely a technical, economic matter.

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<sup>75</sup> Financial Times, 15/3/1996.

<sup>76</sup> Ibid.

The arguments in favour of a referendum commitment countered the economicistic discourse with a wider range of arguments. Four key arguments were made. Firstly, the general principle of a referendum over such an important issue as EMU was widely seen to be essential and a key component of New Labour's approach. Key Labour figures argued in favour of a referendum. Tony Wright, then a leading Blairite, argued that;

"Labour has staked its claim to be a new kind of party. Old kinds of parties embrace referendums as tactical devices; new kinds of parties embrace them as instruments of democratic principle."<sup>77</sup>

In similar terms Tindale, a former policy adviser and researcher at the Institute for Public Policy Research, argued that in order to be consistent with the rhetoric of "a People's Europe" a referendum was required, especially for a "change of major constitutional import" such as EMU.<sup>78</sup> Secondly, these arguments were strengthened by Labour's promise of referendums in other arenas including devolution and constitutional reform. Thirdly, party political considerations were also significant. Labour had a chance to "trump" the Conservatives given their delayed decision. From a defensive position Labour could not easily be seen to be vague about a referendum should the Conservatives give a clear commitment. Also a referendum would conceivably exacerbate divisions within the Conservative party with the Eurosceptics arguing for "clearer blue water" between the parties.<sup>79</sup> Finally, internal party differences could be overcome by a referendum pledge.

How widely were Shadow Cabinet differences over EMU reflected in the Labour parliamentary party? Given Labour's severe divisions on Europe in the 1975 referendum the situation had changed markedly by 1995. A survey of 33% of the parliamentary party

<sup>77</sup> T. Wright, Independent, 3/4/1996.

<sup>78</sup> S. Tindale, "A People's Europe" in G. Radice (Ed.), What Needs to Change, (Harper-Collins Publishers, London, 1996), p.244.

<sup>79</sup> Financial Times, 15/3/1996.

by Baker et. al. found four significant findings.<sup>80</sup> On the general principle as to whether sovereignty could be pooled 59% thought that it could whilst 30% thought it could not. On EMU leading to the end of the sovereign nation-state only 21% felt that it would whilst 74% thought that it would not. However, on the proposition that the ECB should never determine monetary policy, a central feature of EMU, 42% agreed, 38% disagreed and 20% were undecided. On the call for a referendum the party was even more divided. 50% favoured a referendum whilst 40% were opposed. Interestingly the front bench respondents were marginally opposed to a referendum whilst the backbenchers were in favour.<sup>81</sup> The authors concluded, that, whilst there had been a moderate move in a pro-European direction, there were still party fissures on certain questions (especially those which challenged Labour's traditional collectivist values).<sup>82</sup>

Whilst the Eurosceptic position within Labour had waned there was still a significant strand in the parliamentary party. This coalesced around the Labour Euro-Safeguards grouping which published monthly newsletters seeking safeguards against further EU integrative moves.<sup>83</sup> Leading campaigners included Benn, Mitchell and Davies covering a range of ideological views within the parliamentary party. The grouping reportedly had the support of one-quarter of all Labour MPs in 1990 but had been much diminished by 1996. Rowley, writing for the Eurosceptic Bruges Group, admitted reluctantly that in terms of the EU debate the "party may be over", as New Labour was overwhelmingly pro-EU. This though, he argued, arose from image rather than deep passion.<sup>84</sup>

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<sup>80</sup> D. Baker, A. Gamble, S. Ludlam, D. Seawright, "Labour and Europe: A Survey of MP's", Political Quarterly, Vol 67, No.2, Jul-Sep 1996.

<sup>81</sup> Ibid., p.357.

<sup>82</sup> Ibid., p.370.

<sup>83</sup> Ibid., p.356.

<sup>84</sup> C. Rowley, "The Party's Over", Occasional Paper No. 22, (Bruges Group, London, 1996).

In spite of the general pro-EU shift, EMU continued to raise organised opposition from within Labour ranks. In order to openly campaign for a referendum on EMU over 50 MPs formed "A People's Europe" (an ironic play on New Labour rhetoric) group, which was publicly opposed to EMU. The key argument used was that the Maastricht framework reflected monetarist ideology. The framework was seen to be excessively deflationary leading to increased unemployment and cuts in public spending. EMU would deprive any future Labour government of the essential tools of macro-economic management. The ECB was also attacked for being the rule of unelected bankers over the European economy.<sup>85</sup> For Berry monetary sovereignty was needed as an instrument against fiscal conservatism and unemployment.<sup>86</sup> It was interesting to note the primarily economic concerns of the Labour Eurosceptics in contrast to the more political concerns of the Conservative Eurosceptics. However, there was also the clear overlap with the perceived lack of accountability to the ECB. MPs supporting the group included former Defence spokesman Davies, Llew Smith and Alan Simpson.<sup>87</sup> Some Labour MPs also sought to maintain devaluation as an ultimate option. The discourse of constitutional parliamentary sovereignty was less resonant in Labour Euroscepticism than both their own history or Conservative Euroscepticism. However, there were still some expressions of constitutionalism. Davies argued that EMU's main purpose was constitutional namely to be a major plank in the creation of a centralised European state.<sup>88</sup> Hence, although confined to a clear minority, there remained detectable unease within the Parliamentary Party.

Given the range of factors outlined Labour failed to beat the Conservatives in declaring a

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<sup>85</sup> Guardian, 28/3/1996.

<sup>86</sup> R. Berry, "Against a Single Currency", Fabian Pamphlet 572, London, 1995.

<sup>87</sup> Guardian, 21/4/1996.

<sup>88</sup> HC Deb 8/6/1995 c380.

clear referendum commitment. The immediate response to the Conservative decision was to maintain the vague idea of "consent".<sup>89</sup> During the summer of 1996 the pro-referendum forces within the party, especially the People's Europe group, continued to campaign confidently for a referendum.<sup>90</sup> The Conservatives had forged an open flank which looked particularly vulnerable given Labour's referendum proposals in other policy areas. Throughout this period the conditions for EMU, especially the stability arrangements, remained unclear so that Labour ruled out giving a clear commitment to EMU entry in its election manifesto. This meant by implication that any decision to enter EMU in the subsequent Parliament would require a referendum in order to meet the "consent" commitment.<sup>91</sup> Cook continued to emphasise the conditions before EMU entry, especially that jobs would be the bottom line, whilst Brown stressed the benefits.<sup>92</sup> Brown, whilst instinctively opposed to a referendum on what he regarded primarily as an economic issue, realised that a referendum commitment was probably inevitable.<sup>93</sup> Like Clarke, Brown, increasingly isolated within the Shadow Cabinet, sought to balance acquiescence in a referendum commitment with the guarantee that all options, including EMU entry in 1999, remained open after the general election. Given this bargain Labour announced its referendum commitment in November 1996. The move was announced by Brown to ensure that its policy change was not seen as a move in an EMU-sceptic direction.<sup>94</sup>

The decision inevitably reflected the desire to match the Conservative referendum commitment for electoral reasons. Once the Conservatives had declared for a referendum Labour had little option but to follow course. Gould, a media adviser, stressed the

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<sup>89</sup> T. Wright, Independent, 3/4/1996.

<sup>90</sup> Guardian, 2/7/1996.

<sup>91</sup> Independent on Sunday, 17/11/1996.

<sup>92</sup> Daily Telegraph, 18/11/1996.

<sup>93</sup> Independent, 19/11/1996.

<sup>94</sup> Times, 18/11/1996.

importance of "reassurance, reassurance and reassurance" in Labour's election campaign strategy;

"This (the referendum commitment) eliminated another attack the Tories were planning to use. An increasingly Euro-sceptical Tory party would no longer be able to accuse Labour of 'selling out' British sovereignty. Tony Blair was slowly reappropriating Labour's patriotic heritage."<sup>95</sup>

A leading Labour MP closely involved in the deliberations felt that electoral considerations were the most important factor. Conservative opponents also felt that this was a case of action-reaction.<sup>96</sup> In spite of the divergent discourses EMU policy between the two main parties remained essentially similar, now including a referendum commitment.

### **1975...1996 Continuity or Change?**

In drawing parallels between the 1975 referendum debate and the 1996 EMU referendum debate there were clear elements of continuity in the discourses surrounding sovereignty. Britain's relationship with Europe expressed in terms of sovereignty remained central to the political debate. The issues involved continued to cause deep divisions between, but more significantly within, political parties. These divisions did not match the usual left-right cleavage. Whilst looking at a particular aspect the EMU debate has reflected the sovereignty themes of the 1975 referendum. Indeed the range and degree of sovereignty issues has arguably been more widespread than the 1975 debate. Although the 1975 referendum effectively decided Britain's membership of the EC the nature of that relationship has remained a hotly contested issue.

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<sup>95</sup> P. Gould, The Unfinished Revolution, (Little, Brown & Co., London, 1998), p.270.

<sup>96</sup> Author's interview.

In spite of some elements of continuity the elements of change appear to be more resonant. These can be seen in the structure/agency/discourse framework. The main structural change had been the changing nature of the EU from a common market to a deeper association. The 1970s discourse was marked by the constant reference to the Common Market rather than the European Union. This may have reflected the peculiarities of the British political debate but the functional stress on agricultural issues was also noticeable. The agency element was reflected in the changed domestic context in Britain. The most distinct change was the changed position of the two main parties with Labour in the 1990s being relatively more pro-EU and less divided than the Conservatives, an almost symmetrical reversal of the 1975 position. The divisions had also become more varied. In particular a significant portion of the media had become more Eurosceptic and the business community was more divided (see Chapter 7). Should a referendum occur it is likely that one of the main parties (the Conservatives) will openly campaign against EMU membership and, unlike 1975, a positive decision to join EMU (rather than stay in the EC) will be required. The sovereignty discourse too had subtly changed. The focus on constitutionalism, legalism and parliamentary sovereignty in 1975 had been partly displaced by two alternative discourses. On the Eurosceptic Conservative side the emphasis was on the end of the nation state reflected in ideas of identity and authority. On the Labour side the stress, from both pro and anti-EMU groups, was on economic factors seen most vividly in the acceptance of the discourse of global markets. Sovereignty, where utilised, was interpreted in an instrumental manner, either from EMU supporters to gain influence in the EU or from EMU opponents as a means of following alternative economic policies.

The 1996 referendum discourse also intriguingly paralleled the 1970s debate. The decision to announce the 1975 referendum arose largely from internal Labour party divisions and established a precedent for future referendums. This made it increasingly difficult for the two main parties to resist the pressure for a referendum on an issue as

significant as EMU. Even the Labour party, which sought to play down the political dimension of EMU, had to accede to a referendum commitment. However, the move to a definite referendum commitment was slow in both parties. This reflected internal divisions, uncertainties over the progress of EMU and inherent caution. The referendum also served as a convenient cover for more clearly defined EMU positions. As Peston commented both Blair and Major were united in their desire to sidestep the EMU questions.<sup>97</sup> Peterson, reviewing Britain's relationship with Europe, argued that in spite of the differing rhetoric Labour approached EU matters with great caution;

"Regardless of Blair's...'turn towards Europe', the British electorate was uniquely ill-prepared to pass judgement on EMU, which constituted one of the most dramatic and historic political choices facing the UK since the War."<sup>98</sup>

The discourses between the parties continued to slowly diverge but policies were closely intertwined with the referendum instrument serving to cover the growing divergence.

### **The 1997 General Election Debate**

The 1996 referendum commitments placed EMU into the public sphere where the issue was hotly debated during the 1997 British general election. The nature of this debate will be discussed in four main areas. Firstly, the manifestoes of the political parties in respect of EMU will be discussed. Secondly, the development of EMU as an issue during the election campaign will be analysed, focusing primarily on the views of the party leaderships. Thirdly, the range of views expressed by dissident parliamentary candidates, especially in the Conservative party, will be outlined. Finally, a brief analysis of the impact of EMU on the election result will be made. The basic contention advanced is that EMU and its associated discourses of sovereignty had become a central issue in the public debate. Whilst the discourses became increasingly polarised during the campaign

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<sup>97</sup> *Financial Times*, 18/11/1996.

<sup>98</sup> J. Peterson "Britain, Europe and the World" in P. Dunleavy, A. Gamble, I. Holliday and G. Peele, (Eds.), *Developments in British Politics 5*, (Macmillan Publishing, London, 1997), p.29.

the essentially similar policy position of the major parties remained. EMU 'per se' had a limited effect on the election result but it was an indicator of the widespread divisions within the Conservative party, which clearly contributed to their defeat.

The Conservative party manifesto, *You Can Be Sure With the Conservatives*, continued the policy of "negotiate then decide" (or "wait and see") based on the existence of the Maastricht "opt-out". This effectively deferred the decision until a later date;

"We believe it is in our national interest to keep our options open to take a decision on a Single Currency when all the facts are before us."<sup>99</sup>

EMU was seen to be an issue of "enormous significance" for which all the consequences had to be considered. The context of the "wait and see" policy stressed three main elements. The first of these was the need to negotiate. Placed in the context of Major's "opt-out" at Maastricht it was the responsibility of the government to ensure that Britain's national interest was protected by ensuring that the rules were not fixed against British interests. The second feature was the stress on European economies meeting the convergence criteria. It was interesting to note that there was no specific reference to the Maastricht criteria. The argument is made that there needs to be sufficient convergence before EMU can begin and that this convergence was unlikely before 1 January 1999. There was an explicit statement that a Conservative government would not proceed if EMU was created without sufficient convergence. The final feature was the "referendum guarantee" whereby, should a Conservative government seek to join EMU, there would be a guarantee that this decision was subject to express approval by the people. The conceptual background of Britain's relationship with the EU was one of "a partnership of nation states" as opposed to a federal Europe.<sup>100</sup>

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<sup>99</sup> Conservative General Election Manifesto 1997, *You Can Be Sure With the Conservatives*, (Conservative Party, London, 1997), Section "A Single Currency: Our Referendum Guarantee".

<sup>100</sup> *Ibid.*, Section on Britain and the European Union.

The Labour party manifesto, *New Labour Because Britain Deserves Better*, set a very similar tone to the Conservative manifesto. The overall conception of the EU was of an "alliance of nation-states" co-operating to achieve goals they cannot achieve alone. Labour were specifically opposed to a "European federal superstate".<sup>101</sup> On EMU Labour followed a similar "negotiate then decide" policy. The manifesto reflected a more sceptical tone than a previous 1996 draft and was written personally by Blair. In particular "formidable obstacles" were deemed to face early EMU membership. The underlying rationale for the EMU decision was to be "a hard-headed assessment of Britain's economic interests". However, the three features discussed in terms of the Conservative party manifesto were intriguingly reflected in Labour's manifesto. Firstly, the need to negotiate is argued in terms of influence;

"...to exclude British membership of EMU forever would be to destroy any influence we have over a process which will affect us whether we are in or out. We must therefore play a full part in the debate to influence it in Britain's interests."<sup>102</sup>

Secondly, the success of EMU was seen to be dependent on genuine convergence (again no specific reference to the Maastricht criteria) without any fudging of the rules, a process unlikely to be achieved by 1 January 1999. Finally, Labour too confirmed the need for approval in a referendum before Britain could enter EMU. In what was referred to as the "triple lock" over British membership of EMU, approval would be needed by the Cabinet, Parliament and the people.<sup>103</sup> In sum, the similarity between the Conservative and Labour manifestos was very striking.

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<sup>101</sup> Labour General Election Manifesto 1997, *New Labour Because Britain Deserves Better*, (Labour Party, London, 1997).

<sup>102</sup> Ibid.

<sup>103</sup> Ibid.

The Liberal Democrat manifesto, *Make the Difference*, was significantly different from the two major parties. The overall conception of the EU was of a strong and united Europe that is decentralised, democratic and diverse but respects cultural traditions, national identities and regional identities.<sup>104</sup> Unlike the "wait and see" policy of the other parties there was an explicit commitment to "participate in a successful single currency" in order to enhance economic prosperity. There were three conditions placed on British membership of EMU. The first was that EMU must be firmly founded on the Maastricht criteria (a particular reference). The second condition was that Britain must meet the Maastricht criteria. Finally, the British people must agree to EMU membership. Indeed the Liberal Democrats were committed to the wider use of referendums on any reform that "fundamentally changes Britain's place in Europe". Perceived advantages of EMU included low inflation, low interest rates and the need to avoid losing influence and investment.<sup>105</sup>

The 1997 general election was also marked by the presence of a number of smaller parties focused on European issues. The most significant was the Referendum Party led by Goldsmith. Its aim was primarily the single issue of obtaining a referendum on Britain's future in the European Union. The proposed question was whether the UK should be part of a federal Europe or "return to an association of sovereign nations that are part of a common trading market".<sup>106</sup> Although opposed in principle to EMU the party was more generally opposed to the wider EU project and argued that sovereignty had essentially been transferred by the UK accession to the EC in 1972 when Heath had "misled" the British people. The party put up 547 candidates, by far the largest number of the minor parties. The other political party with a clear focus on European issues was the

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<sup>104</sup> Liberal Democrats General Election Manifesto 1997, *Make the Difference*, (Liberal Democrats, 1997).

<sup>105</sup> *Ibid.*

<sup>106</sup> D. Butler and D. Kavanagh, *The British General Election of 1997*, (Macmillan Press Limited, London, 1996), p.71.

UK Independence party, founded in 1993, which explicitly advocated the withdrawal of the UK from the EU. The party led by academic Alan Sked put up 194 candidates in the election but lacked financial support by comparison with the Referendum party with whom they clashed in 169 constituencies.

### **The Election Campaign: The Conservatives**

In spite of the policy similarities contained in the manifestoes of the two major parties the presentation of policy highlighted the differences within the Conservative cabinet to a greater extent than those of the Labour party. Clarke and Heseltine still sought to keep the EMU option open, including the possibility of joining in 1999. Portillo and Lilley remained very sceptical, while the rest of the Cabinet, including Major, occupied a middle position in the Cabinet debate. The referendum commitment given in 1996 was, as seen earlier, tied to an agreement to maintain the Cabinet line of "wait and see". This had been renamed "negotiate then decide" in September 1996 to give the policy a more positive tone and a nuance was made in January 1997 that it was "very unlikely" that Britain would join EMU in 1999.<sup>107</sup> On the backbenches the Eurosceptics were continuing their offensive as demonstrated at a vociferous 1922 Committee meeting in December 1996.<sup>108</sup> The Europhile wing too was becoming more assertive with Major being particularly upset by a "grandees" letters in 1996, signed by Hurd, stressing Britain's role in an interdependent Europe.<sup>109</sup> It was against this background that the fragile Cabinet unity entered the election campaign.

An early example of cracks appeared after the Wirral by-election defeat when Heseltine and Stephen Dorrell, the Health Minister, gave different messages on the same day. Heseltine, interviewed by BBC's John Humphrys, argued that a "clear, united view"

<sup>107</sup> A. Seldon, John Major: A Political Life, (Wiedenfield & Nicolson, London, 1997), p.676.

<sup>108</sup> Ibid., p.688.

<sup>109</sup> M. Stuart, Douglas Hurd: The Public Servant, (Mainstream Publishing, Edinburgh, 1998), p.434.

would emerge on EMU based on the "negotiate then decide" policy including the "very unlikely but not impossible" option of accession in 1999. Dorrell, on ITV's "Dimbleby" programme, stated that "we shan't be joining a single currency on January 1 1999", a statement reversed within three hours of the interview.<sup>110</sup> A more significant conflict occurred between Clarke and Rifkind. Rifkind, also on a TV interview, argued that "on balance we are hostile to a single currency" (an interesting metaphorical mix), a statement later backed by Major. Clarke, on Sky News, stated that Rifkind had made a slip, an argument later refuted by Rifkind. The embarrassing episode ended with a joint statement that the Cabinet were "hostile to a fudged single currency" reported by the Evening Standard as "Rifkind .v. Ken: Now it's War".<sup>111</sup> In an exchange with Cook, Rifkind highlighted the divergence between the two opposing Cabinet discourses (and ironically between Rifkind and Clarke). Responding to Cook's comments that if EMU was a success for France and Germany Britain would ultimately have to join Rifkind commented;

"I think that's the wrong criteria. I think you have to judge what are the implications for the United Kingdom...but also whether any benefits of a single currency would be so substantial as to outweigh the loss of national decision-making on crucial things like interest rates."<sup>112</sup>

The difference in discourse was clear even if the policies were similar.

Whilst differences were appearing amongst senior ministers the campaign itself led to more significant differences amongst junior ministers. The first minister to "break ranks" was Angela Browning, the junior agriculture minister. She argued, in an election address

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<sup>110</sup> N. Jones, Campaign 1997, (Indigo Publishing, London, 1997), pp:127-128.

<sup>111</sup> Ibid., p.129.

<sup>112</sup> Independent, 7/4/1997.

to her own constituents, that EMU would lead to gold and foreign currency transfers to Frankfurt. This would in turn lead to tax and interest rates being determined in Europe and the "end of sovereignty of the nation state".<sup>113</sup> Her defiance was surprising in view of the belief that she would gain promotion should the Conservatives win the election. Major, having stated at the start of the campaign that it would be "complete fantasy" that any minister would contradict the manifesto line, tried to smooth over the differences. In particular he emphasised that he too was opposed to any implications that EMU may have for transferring key tax and expenditure decisions to the European level.<sup>114</sup> Following a similar statement by Angela Rumbold, vice-chairman of the party, Major stated that;

"She's a backbencher, she's not a member of the government. She is entitled to express her views...I expect ministers to support the Conservative manifesto and make it clear they support the manifesto."<sup>115</sup>

The die had been cast.

The next episode came within days of Major's statement on Rumbold. Challenged by the Prime Minister to uncover divergences within ministerial ranks the media were not slow to act. BBC2's Newsnight reported that junior minister John Horam had published an election leaflet saying that he was "opposed to the Euro replacing the pound sterling". Horam sought to "square the circle" by arguing that, whilst he would argue against EMU in a referendum, he was not breaching the "negotiate then decide" position. Then James Paice was quoted as saying that "a single currency would lead inexorably to political union for which Britain was not ready".<sup>116</sup> The next day David Maclean was reported to

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<sup>113</sup> Guardian, 11/4/1997.

<sup>114</sup> Times, 12/4/1997.

<sup>115</sup> N.Jones, op.cit, p.218.

<sup>116</sup> Independent, 16/4/1997.

be opposed to EMU.<sup>117</sup> All three denied that their statements contradicted the manifesto position and Major refused to take any action against the junior ministers. The revolt of the junior ministers raised the stakes and was quickly reflected at senior level. Eurosceptic minister Lilley, when asked whether he could imagine circumstances in which he would support a European single currency, replied that he had "a fertile imagination" and could "imagine almost anything".<sup>118</sup>

With the open divergences within ministerial ranks EMU suddenly became a key issue in the campaign. Major decided to take the issue directly to the electorate launching into a passionate justification of his policy toward EMU. He argued that the issue was the most important to face Britain in his political career and had been much misunderstood. Should EMU be successful delivering a zone of low inflation and high living standards across Europe then it was important that Britain retained an option to join. However, his experience of the ERM debacle led him to be cautious. He expressly ruled out joining EMU if it would lead to a single tax system or a loss of national government control over public expenditure. These issues "genuinely do touch upon the sovereignty of the British nation and upon the sovereignty of the British House of Commons".<sup>119</sup> The ambivalent locus of sovereignty within the British polity was highlighted by this phrase but the contrast between the British and European levels was illustrated by the repetition of the word "British". The complexity of the issue led ultimately to a stress on the need to negotiate for Britain's interests;

"I will negotiate in the interests of the United Kingdom as a whole, not in the convenient party political interests of the Conservative Party...I'm going to keep to the position of negotiate and decide, in the interests of the British nation,...Whether you agree with me,

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<sup>117</sup> N. Jones, op.cit, p.219.

<sup>118</sup> Independent, 16/4/1997.

<sup>119</sup> Guardian, 17/4/1997.

disagree with me, like me or loathe me, don't bind my hands when I am negotiating on behalf of the British nation."<sup>120</sup>

Hence the issue had been raised beyond the confines of the Conservative party into one of national interest and been placed at the centre of the campaign.

Following the press statement Major recorded a party election broadcast to directly appeal to the British electorate on EMU replacing the scheduled broadcast. The broadcast stressed the need to negotiate in an analogy based on keeping cards face down on the table. Again the importance of the issue was emphasised with the comment that there had been no matter like this in peacetime or in the living political memory of anyone. The most significant statement though was to reaffirm the referendum pledge;

"This is of such importance that in those circumstances there would be a referendum...open to every adult in the country...I will not take Britain into a single currency. Only the British nation can do that."<sup>121</sup>

However, it failed to stop the ministerial divisions with more junior ministers confirming their personal opposition to EMU, including Eric Forth, Oliver Heald and Liam Fox. In addition nine of the ten members of the influential 1922 executive had declared against EMU.<sup>122</sup> Interestingly, in spite of its apparent desperation, Alastair Campbell, one of Labour's "spin doctors", was quoted by Jones as commenting that Major had made the best of a bad job.<sup>123</sup>

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<sup>120</sup> Quoted in N. Jones, op.cit., p.220.

<sup>121</sup> Quoted in Ibid., p.222.

<sup>122</sup> Guardian, 17/4/1997.

<sup>123</sup> N. Jones, op.cit., p.223.

Following the dramatic move by Major to place EMU at the heart of the campaign electoral tactics were changed to meet the new situation. Major had sought to raise himself above the party debate as the defender of the national interest and thereby stress the issue of his personal leadership. This was contrasted with Blair's inexperience which would lead him to take a "white flag" to the Intergovernmental conference in Amsterdam.<sup>124</sup> Party divisions over EMU were painted as a positive advantage with the Conservatives open to debate unlike Labour. However, Major took the debate forward another stage by hinting at a free vote for Conservative MPs on EMU.<sup>125</sup> This move, made without reference to the Chancellor, led to Labour jibes of policy being "made on the hoof". Major, responded by saying that he did not always need to consult "Ken Clarke or Joe Bloggs". This led Brown to conclude that policy was being made on the hoof and that he was as likely to consult Joe Bloggs as the Chancellor on the major economic issue facing the country. The final straw in ministerial divisions was illustrated when Heseltine, unable to keep up with the fast moving events, denied that Major was discussing the option of a "free vote" position.<sup>126</sup> In sum, the "negotiate then decide" policy became extremely frayed as the campaign developed and divisions became increasingly sharp both within ministerial ranks and the wider Conservative party. Clarke, though increasingly isolated, continued to frankly defend the government line. Less than one week before the election he argued that EMU was not necessarily irrevocable serving to anger both the EMU Commissioner, Yves-Thibault de Silguy, and the Eurosceptics.<sup>127</sup>

### **The Election Campaign: The Labour Party**

The Labour campaign on EMU sought to exploit Conservative differences over EMU whilst playing down their own and portrayed the benefits of a united Labour government

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<sup>124</sup> *Times*, 18/4/1997.

<sup>125</sup> N. Jones, *op.cit.*, p.224.

<sup>126</sup> *Ibid.*, p.226.

<sup>127</sup> *Times*, 26/4/1997.

battling for British interests in Europe. Labour were particularly successful at minimising their differences over EMU. Within the Shadow Cabinet Brown was believed to be more favourable to EMU than either Cook or Deputy Leader, John Prescott. During a pre-election visit to the US in February 1997 Brown set out the five British economic tests on which a decision on British membership of EMU would be based. These included the impact on employment, the impact on investment, the convergence of economic cycles between Britain and the EU, the need for flexibility in response to asymmetric shocks and the impact on the financial services industry. However, Brown sought explicitly to retain the option of "participating in the next parliament and in the first wave" if "the economic conditions are right".<sup>128</sup> Two weeks earlier Cook made a more "sceptical" speech arguing that EMU would be subject to a "hard-headed economic assessment" but that this did not mean that Labour was committed to signing up to EMU in 2001, 2002 or 2003.<sup>129</sup>

Whilst there were relatively minor differences of emphasis within the Labour parliamentary party these hardly surfaced during the campaign. The only significant incident occurred on 6 April when Cook predicted that it was unlikely that a future Labour government would enter EMU in the short-term and that the waiting period could extend beyond the next Parliament.<sup>130</sup> The significant Eurosceptic Labour minority were also noticeably quiet on this issue during the campaign. The "People's Europe" campaign was temporarily disbanded during the election campaign. Veteran Eurosceptic Shore, retiring as an MP, commented that there had been "a considerable effort to keep silence on this issue".<sup>131</sup> Certainly in comparison with the open warfare within the Conservative party the differences within the Labour party over EMU were minor.<sup>132</sup> However, the "negotiate then decide" option was probably a flexible enough policy to contain any

<sup>128</sup> Financial Times, 20/2/1997.

<sup>129</sup> Irish Times, 6/2/1997.

<sup>130</sup> D. Butler and D. Kavanagh, op.cit., p.108. Also Independent, 7/4/1997.

<sup>131</sup> Sunday Times, 20/4/1997.

<sup>132</sup> Financial Times, 14/4/1997.

potential differences together with the overwhelming discipline and desire for election victory following four successive election defeats.

The Labour Party progressively took a more sceptical approach toward EMU and the EU in general as the campaign progressed. This was partly a proactive decision in order to portray the Labour party as a patriotic party and partly as a result of events and Conservative attacks. The proactive element was suitably illustrated by the election party broadcast involving a bulldog called Fitz. The broadcast showed a tired and listless Fitz gradually being inspired by Labour's policy agenda and eventually breaking free from his leash as Blair states that;

"I am a British patriot and I want the best out of Europe for Britain"<sup>133</sup>

The bulldog as a symbol of history and tradition, associated with former Conservative prime minister Winston Churchill, was now being usurped to demonstrate Labour's patriotic credentials. A later broadcast used the musical backdrop of "Land of Hope and Glory" as Labour's policy themes and attacks on the Conservative government record were displayed in the foreground. The Union Jack flag was also prominently used in Labour's campaigning literature and platforms in order to underscore the patriotic symbolism.

On EMU itself Labour's main policy emphasis was the referendum promise. Following Major's decision to make EMU the centerpiece of the campaign, Labour campaign manager Mandelson admitted that they took an increasingly sceptical view on EMU and

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<sup>133</sup> N. Jones, op.cit., p.231.

ensured that their referendum promise was placed in "headlights".<sup>134</sup> This increased scepticism was mainly to ensure that the Conservatives did not outflank Labour. Above all Blair increasingly rationalised the "formidable obstacles" to EMU entry outlined in the Labour manifesto moving directly to address the territory of the "sovereignty questions". On the economic front these included the importance of the economic tests and ensuring that there were no proposals to give up tax-raising powers. Most significantly Blair admitted that joining EMU would have constitutional and political implications though these were not necessarily "insuperable".<sup>135</sup> He also acknowledged the passionate feelings of those who wished to retain the pound.<sup>136</sup> Above all the referendum was continually stressed including the condition that, should a Labour cabinet believe that the British people would not vote for EMU in a referendum, then it would not even attempt to join up.<sup>137</sup> This was the ultimate political factor alongside the economic factors normally emphasised by Labour.

Other external events intervened to highlight the European dimension toward the end of the campaign. The first was an intervention in the campaign by EU Commission President Jacques Santer. He attacked the Eurosceptics and called for further European integration. The Conservatives sought to link Labour to Santer's policies. Blair responded with a stinging attack on Santer;

"What Santer says, with all due respect, is neither here nor there...If I am elected I will represent Britain."<sup>138</sup>

In addition he expressly stated that defence, taxation and immigration would remain

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<sup>134</sup> Ibid., p.223.

<sup>135</sup> Independent on Sunday, 20/4/1997.

<sup>136</sup> Financial Times, 18/4/1997.

<sup>137</sup> Independent, 28/4/1997.

<sup>138</sup> Quoted in N. Jones, op.cit., p.233.

subject to the British veto. Above all he would have "no truck with a European superstate" and would "slay the dragon" if it arose. Another significant move in tone was the statement that whilst not seeking isolation Labour were prepared to be isolated in Europe in order to defend British national interests.<sup>139</sup> This was a change from the 1996 Labour Conference when Blair had declared that he would not allow Britain to be isolated in Europe. A similar European intervention came in the form of EMU Commissioner, De Silguy, who suggested that should Britain stay outside of EMU they would lose influence as a new "G-3" would be developed between the US, Japan and EU states within the EMU zone. This was rejected equally vigorously by both Blair and Major.<sup>140</sup> In the last week of the campaign Labour continually reemphasised their referendum commitment alongside their other key policy pledges. In sum, Labour was increasingly forced to adopt a more sceptical position on EMU, and the EU in general, as the campaign progressed.

### **The Conservative Discourse: The Conflation of EMU and Political Sovereignty**

The split within the Conservative party was underpinned by the Eurosceptics conviction as to the serious implications of EMU for political sovereignty. EMU was represented as a big step toward political union. The four sovereignty questions were effectively rolled together with EMU regarded as the key step to an absolute loss of sovereignty rather than a staged diminution. The most comprehensive expression of these views was made by Redwood in his book "One Currency, One Country". Similar views were expressed in the campaign literature by a number of Conservative candidates, whose views will be analysed in accordance with the sovereignty questions.

Redwood's book presented a detailed set of arguments against EMU from a clear

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<sup>139</sup> Independent on Sunday, 20/4/1997.

<sup>140</sup> D. Butler and D. Kavanagh, op.cit., p.108.

Eurosceptic viewpoint. Having stood unsuccessfully against Major for the Conservative leadership in 1995 Redwood had staked a clearly Eurosceptic position. The timing of the publication in March 1997 on the verge of the election campaign was widely seen as a direct challenge to the "negotiate then decide" policy of the Major Cabinet. The very title of the book, *Our Currency, Our Country*, highlighted the central theme of a perceived link between EMU and the creation of a federal European state. Redwood argued that the aim of European Union was to create a country called Europe and that EMU ("the single most important step on the federal road") must be seen in this context;

"The idea of monetary union is an important part of a far bigger whole. It is part of a plan to create a new country called Europe;"<sup>141</sup>

In this context Britain was a key barrier to the creation of this country;

"...if we abolish the pound we make a decisive move towards a country called Europe, governed from Brussels and Frankfurt."<sup>142</sup>

Redwood explicitly addressed each of the other three sovereignty questions. On monetary sovereignty the initial assumption made by Redwood was that monetary policy is central in determining the level of prices and employment. Under EMU the loss of monetary sovereignty to the ECB was significant and permanent;

"The single currency is like rejoining the ERM, locking yourself in and throwing away the key."<sup>143</sup>

On fiscal sovereignty Redwood rejected the argument that EMU was merely a monetary

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<sup>141</sup> J. Redwood, *Our Currency, Our Country*, (Penguin Books, London, 1997), p.13 and p.191.

<sup>142</sup> *Ibid.*, p.33.

<sup>143</sup> *Ibid.*, p.63.

matter. The convergence criteria undermined the right of an individual state to increase its borrowings. The role of the Commission, as exclusive interpreter of the Maastricht treaty, left member states "severely constrained" in their budgetary policies with increased expenditure necessary at the European level in order to cement unity within EMU.<sup>144</sup> On taxation Redwood argued that regional disparities within the EMU area would inevitably lead to the transfer of funds from richer areas to poorer ones. The institutional sovereignty of the ECB was also addressed by Redwood. He saw the constitution of the ECB as basically reflecting Bundesbank traditions of secrecy, independence, limited accountability and technocratic efficiency. Redwood argued that it was inappropriate to transfer essentially political decisions on the economy to a "committee of experts".<sup>145</sup> Overall Redwood presented a series of arguments across the range of sovereignty questions arguing that EMU would undermine sovereignty. A currency was a major symbol of nationhood but also a "question of power" in that;

"He who issues banknotes can have a decisive influence on the state of the economy."<sup>146</sup>

The key argument then was EMU's primary role in a plan to create one country.

The detailed arguments espoused by Redwood were mirrored to a degree in the wide range of personal statements made by Conservative candidates in their personal campaign literature. A survey of the literature of 66 candidates opposed to EMU highlighted the explicit link perceived between EMU and sovereignty. The responses can be grouped into four types; those opposed to EMU on political sovereignty grounds, those opposed to EMU in principle, those opposed to EMU on other sovereignty grounds and those opposed on efficiency grounds. The relevant numbers in each group were 31, 29, 3 and 3

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<sup>144</sup> Ibid., p.68.

<sup>145</sup> Ibid., p.30.

<sup>146</sup> Ibid., pp:24-25.

respectively, emphasising the significance of political sovereignty arguments.

Even more interesting was the language used by the candidates opposed on political sovereignty grounds. The link between EMU and absolute political sovereignty was very explicit in a number of cases. Nicholas Winterton argued that "if we join EMU we'll lose control of the country"; John Bercow argued that "EMU is politically inherently incompatible with a sovereign Britain" and Neil Jones that "a single currency would mean losing our political independence". Other arguments included Ivan Lawrence who commented that "a single currency would imply national surrender and is totally unacceptable"; Richard Body that "a single currency would lock us into a federal Europe and Dudley Smith that "a common currency would lead inevitably to a federal Europe".<sup>147</sup> The use of words such as "surrender", "lock" and "inevitably" reflected the perceived moncausal link between EMU and European political union. Indeed the logic is even reversed in the statement made by Theresa May. She argued that "being opposed to federal Europe" makes her opposed to EMU. One of the few EMU opponents on efficiency grounds was David Mellor who stated that "I do not see how [a] single currency could succeed". It was notable, however, that Mellor had not expressed sceptical views on Europe before the election and was opposed in his constituency by Goldsmith, leader of the Referendum party.<sup>148</sup>

A similar survey of statements by 102 Conservative candidates came to similar conclusions. Using the four categories outlined above 24 explicitly linked EMU to a loss of political sovereignty, only five opposed EMU on expressly economic efficiency grounds and the rest stated that they were opposed to EMU in principle.<sup>149</sup> There were no

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<sup>147</sup> Daily Mail, 16/4/1997.

<sup>148</sup> Ibid.

<sup>149</sup> Times, 16/4/1997.

cases of specific opposition on the three other sovereignty grounds (monetary, fiscal or institutional) although they may have been partial factors to those opposed to EMU on principle. Whilst not expressing specific reasons the strength of those opposed to EMU in principle was clear from their statements. Examples ranged from Marcus Fox's cautious statement that he could not see "any circumstances" where he would vote for the abolition of the pound to Julian Lewis who would "never" vote for a single currency and David Shaw who, whilst stating that he would listen carefully to arguments about the single currency, then stated categorically that he would have voted against.<sup>150</sup> The link between EMU and a federal Europe was a recurrent theme throughout the campaign leaflets.

The views expressed by the candidates did not just represent a minority position. By the end of the election campaign it was estimated that 282 candidates, nearly half of all Conservative candidates, had openly declared themselves against EMU with over 230 receiving funding from Paul Sykes, the EMU-sceptic millionaire businessman.<sup>151</sup> Hence the scale of the revolt was arguably unprecedented in electoral history. It was very difficult to reconcile the principled opposition to EMU with the manifesto line of "negotiate then decide". The campaign address of one candidate, Nick St. Aubyn, captured this tension. He commented that "I support Major but I would vote against joining EMU".<sup>152</sup> In sum, the widespread dissension amongst Conservative candidates was marked by a discourse, which stressed the moncausal link between joining EMU and the loss of political sovereignty to a centralised European state.

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<sup>150</sup> Ibid.

<sup>151</sup> Times, 19/4/1997.

<sup>152</sup> Daily Mail, 16/4/1997.

## **Campaign: Evaluation of EMU Themes**

Butler and Kavanagh argued that Europe was a key issue in the campaign taking the most media space.<sup>153</sup> Of the European issues EMU was undoubtedly the most significant. However, in evaluating the discourse around EMU it was difficult to disentangle EMU from the wider issue of Britain's relationship with the EU. EMU came to symbolise the wider European debate. The major themes can be examined in four main areas. Firstly, how did Europe rate as an issue vis-a-vis other issues in the campaign? Secondly, in the light of the "sovereignty questions", what were the main foci of the discourse during the campaign? In particular what factors impinged on the discourse during the campaign? Thirdly, to what extent were the policies on EMU modified by the campaign process? Finally, to what extent was the election result influenced by the EMU debate?

Europe was arguably the major issue of the campaign. The three main issues were probably Europe, sleaze and the party campaign strategies. In a statistical analysis by topic of press coverage during the campaign, Europe came out as the primary topic in terms of both lead stories and editorials with 22% and 16% respectively. The only issues that came near were party strategies and sleaze with 19% and 11% respectively.<sup>154</sup> This may have reflected Eurosceptic newspaper preferences but the conscious decision of Major to place Europe at the centre of the agenda clearly had an impact. Most significantly, Europe in the election meant "EMU, the Social Chapter and fish - but more than all these, the divisions in the Conservative party".<sup>155</sup> Further evidence of the primacy of Europe as the main election issue can be seen in the volume of television time with Europe ranking first in terms of air time.<sup>156</sup> In sum the centrality of Europe as an issue in the 1997 election campaign was clear, a sharp contrast to previous elections.

<sup>153</sup> D. Baker and D. Kavanagh, *op.cit.*, p.105.

<sup>154</sup> M. Scammell and M. Harrop, "The Press" in D. Baker and D. Kavanagh, *op.cit.*, p.175.

<sup>155</sup> M. Harrison, "Politics on the Air" in D. Baker and D. Kavanagh, *op.cit.*, p.138.

<sup>156</sup> *Ibid.*, Table 8.3, p.140.

The discourse of the two main parties has already been analysed in detail but some themes need evaluating in terms of the overall discourse. Six main themes can be discerned. The first was the "patriotic" nature of the discourse. The deliberate attempt by Labour to recapture the patriotic ground from the Conservative party has already been noted. However, the whole debate reflected Europe as a potential "threat" to Britain, which had either to be resisted or actively led by a government single-mindedly pursuing the national interest. As the campaign developed the second theme was the increasingly Eurosceptic tone culminating graphically in advertisements depicting Blair and Major in the lap of Chancellor Kohl. The third theme was the novel presence of specific Eurosceptic parties, especially the Referendum party. According to one survey a staggering 22% of households received a video from the Referendum party.<sup>157</sup> Whilst the Referendum party failed to make a significant electoral breakthrough they were arguably significant as a perceived threat. Fourthly, the Eurosceptic flank was also strengthened by the interventions of EU politicians such as Santer and De Silguy. The fifth theme was the individual personal competition between Blair and Major to be the best negotiator in the EU for British interests. Finally, of the four sovereignty questions the election discourse can be said to be dominated by the political union question. There was little specific debate on the specific monetary, fiscal or institutional sovereignty questions. The countervailing discourse of the absence of sovereignty as a dimension in the EMU debate stressing instead economic factors was held by Labour throughout the campaign. The polarised positions of the discourse of absence and presence in terms of EMU and sovereignty were classically illustrated during the election campaign.

What influence did the increasingly Eurosceptic discourse have on policy toward EMU?

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<sup>157</sup> D. Baker and D. Kavanagh, op.cit, p.219.

Both parties generally continued the “negotiate then decide” policy. The only specific policy move was Major's suggestion of a free vote for Conservative backbenchers on EMU. However, as Major argued, it was illogical to allow backbenchers to express their personal views on EMU during the election campaign and then expect them to be whipped into a voting position in the subsequent Parliament.<sup>158</sup> There was not so much a policy change on EMU by the Conservatives as an erosion of credibility in a policy clearly at variance with a large section of its parliamentary candidates. The policy did not move as much as implode. The Labour policy line did not change either even though it was presented in an increasingly sceptical manner. However, the key difference was that Labour maintained a degree of unity totally at variance with the deep Conservative divisions over EMU. On EMU policy itself it was difficult to determine a significant difference between the two main parties. Hence, even though Europe was arguably the defining issue of the election, it was difficult to match this issue to a particular party. To quote Scammell and Harrop this dilemma was neatly encapsulated in the position of the Times newspaper;

"Given that Europe was 'the defining issue of the election', for whom should the paper's readers actually vote? For the 'weak, ineffectual' John Major or for Mr. Blair's 'chameleon attractions'?"<sup>159</sup>

In sum there was a paradox between the increasingly Eurosceptic discourse of the two main parties and an overall continuity of policy. However, the key difference between the two parties was that the campaign made the Conservative policy seem incredible in the light of party differences whilst Labour maintained a degree of credible cohesion.

Although the major issue in the campaign it was difficult to disentangle EMU (and Europe generally) as causal factors in the final election statistics, which amounted to a

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<sup>158</sup> N. Jones, op.cit., p.225.

<sup>159</sup> M. Scammell and M. Harrop, "The Press" in D. Butler and D. Kavanagh, op.cit., p.168.

landslide victory for Labour and a crushing defeat for the Conservatives. Given the similar policy stance of the two main parties it was difficult to assess directly the effect of EMU. One indirect measure of Eurosceptic opinion was the electoral performance of the Referendum party. The party attained an average of 3.1% of the vote in 547 constituencies; it gained 3.6% in seats being defended by Conservative candidates and only 2.5% in seats being defended by Labour. The regional focus of support occurred in the suburbs of the South-East and the rural areas of East Anglia. In general it is estimated that the Referendum party only cost six Conservative MPs their seats.<sup>160</sup> The Conservative candidates who stood on an explicitly anti-EMU platform suffered an average 11.4% drop in their vote similar to the overall swing of 11.3%.<sup>161</sup> Another interesting feature was that the fall in the Conservative vote was not marked by any significant regional variations suggesting a wide range of general factors for their election defeat. Butler and Kavanagh concluded that the Conservatives did not so much lose on policy issues (where differences between the parties were relatively minor) as on value issues such as party unity, competence, newness, trust and integrity.<sup>162</sup>

Although EMU as a policy issue "per se" may not explain the Conservative defeat it was symbolic of two major factors. The first was the competence of the Conservative government following the withdrawal of Britain from the ERM in 1992. Following that event the polls moved significantly to Labour's advantage and the Conservatives were never to recover. Having fought the 1992 election with membership of the ERM as a centrepiece of its strategy the embarrassing failure undermined the trust of the electorate in the Conservative government. The link between Conservative fortunes and European monetary politics was clearly established at this point. The second symbol was that EMU epitomised differences within the Conservative party. An interesting postscript was made

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<sup>160</sup> J. Curtice and M. Steed, "Appendix 2: The Results Analysed" in D. Butler and D. Kavanagh, op.cit., p.308.

<sup>161</sup> Ibid.

<sup>162</sup> D. Butler and D. Kavanagh, op.cit., p. 247.

by Conservative campaign manager, Charles Lewington, who commented that he knew the "game was up" when Major failed to axe junior ministers Horam and Paice. This demonstrated to him both the weakness of Major's leadership and the unravelling of differences within the Conservative party.<sup>163</sup>

### **Conclusions**

Both the 1996 referendum and the 1997 general election debates illustrated the move of the EMU debate from the parliamentary sphere into the public sphere. The Maastricht ratification debate had set the agenda in a protracted parliamentary debate focused on multiple conceptions of sovereignty. The "politics of sovereignty" was evident in a number of ways during the referendum debate. An absolutist conception of sovereignty was a key factor behind Conservative internal divisions. The 1996 referendum decision was primarily a move to reconcile these divisions. The "politics of sovereignty" was also seen in the reactive response of the Labour opposition to close a potential flank from Conservative attacks. Outside the narrower party political debate the wider idea that EMU was such an important issue that the popular sovereignty of the British people was required through a referendum was prevalent throughout the debate. Another notable feature throughout was the continued caution of both major parties in the light of the challenges to sovereignty from EMU. The referendum option was arguably itself an "opt-out" from the necessary decisions over EMU. Once promised, however, it moved the debate unalterably into the public sphere.

Economic considerations played a minor role throughout this period. The most significant factor was the uncertainty during this period that EMU would actually proceed, and, if so, whether it would be a narrow or wide membership EMU. The Conservative government, in particular, persisted with the belief that EMU may be delayed given the difficulties faced by many states in meeting the convergence criteria. This made the narrower

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<sup>163</sup> N. Jones, *op.cit.*, p. 279.

calculation of British economic interest much more difficult. Labour too was cautious about assessing the economic impact of EMU at this time. As will be outlined in Chapter 7 business interests were quiescent during this period given the internal sovereignty debate within the Conservative party.

Electoral considerations played a role throughout the 1996 referendum debate. The Labour party, after four election defeats, responded to the Conservative decision for electoral reassurance and to close a potentially exposed flank. However, for the Conservative party the sovereignty debate and the internal divisions within the party led to a prolonged debate on a referendum over many years. The delay in approving a referendum decision resulted from Cabinet divisions, especially the position of Chancellor Clarke. Clearly the Conservatives wished to enhance their electoral appeal by announcing the referendum commitment. However, the move was primarily a move to placate the Eurosceptic wing of the party; a move which failed completely. It was difficult to perceive an electoral advantage to the referendum commitment given that the move would inevitably be followed by the Labour opposition. The 1997 election influenced the cautious approach of both parties on EMU given that EMU had yet to occur. However, it merely served to delay the policy divergence between the two parties. Overall electoral considerations influenced the *timing* of the 1996 referendum decision but crucially followed on from the intense sovereignty debate within the Conservative party.

The wider arena of the 1997 election campaign allowed the discourse to polarise between those arguing the moncausal link between EMU and political sovereignty and those denying this link. The discourse on Europe became increasingly Eurosceptic in tone from both parties as the campaign progressed. However, on EMU the Labour leadership

continued to stress the economic basis on their position on EMU. Unlike the Conservative party this line was widely supported by Labour candidates. The Conservative party in contrast imploded over the EMU question which, as illustrated in the statements made by many candidates, was regarded as a question of vital principle. EMU, in highlighting the differing degrees of internal divisions within the two parties, indirectly contributed to the landslide Labour victory. In spite of the polarisation of the discourse the policy positions remained largely unchanged with caution again being a notable feature. An alignment of a clear policy divergence with the divergent discourses of sovereignty had to wait until after the election.

## **CHAPTER 6: EMU AND SOVEREIGNTY: POST-ELECTION POLICY DIVERGENCE**

### **Introduction**

The conclusive landslide victory in the 1997 general election for Labour after 18 years of Conservative rule provided a change in environment within which both of the main parties quickly adapted their policies toward EMU. Both moved away from the "wait and see" policy adopted during the election to clearly divergent positions. The new Labour government moved pragmatically to a "prepare and decide" policy based on five economic tests, albeit effectively ruling out EMU membership in the lifetime of the Parliament. The Conservative opposition, under the new leadership of William Hague, moved to a policy of explicitly rejecting EMU for the next two Parliaments. Whilst both policy turns were hedged with conditions their polarisation was clear and foreshadowed a "phoney war" in planning and organising for a future EMU referendum. There remained significant dissenting voices within both parties, especially the Conservatives, but the overall pattern of both parties' policy became clear. The policy positions were now more clearly aligned with the differing conceptions of sovereignty outlined by the two parties. For Labour the pooling of sovereignty was explicitly acknowledged. For the Conservatives an absolutist conception of sovereignty remained a significant barrier to EMU membership.

This chapter will address the policy divergence between the two main parties, and its relationship with the differing conceptions of sovereignty, in three main parts. Firstly, the policy turns in the latter part of 1997 will be discussed. For the Labour government a key statement was made in October 1997 in the context of financial market uncertainty. For the Conservatives the perceived failure of the "wait and see" policy following a landslide election defeat led to a swift policy turn against EMU. Secondly, the continued divergence of the two positions throughout 1998 and 1999 will be analysed. For the

Labour government this was symbolised by the 1998 European Presidency and the 1999 National Changeover Plan. For the Conservatives a party ballot confirmed the leadership position. The third area of discussion will highlight the external dynamic of the wider debate arising from EMU. This included the issue of the Euro-X grouping designed to give a wider economic voice to EMU, the debate on tax harmonisation within the EU and the actuality of EMU's launch on 1 January 1999. In spite of the government's attempts to develop a long-term strategy favouring EMU as a narrow monetary adventure the dynamics of the EU debate meant that other aspects of fiscal and political sovereignty increasingly came to the fore. This was reflected in the debate during, and in the aftermath of, the 1999 European election.

### **Labour's October 1997 Statement: Prepare and Decide**

The new Labour government's immediate task on Europe was to address the Intergovernmental Conference at Amsterdam in June 1997. EMU was not a central issue at the IGC other than confirmation of the Stability Pact. The government adopted a pragmatic approach obtaining an "opt-out" for border controls (along with Ireland), agreeing to the extension of QMV to a small number of areas and seeking further co-operation in other sectors such as crime. Generally though there was nothing extremely contentious at Amsterdam and, to quote Young, within six weeks of the general election, Europe had been reduced to a "part of quotidian banality".<sup>1</sup> However, three other points need to be stressed. Firstly, the Amsterdam Treaty was by common consent, a very limited step in European integration with key institutional questions deferred.<sup>2</sup> Secondly, the pro-European tone of the Blair government was significantly different from that of the Major government.<sup>3</sup> Finally, Blair sought to go beyond EU issues by pronouncing on wider New Labour ideology such as the need for flexible labour markets, Anglo-Saxon economic liberalism and the overall "Third Way" to a "People's Europe" beyond the "old

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<sup>1</sup> H. Young, This Blessed Plot: Britain and Europe from Churchill to Blair, (Macmillan Publishing, London, 1998), p.490.

<sup>2</sup> See A. Duff (Ed.), The Treaty of Amsterdam, (Federal Trust, London, 1997).

<sup>3</sup> H. Young, op. cit., p.489.

Left" or the "new Right".<sup>4</sup> Labour's EU discourse was though expressed in instrumental terms, namely how Labour's approach, as opposed to Conservative isolationism, would best advance defined British interests. There was little sense of a partnership approach or any influence arising from continental European ideas.<sup>5</sup> This "lecturing", borne from the confidence of a landslide election victory, caused some resentment in European circles but the overall tone of political engagement in EU affairs was a distinctive change from the previous government.<sup>6</sup>

Within the overall pro-European rhetoric EMU initially played a small role. Indeed the government itself sought to initiate a wider debate on EMU in the summer of 1997. There was a realisation that, to quote Chancellor Brown, whether Britain is "in or out, it will have profound implications for British business and the British economy".<sup>7</sup> Interestingly Brown did not then rule out membership in the first wave in 1999 and was, ironically, under pressure from the Confederation of British Industry (CBI), who had declared for the principle of EMU, not to enter in 1999 because of the high exchange rate.<sup>8</sup> In the monetary arena the most radical step was to grant operational independence to the Bank of England. Whilst this move was a necessary step towards meeting the Maastricht conditions for EMU entry the main reason was probably the desire of the government to set out a long-term stable monetary framework avoiding the volatility and politicisation which had characterised monetary policy under the Conservative government.<sup>9</sup>

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<sup>4</sup> T. Blair, Speech to the European Socialists Congress, Malmö, 6/6/1997.

<sup>5</sup> R. Smith, "Sources of New Labour" in J. Milfull (Ed.), Britain in Europe, (Ashgate Publishing, Aldershot, 1999), p.130.

<sup>6</sup> H. Young, op.cit., p.491.

<sup>7</sup> Times, 17/7/1997.

<sup>8</sup> Ibid.

<sup>9</sup> H. Pym and N. Kochan, Gordon Brown: The First Year in Power, (Bloomsbury Publishing, London, 1998), p.7.

The 1997 summer peace over EMU abruptly ended in the autumn triggered ironically in part by the government's own advisers but more directly by volatility in the financial markets. In September 1997 the Financial Times, quoting "ministerial sources", claimed that there was an increasing likelihood of UK entry to EMU in 1999.<sup>10</sup> This story was seemingly contradicted by Brown in an interview in the Times in October but was in turn reconfirmed by Mandelson. In the confused situation shares initially soared at the prospect of UK entry in 1999 but later declined equally dramatically when these rumours receded.<sup>11</sup> The "spin doctors" had ironically left the government in a spin and Brown's statement of 27 October 1997 served to clarify government policy in the light of the prevailing uncertainty.

Whilst born in confusing circumstances Brown's statement served to define the government's basic policy on EMU for the lifetime of the Parliament. Four elements can be highlighted. The first was explicit support for the principle of EMU, which would arguably be in Britain's long-term economic interest;

"We believe that, in principle, British membership of a successful single currency would be beneficial to Britain...The potential benefits for Britain of a successful single currency are obvious, in terms of trade, transparency of costs and currency stability."<sup>12</sup>

The stress was on economic benefits not just for Europe but specifically for Britain.

The second element was that Brown dealt directly with the question of sovereignty or

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<sup>10</sup> Financial Times, 26/9/1999.

<sup>11</sup> Times, 25/10/1997.

<sup>12</sup> G. Brown, "Statement on Economic and Monetary Union", HM Treasury, 28/10/1997.

what he called a "constitutional bar" to EMU membership. The stress on "pooling" sovereignty is clear along with the denial of a constitutional bar;

"It must be clearly recognised that to share a common monetary policy with other states does represent a major pooling of economic sovereignty...The constitutional issue is a factor in the decision but it is not an overriding one. Rather, it signifies that in order for monetary union to be right for Britain, the economic benefit should be clear and unambiguous."<sup>13</sup>

This explicit linking of the "pooling" of sovereignty with support for EMU in principle were significant developments. Brown also reaffirmed the need for popular support in a referendum "as a matter of principle" and set in train a series of preparatory measures.

Despite the two pro-EMU arguments Brown stressed that economic conditions precluded EMU membership in the short-term. The economic benefits of EMU needed to be "clear and unambiguous" in accordance with five subjective economic tests. Firstly, could there be sustainable cyclical and structural convergence between Britain and the economies within EMU? Secondly, was there sufficient flexibility, especially labour market flexibility, to cope with economic change? Thirdly, would joining EMU create better conditions for businesses to make long-term investment decisions? Fourthly, would the financial services industry continue to thrive under EMU? Finally, would EMU membership be good for employment? These tests were subjectively vague with, arguably, the first test on convergence being the most substantive. Interpreting these tests in 1997 Brown concluded that membership of EMU was deemed to be impossible in 1999 and "barring some fundamental and unforeseen change in economic circumstances" unrealistic during the Parliament.<sup>14</sup> The strategy then was clearly a pragmatic, long-term one with an "escape hatch" in the form of economic tests available should economic

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<sup>13</sup> Ibid.

<sup>14</sup> Ibid.

circumstances change or popular opinion remain sceptical.

The balanced nature of Brown's statement was reflected in a range of interpretations. For the CBI and the TUC there was criticism that EMU entry in the lifetime of the Parliament had effectively been ruled out whilst for Shadow Chancellor Lilley, Brown had sounded the "death knell for the pound".<sup>15</sup> Equally diverse was the reaction of political commentators. For Stephens and Barber in the Financial Times the Chancellor's statement was not a decisive move.<sup>16</sup> For Young the government had taken "the line of least resistance" but with a "plain intention" to hold a referendum before 2002.<sup>17</sup> For Riddell there was the clear "outlines" of a five-year strategy to enter EMU in "the most pro-European statement by any senior minister for a long time".<sup>18</sup> I would argue that the statement marked a clear policy turn toward EMU, albeit hedged in the pragmatism of a government determined to secure a second election victory by achieving other manifesto commitments in its first term.

The explanations for the government policy statement have tended to focus on the activities of the "spin doctors" who allowed the issue to temporarily get out of control. The classic example was the phone call of adviser Charlie Whelan to the press from the Red Lion pub which was overheard by a political opponent.<sup>19</sup> The confused situation and financial speculation undoubtedly explain the timing of the announcement. Arguably the decision to rule out EMU membership for the entire Parliament, barring unforeseeable

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<sup>15</sup> Financial Times, 27/10/1999.

<sup>16</sup> Financial Times, 28/10/1999.

<sup>17</sup> H. Young, op.cit., p.493 and p.514.

<sup>18</sup> Times, 28/10/1997.

<sup>19</sup> H. Pym and L. Kochan, op.cit., p.142.

consequences, may have been accelerated by the desire to avoid ongoing financial speculation triggered by the spin crisis (vividly captured on television by Brown opening a new trading system in front of a sea of red lights caused by falling share prices). Routledge, in his biography of Brown, stressed his desire to avoid economic uncertainty following the Conservative ERM debacle.<sup>20</sup> In their analysis of the episode Pym and Kochan point out that clear policy plans were being developed prior to the crisis. The government had already concluded that entry in 1999 could not be attempted for the economic reasons of lack of preparations and lack of underlying convergence.<sup>21</sup>

Whilst economic factors may explain the timing of potential EMU entry the decision to stay out of EMU for the entire Parliament was arguably governed by political factors. The key argument was that Labour did not want its first term of government for 18 years to be marked by a highly divisive referendum campaign in the light of a sceptical public and hostile media.<sup>22</sup> Pym and Kochan argued that this political point was stressed by Brown who, contrary to most perceptions, was more cautious than Blair, preferring instead to focus on domestic issues.<sup>23</sup> The summer of 1999 represented a rather narrow "window of opportunity" for the government to join EMU given their large majority and disarray amongst the Conservatives. Delay would lead to further financial speculation and mid-term problems.<sup>24</sup> A pro-EMU Labour MP suggested that the very inexperience of the government was a key factor in failing to grasp the issue at this key time.<sup>25</sup> Whatever the underlying reasons the policy was now effectively determined for the Parliament. However, given the absence of a clear timetable and flexible conditions the policy was inevitably to come under careful scrutiny in the following years.

<sup>20</sup> P. Routledge, Gordon Brown: A Biography, (Simon and Schuster, London, 1998), p.326.

<sup>21</sup> H. Pym and N. Kochan, op. cit., p.135.

<sup>22</sup> Ibid.

<sup>23</sup> Ibid., p.139.

<sup>24</sup> Author's interview.

<sup>25</sup> Author's interview.

## **Conservatives in Opposition: No EMU Membership for Two Parliaments**

Following their landslide election defeat and the immediate resignation of Major the Conservatives were involved in a bitter leadership battle which reflected their divisions on EMU. Hague, Redwood, Howard and Lilley ran on an EMU-sceptic platform whilst Clarke and Dorrell continued the "wait and see" policy. Hague's ultimate victory, in spite of a surprising last minute alliance between Clarke and Redwood, prefigured a change in EMU policy. Hague was determined to clarify the policy on EMU away from "wait and see", especially after Clarke refused to join the Shadow Cabinet, to accord with his personal scepticism toward EMU.

Following his leadership victory and, with a largely EMU-sceptic Shadow Cabinet, the Conservatives decided to move from the immediate post-Hague position of ruling out EMU for the "foreseeable future" to a policy of ruling out EMU membership for two Parliaments.<sup>26</sup> This was clearly an intermediate position between the previous "wait and see" policy and ruling out EMU in principle. However, the tone of pronouncements on EMU was highly sceptical. Hague himself concentrated on economic factors arguing that EMU needed to be fully tested through both stages of the economic cycle ("boom and bust") before British entry could even be considered.<sup>27</sup> To the CBI he referred to EMU as a "building with no exits".<sup>28</sup> The "No EMU for Two Parliaments" policy served to crystallise the continuing splits within the Conservative hierarchy leading to the resignation of remaining pro-EMU Shadow Cabinet members such as David Curry and Ian Taylor.<sup>29</sup> Heseltine and Clarke remained vociferous opponents of the new policy and

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<sup>26</sup> *Times*, 24/10/1997.

<sup>27</sup> Interview with William Hague, *Times*, 6/10/1997.

<sup>28</sup> *Independent*, 11/11/1997.

<sup>29</sup> *Times*, 3/11/1997.

agreed to join a cross-party campaign to secure a "yes" vote in any future referendum, being in turn referred to as "retired Cabinet ministers".<sup>30</sup> Indeed they tended to be more pro-EMU than the Labour government illustrated by an open letter from 12 "grandees", including Chris Patten, in January 1998 urging the government to "prepare now to join a successful single currency".<sup>31</sup> However, whilst the divisions remained there had been a clear turn in official Conservative policy.

### **Policy Consolidation: The Labour Government**

Following the October 1997 statement the government sought to use its Presidency of the EU in the first half of 1998 to demonstrate its pro-European credentials on issues other than EMU. However, the issue was eventually to dominate the Presidency thwarting British leadership ambitions. The Presidency was launched amidst a fanfare of rhetoric and symbolism as the government sought a "People's Europe". The focus was on reconnecting the EU with "People's issues" such as employment, crime, drugs and the environment rather than seemingly abstract institutional issues. This would, according to Cook, lead to giving "Europe back to the people".<sup>32</sup> This ambitious aim was backed by other rhetoric on the need for Europe to adapt "Anglo-Saxon" liberalism and to take the "Third Way" between traditional socialism and unfettered capitalism.<sup>33</sup>

The symbolism of the new pro-European tone was captured in Blair's speech in French to the French Parliament in March 1998. However, the limits to the pro-European approach were also evident in the speech. On EMU Blair reiterated the government position stressing the need for economic convergence. However, on the wider sovereignty questions Blair emphasised underlying concerns to the integration process;

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<sup>30</sup> Times, 31/10/1997.

<sup>31</sup> European, 14/11/1998.

<sup>32</sup> R. Cook, Speech to the RILA, 3/11/1997.

<sup>33</sup> See T. Blair, Speech to European Socialists Congress, Malmo, 6/6/1997.

"You do not have to be a Eurosceptic, in any shape or form, to appreciate the deep concern amongst our peoples as to how they make sense and relate to the new Europe."<sup>34</sup>

Thus, further integrative moves should be analysed on a functional basis. Whilst integrative moves should be made in the areas of pollution and crime in other areas such as welfare and taxes "subsidiarity" should rule. Above all, we should avoid "a Europe of conformity, a United States of Europe run by bureaucrats".<sup>35</sup>

The centrality of EMU in the EU during 1998 was to come into sharp focus during the London Summit which confirmed the participants in EMU and the head of the ECB. The expected dispute over participants was relatively easily solved by a clearly flexible interpretation of the Maastricht convergence criteria with only Greece being effectively excluded for economic reasons. However, there was a severe disagreement over the appointment of the head of the ECB, with France favouring French central banker, Jean-Claude Trichet, and the rest of the EU supporting Dutch central banker Wim Duisenberg. The launch of EMU was ironically marked by a bitter national battle. Blair managed to preside over a classic compromise with Duisenberg agreeing by "gentlemen's agreement" to retire after four years of his eight year term to be replaced by a Frenchman. Whilst the deal kept EMU on course Blair was criticised by Hague for presiding over a "fudged and flawed" currency.<sup>36</sup> However, the key point was that Britain was standing aside as the eleven members forged ahead with EMU, the issue which had dominated the EU Presidency.

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<sup>34</sup> T. Blair, Speech to the French National Assembly, 24/3/1998.

<sup>35</sup> Ibid.

<sup>36</sup> Times, 6/5/1999.

Assessments of the UK Presidency were varied. The Presidency had achieved a number of practical steps including the EMU deal, the launch of enlargement negotiations and initiatives in a number of areas including citizenship and environment. However, in terms of the initial objectives set at the start of the Presidency and the idea of leading Europe many criticisms were made of the UK Presidency, the chief of which was overambition. A French journalist commented that if the British Presidency was to be judged on the basis of its own expectations it was "little less than a disaster" but judged more sensibly it served to normalise Britain's relations with Europe.<sup>37</sup> Even the Minister for Europe during the Presidency, Doug Henderson, admitted subsequently that "solid achievements" rather than "glorious triumphs" had been made.<sup>38</sup> However, it could be argued that the achievement of normalised relations would require EMU membership in the near future.<sup>39</sup> Certainly the launch of EMU was a defining moment during the Presidency, a moment from which Britain stood apart.<sup>40</sup>

Away from the European Presidency the domestic pressure on the government continued. A Treasury Select Committee report in the spring of 1998 crystallised an interesting discussion as to the nature of the five economic tests which Brown had outlined in his October 1997 statement. Taking a detailed examination of the five tests the Labour-led committee concluded that it would be impossible to judge whether EMU was a success for at least five years.<sup>41</sup> They also felt that the euro would enter Britain 'de facto', emphasised the need for greater preparations and laid emphasis on exchange rate policy

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<sup>37</sup> Pierre Bocev, Le Figaro, 30/6/1998.

<sup>38</sup> D. Henderson, "The UK Presidency: An Insider's View", Journal of Common Market Studies, Vol. 36, No. 4, December 1998, p.565.

<sup>39</sup> P. Ludlow, "The 1998 UK Presidency: A View from Brussels", Journal of Common Market Studies, Vol. 36, No. 4, December 1998, p.583.

<sup>40</sup> For a sceptical view of the Labour government's pro-European credentials see R. Holden, "The Marginalisation of Europe: Testing New Labour's European Credentials", PSA Conference, Nottingham, 24/3/1999.

<sup>41</sup> Treasury Select Committee, "The UK and Preparations for Stage Three of Economic and Monetary Union", (HM Treasury, 1998).

given the high value of sterling. The Treasury Select Committee report was particularly concerned about the key economic test, convergence, arguing that the Treasury "should make its policy clearer". They were also disappointed by the Chancellor's response to the Report arguing that the Treasury should set out more precisely the ways in which the tests would be assessed.<sup>42</sup> The Committee's findings clearly illustrated that the "tests" are subjective economic guidelines rather than objective standards allowing the government a future escape route should external developments (the success of EMU with the eleven starters) or domestic developments (continued public scepticism) not be favourable to EMU. The very logic of deciding early in the following Parliament seemed to imply a political rather than economic dynamic.<sup>43</sup> The key political factor remained the need to win a popular referendum.

The seeming lesson of the EU Presidency for the government appeared to be that in order to play a leadership role in the EU membership of EMU was becoming increasingly necessary. An interview with Blair in October 1998 revealed some interesting insights into his views on EMU. Firstly, he tacitly acknowledged that Britain would have less influence outside EMU. Secondly, he emphasised again the absence of a constitutional and political barrier to EMU membership. This inevitably, in turn, meant that the economics must be clearly and unambiguously beneficial for Britain. However, even here Blair suggested that the coming of EMU had already assisted stability in the EU given the Asian economic crisis. He also argued that Britain had made equivalent preparations to other EU states.<sup>44</sup> These comments, whilst not individually significant, reinforced the gradual warming in the tone of EMU pronouncements.

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<sup>42</sup> Times, 27/4/1998.

<sup>43</sup> G. Radice, Independent, 4/5/1998.

<sup>44</sup> Times, 21/10/1998.

A series of practical steps seemed to support incremental moves in a more pro-EMU direction. The Cabinet reshuffle in the summer of 1998 promoted leading pro-EU politicians such as Mandelson to Trade and Industry and Joyce Quin to minister for Europe.<sup>45</sup> At the CBI conference in November Mandelson appeared to imply a shift to "when" rather than "if" Britain would join EMU. Mandelson, arguing that "Europe needs our influence", stated that "we will join the single currency when it is in Britain's economic interests to do so".<sup>46</sup> Brown outlined more detailed work on preparations including confirmation of the launch of the National Changeover Plan in 1999. Whilst these statements were not seen as a change of policy by the government they were undeniably a consolidation. Another indicator was the support given by the government to a joint Socialist manifesto for the June 1999 European elections. The central point was the need for a regulatory framework for the management of EMU. EMU would require "closer co-ordination of economic and structural policies" and a need "to avoid harmful tax competition".<sup>47</sup> The signing of this manifesto illustrated the desire not to be isolated in the EU after the launch of EMU and implied further consolidation to a pro-EMU policy. Thus, there were a series of incremental steps which seemed to imply a consolidation of the pro-EMU position.

These incremental steps were supported by the launch of the National Changeover Plan in February 1999 which, in the government's own words, was a "change in gear" if not in policy. The Plan itself envisaged a clear timetable of three years from a successful referendum result to the withdrawal of sterling. In addition, "tens of millions of pounds" of public money was to be spent on preparing public sector institutions for EMU. The Plan also set out a number of detailed steps, including examples, which would need to be

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<sup>45</sup> Financial Times, 6/8/1998.

<sup>46</sup> Daily Telegraph, 3/11/1998.

<sup>47</sup> Times, 18/11/98.

taken by business in their EMU preparations.<sup>48</sup> Significantly Blair decided to introduce the Plan himself, rather than allowing Brown to do so, a move which served to heighten its importance.

The core of Blair's speech was a reiteration of the "prepare and decide" policy announced by Brown in October 1997. Britain would only join EMU if it was in its "national economic interest", which was defined by the five economic tests. Hence, membership was conditional and not inevitable. However, in principle a successful EMU would be good for British jobs, investment and trade. The key change now was that EMU was a reality and given that more than 50% of British trade was with the EU preparations were vital. Blair gave an upbeat assessment of the progress on the economic tests to date. This included convergence of UK interest rates with the EU, independence of the Bank of England and fiscal stability. However, the EU itself needed to be more flexible in terms of labour, capital and social regulation.

The speech dealt explicitly with the impact on sovereignty of EMU. Answering criticisms that he had underplayed the political nature of EMU, Blair admitted its political nature but stressed that it could only be made to work economically. In the British case the political question had been addressed by the explicit denial that there was a constitutional principle blocking membership. Sovereignty had been modified by the "modern world" developments of technology, global finance, mass communications, travel and culture. In these circumstances;

"Sovereignty pooled can be sovereignty, or at least power and influence, renewed."<sup>49</sup>

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<sup>48</sup> Preparing for the Euro: The National Changeover Plan, HM Treasury, 24/2/1999.

<sup>49</sup> T. Blair, Financial Times, 24/2/1999.

This represented an interesting conflation of sovereignty with power and influence but continued the idea of pooling of sovereignty. Sovereignty was placed in a dynamic context interpreted in policy terms by the denial of sovereignty 'per se' being a barrier to EMU membership. Interestingly EMU was not just seen as bringing narrow economic benefits but could also enhance British power and influence.<sup>50</sup> There was a subtle change in tone emphasising the political impact of EMU membership. This, though, focused on "influence" in the EU rather than "constitutional sovereignty". In spite of the warmer pro-EMU tone no future deadlines were set in terms of a final decision and Blair again stressed the conditionality of the economic tests.

The complex and nuanced statement led to a variety of interpretations. The most widespread interpretation was that the statement represented a change of policy as much as a change of gear. In a memorable phrase Ashdown congratulated Blair on "crossing the Rubicon". Conversely Hague criticised Blair as putting forward a "national handover plan" and of jeopardising "one thousand years" of independence (an interesting comment on the official Conservative policy of only ruling out EMU for two Parliaments).<sup>51</sup> The Conservative decision to withdraw from a preparations committee confirmed their interpretation that the policy had changed. From the pro-EMU Conservatives Heath claimed that Blair was "absolutely right in everything he said" and Clarke welcomed the "marked change in tone". Accusations were made that Heseltine and Clarke had colluded with the statement.<sup>52</sup> In sum, these interpretations continued the process of policy divergence both between and within the two main parties.

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<sup>50</sup> Ibid.

<sup>51</sup> Daily Telegraph, 24/2/1999.

<sup>52</sup> Sunday Times, 28/2/1999.

An alternative interpretation was that the statement was only a change of gear. The absence of a future decision date disappointed the Labour Movement for Europe which had been campaigning for a target date for entry.<sup>53</sup> This interpretation was also supported by the repudiation of pro-EMU MP Denis MacShane's statement to a French newspaper that the government had effectively signed up to EMU.<sup>54</sup> In addition, it was reported that Labour would not focus on EMU during the June European election for fear of alienating voters. These signs support the idea that the statement was indeed a "change of gear". The Economist, supporting this supposition, argued that the statement was designed to "fly a kite" in order to assess public and media reaction to a warming tone toward EMU.<sup>55</sup> However, whilst agreeing with this interpretation I would also argue that the "gear change" represented a consolidating step along a fairly consistent long-term strategy to enter EMU should economic conditions permit. I would, therefore, disagree with David Baker that the statement was merely a delaying tactic in order to defer the issue beyond the following general election.<sup>56</sup>

Given the varying interpretations of the policy itself there were also many interpretations in understanding the policy approach. One political explanation was that differences existed within the Cabinet with, in particular, Blair being tactically more cautious on EMU than Brown.<sup>57</sup> However, Blair's personal decision to announce the National Changeover Plan appeared to show a united Cabinet position. Baker argued that a contributing factor may have been the need to maintain Labour party unity on an issue which had traditionally been a divisive one.<sup>58</sup> The Labour voices of opposition to EMU,

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<sup>53</sup> Financial Times, 6/1/1999.

<sup>54</sup> Financial Times, 3/3/1999.

<sup>55</sup> Bagehot, Economist, 27/2/1999.

<sup>56</sup> D. Baker, A. Gamble and D. Seawright, "The Sounds of Silence? New Labour Party Management and European Union", PSA Conference, Nottingham, 25/3/1999.

<sup>57</sup> Independent, 24/2/1999.

<sup>58</sup> D. Baker, A. Gamble and D. Seawright, op. cit.

though still in existence, were now largely marginalised.

Economic arguments are often cited for the government's cautious approach. British preparations for EMU were undoubtedly limited in comparison with other EU states (see Chapter 7). The economy itself followed a different economic cycle from those of the EU economies and clearly convergence would require some time, however, defined. This had led even EMU supporters, such as the CBI, to recommend that Britain should not join EMU at the 1999 start date. The government's five economic tests served to define the range of economic factors that Britain would need to meet for EMU entry. The question also arose as to whether Britain should join the ERM prior to EMU entry, as deemed necessary by the Maastricht treaty. Interestingly both Denmark and Greece rejoined the ERM in 1999 whilst Britain, bruised by the previous ERM experience, remained outside.<sup>59</sup> Whilst important though I would argue that economic factors fail to explain long-term caution as a date could have been set for future entry. The crucial element remained public scepticism toward EMU.<sup>60</sup>

A popular explanation for the government's caution was the overwhelmingly Eurosceptical approach of the British media, especially Rupert Murdoch's Sun newspaper.<sup>61</sup> Undoubtedly the majority of the press could be classified as Eurosceptic. These included the Sun, the Times, the Daily Telegraph and the Daily Mail. On the Europhile side were the Independent, the Daily Mirror, the Financial Times and the Guardian (though with some scepticism toward EMU). A rough calculation of readers leads to approximately 76% of the press being classified as Eurosceptic and 24% as

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<sup>59</sup> Independent 25/2/1999.

<sup>60</sup> Authors interviews.

<sup>61</sup> Independent 25/4/1998. There was also a series of accusations over the government's links with Murdoch, including favoured legislation.

Europhile.<sup>62</sup> The virulence of the media coverage was illustrated by the Sun's depiction of Blair as possibly "the most dangerous man in Britain".<sup>63</sup> However, there were a wide range of alternative sources of information available, especially television, which reduce the impact of biased press coverage.<sup>64</sup>

The deep underlying scepticism of public opinion to EMU has been consistently captured in a wide range of opinion poll data. One poll, which has consistently asked respondents both their own position on EMU and their position if the government openly advocates EMU, is the MORI/Salomon Smith Barney poll. Since 1996 the balance of opinion (excluding "don't knows") opposed to EMU has consistently been over 20%. When asked the position if the government strongly urged membership the balance of opinion was still around 10%.<sup>65</sup> Whilst there was the possibility that this margin may represent "soft" opinion, the overall consistency of the results was clearly a deterrent to the government adopting a more pro-EMU policy.

The scepticism of public opinion to EMU was, in my opinion, the key factor behind the government's caution. Blair would hardly, having got into government after 18 years of Conservative rule, have risked his entire government programme on an early EMU referendum. This illustrated the dynamic impact of the sovereignty debate over EMU. The 1996 move to accept a referendum by both parties on EMU as a demonstration of popular sovereignty had effectively constrained future policy. The referendum commitment had been constantly reiterated by the government, had gained overwhelming

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<sup>62</sup> P. J. Anderson and A. Weymouth, Insulting the Public? The British Press and the European Union, (Addison Wesley Longman Ltd., Harlow, 1999), p.184.

<sup>63</sup> Sun, 24/6/1998.

<sup>64</sup> P. J. Anderson and A. Weymouth, op. cit., p.185.

<sup>65</sup> Economist, 27/2/1999.

support amongst Labour MPs and was scarcely reversible. As argued in Chapter 5 the referendum commitment was partly seen as a necessary demonstration of popular sovereignty decision given the significance of EMU. This in turn generated a cautious policy approach given the continued EMU-scepticism expressed in the media and public opinion surveys.

### **Policy Consolidation: The Conservatives**

The Conservative policy turn to "No EMU membership for Two Parliaments" continued to cause major divisions in the party during 1998. Hague's response was a dramatic move to ensure party support by organising a poll of party members to support the EMU policy. The pro-EMU Conservatives refused to campaign against the leadership leading to the inevitable overwhelming vote of 84% of the membership in support of Hague.<sup>66</sup> Indeed the result had little impact on the pro-EMU Conservatives who continued their campaigns. However, the result also emboldened the EMU-sceptics, such as Portillo, to stress the political arguments against EMU membership. The speeches of Hague and Portillo illustrated the range of EMU-sceptic arguments.

In a wide ranging speech at the INSEAD business school in Fontainbleau in May 1998 Hague had argued that EMU would have significant political consequences. The economic effect of EMU in terms of the differential economic returns of EMU could lead to political unrest. The direct political consequences were even greater in that EMU was a fundamental step toward the goal of political union. The means for this process was close fiscal co-ordination of taxes and spending. This goes to the heart of sovereignty;

"The powers to raise taxes from ones citizens and to spend money on their behalf are defining features of a sovereign state. I believe that to delegate powers over taxation and spending to the EU would take us beyond the limits of political union towards the

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<sup>66</sup> Times, 5/10/1998.

creation of what would in effect be a European state."<sup>67</sup>

These dangers were heightened by the irreversible nature of EMU, which meant that one could find "oneself trapped...in a burning building with no exits".<sup>68</sup> The political critique of EMU was very wide ranging.

In other domestic speeches Hague emphasised the economic weaknesses of EMU and the need for EMU to be a long-term success. In a speech launching the party membership vote he identified three main questions which need to be addressed prior to potential UK membership. Firstly, will EMU work during both booms and slumps, especially against financial speculators? Secondly, will a single, unvarying interest rate lead to severe regional differences? Finally, will EMU lead to fiscal centralisation? These were Hague's primary economic questions but he also stressed political risks, namely whether EMU would "undermine democracy and lead us down a road to a United States of Europe".<sup>69</sup> In sum, Hague's scepticism covered the whole range of the sovereignty questions. However, even after his membership vote victory Hague continued to stress that EMU was not ruled out in principle.

Portillo, having lost his seat during the election, was temporarily marginalised but, in a "comeback" lecture in February 1998, he focused on the link between democratic values and EMU.<sup>70</sup> For Portillo, EMU was a threat to both democracy and sovereignty. The EU itself could not be democratic because of the lack of a "demos" and the continuing

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<sup>67</sup> W. Hague, "The Potential for Europe and the Limits to Union", Insead, Fontainbleau, 19/5/1999.

<sup>68</sup> Ibid.

<sup>69</sup> W. Hague, Daily Telegraph, 8/9/1998.

<sup>70</sup> M. Portillo, Democratic Values and the Currency, (Institute of Economic Affairs, London, February 1998).

strength of national identities. On sovereignty he attacks the notion that sovereignty is out-of-date because this confuses sovereignty with autonomy of action. He argued;

"There are degrees of freedom, and the fact that we are not totally independent of outside influences is no argument for throwing away the considerable scope for action we still possess. More importantly, our right to make choices for ourselves should not be given up on such spurious grounds." <sup>71</sup>

All of the sovereignty questions were addressed as the "transfer of monetary and fiscal policy is inevitable" and EMU will lead to a "political union".<sup>72</sup>

Prior to the Conservative conference in 1998 Portillo argued that the Conservatives should take a greater lead in opposing EMU. Unlike Hague he stressed political factors over economic points;

"The critical points are none the less political. Economic union means that key decisions...will be taken by people who are unelected and unaccountable. It beggars belief that we could shoehorn the nationalities of Europe into an artificial political union."<sup>73</sup>

Not only did Portillo cover all the sovereignty questions but the political dimension of sovereignty was seen as affecting national identity as well as political institutions, leading possibly to violent dissent. Portillo stressed the historic symbolism of currencies in particular the proposed loss of the Queen's head on euro notes. Sovereignty would be completely lost if Britain joined EMU;

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<sup>71</sup> Ibid., p.18.

<sup>72</sup> Ibid., p. 17.

<sup>73</sup> Times, 10/11/1998

"There is no example of a sovereign nation that does not control its own currency...In every other country in Europe, EMU is correctly debated as being part of the project to achieve a political union."<sup>74</sup>

In spite of the differing arguments used by Hague and Portillo these were minor nuances when compared with the arguments put forward by the pro-EMU Conservatives. Heseltine, for example, argued that it was a question of when, not if, Britain joined EMU.<sup>75</sup> Clarke denied that fiscal harmonisation and political union would result from EMU. Ian Taylor, a former Shadow Cabinet minister, urged the Labour government to "get off the fence" following the launch of EMU in 1999. Whilst stressing the economic advantages of EMU he also emphasised the political aspect of the need for influence in Europe over key issues. Above all, in order to fulfil the leadership role to which Blair "rightly" aspires "as a great country" we must join EMU.<sup>76</sup> Leon Brittan argued that the Conservative leadership mistook the modern "fluid" notion of sovereignty and were stuck with a 19th century nation-state notion.<sup>77</sup> Most of the views expressed were more pro-EMU than the position of the Labour government.

A strong proponent of the pro-EMU Conservative position was Lord Geoffrey Howe. In 1990 he had written an article which specifically articulated the idea of pooling sovereignty. For Howe sovereignty was synonymous with influence in the world;

"[Sovereignty] might be summarised as a nation's practical capacity to maximise its

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<sup>74</sup> Ibid.

<sup>75</sup> M. Heseltine, Times, 31/10/1999.

<sup>76</sup> Times, 7/10/1998.

<sup>77</sup> L. Brittan, "Policy and Politics", Guardian, 29/5/1998.

influence in the world."<sup>78</sup>

For Howe sovereignty needed to be judged by its utility as a policy resource. It was a "resource to be traded rather than guarded" and should not be seen as a "pre-defined absolute" but as "a flexible, adaptable, organic notion that evolves and adjusts with circumstances".<sup>79</sup> Applying this conception of sovereignty as influence in 1998 Howe was fervently in favour of British membership of EMU;

"EMU is now rightly seen as the defining issue. Inside the single currency, Britain can and will be a full and equal partner. Outside EMU, however, we are never likely to carry the same influence or weight."<sup>80</sup>

The development of the Euro-X grouping was regarded by Howe as a development which would limit Britain's influence, and therefore sovereignty, if she remained outside of EMU for a significant time period.

### **"Phoney War": Divergence Confirmed?**

By 1999 it was possible to discern an overall pattern in the party political debate over EMU. Majorities within both major political parties could be said to support their respective policy positions. The poll within the Conservative membership indicated overwhelming support for the leadership policy. Whilst no similar exercise was carried out within the Labour party a majority appeared to support the leadership. Dissent tended to focus around figures on the "Old Labour Left" such as Shore, Benn, Skinner and Simpson though there were more "moderate" figures such as Field and Davies. The key groups were the Euro-Safeguards Campaign and the Campaign Against Euro-Federalism.

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<sup>78</sup> G. Howe, "Sovereignty and Interdependence: Britain's Place in the World", *International Affairs*, Vol. 66, 1990, p.687.

<sup>79</sup> *Ibid.*, p.678.

<sup>80</sup> G. Howe, "Why Europe Matters" in M. Fraser (Ed.), *Britain in Europe: The Next Phase*, (Strategems Publishing, London, 1998), p.175.

The Labour dissenters had two key arguments against EMU. Firstly, EMU represented a move on the unilinear drive towards a central European state. For Shore the EU "from the start" set "an unbridgeable gap" between the desire by continental Europeans for a central European state and Britain's own "settled national purpose".<sup>81</sup> Similarly for Field "if we ditch the pound and join the euro that is the end of Britain as an independent country".<sup>82</sup> The other key argument focused on the powers of the ECB and its perceived lack of democratic accountability. For Shore this represented a "hand over for ever the power of deciding interest rates to a wholly independent European central bank whose policies no British government and no British electorate can ever hope to influence or control".<sup>83</sup> For John Boyd, secretary of the Campaign against Euro-Federalism, the ECB deprived the electorate of rights to use the ballot box to remove those who govern us.<sup>84</sup> The campaign against EMU was stepped up in December 1998 by the launch of an anti-EMU pamphlet by Richard Heller (claiming the support of 80 MPs), which argued that VAT would be extended to all goods and even that the NHS might be under threat.<sup>85</sup> These criticisms clearly covered the whole range of the sovereignty questions but stressed the ultimate reality of a centralised European state.

Within the Labour party generally though the anti-EMU voice remained a minority. The TUC generally supported EMU membership though some unions including Unison, the T&GWU and GMB preferred a slower speed toward EMU.<sup>86</sup> Within the parliamentary

<sup>81</sup> P. Shore, Sunday Times, 27/12/1998.

<sup>82</sup> F. Field, Daily Telegraph, 23/11/1998.

<sup>83</sup> Ibid.

<sup>84</sup> J. Boyd, "Just Say No Go", Tribune, 5/2/1999.

<sup>85</sup> Times, 9/12/1998.

<sup>86</sup> Daily Telegraph, 13/9/1998.

party a survey by Baker et al. revealed a general and increasing pro-EMU attitude.<sup>87</sup> Only 22% of the 1997 cohort (compared to a 1996 figure of 30%) "strongly agreed or agreed" with the idea that sovereignty cannot be pooled and only 11% (compared to a 1996 figure of 21%) felt that EMU would signal the end of the UK as a sovereign state. Even more significantly only 20% (compared to a 1996 figure of 42%) felt that Britain should never permit its monetary policy to be determined by an independent ECB. There was also a marked increase in support for a referendum on British membership of EMU from 50% in 1996 to 80% in 1998. In sum, there was a significant increase in pro-EMU feeling.

The wide support amongst Labour MPs for the government's position on EMU can partly be explained by their own beliefs. However, Baker argued that a key factor was also the loyalty of many new Labour MPs to Blair's leadership.<sup>88</sup> They felt that they owed their position partly to Blair and New Labour and were looking for long parliamentary careers. This was reinforced by the cohesion and ruthlessness of the Labour parliamentary machine. The very flexibility of the "prepare and decide" policy allowed most MPs to support the leadership. There was also a feeling that EMU was not a burning issue amongst MPs when compared to say social issues. One MP commented that there had not been much debate in the party and that most would like the issue to go away.<sup>89</sup> There were a minority of MPs who took a keener interest on both sides of the debate. On the pro-EMU side Radice, MacShane, Tam Dalyell, Stuart Bell and Brian Sedgemore were regular contributors. The EMU sceptics, as discussed earlier, were also familiar names. Overall though the majority of the party supported the government's policy.

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<sup>87</sup> D. Baker, A. Gamble and D. Seawright, op.cit., PSA Conference, Nottingham, 25/3/1999. Interviews carried out Spring 1998.

<sup>88</sup> Ibid.

<sup>89</sup> Ibid.

There was then a *core* support for the respective main policies of the two major parties.<sup>90</sup> Around this core were *significant minorities* in both of the main parties. However, on the Conservative side this included many political "heavyweight" figures such as Clarke, Heseltine, Patten, Heath, Howe, Brittan and Dorrell. They may have been, to quote Hague, "ageing former Cabinet ministers", but their opposition remained significant. Another development in 1999 was the formation of the Pro-Euro Conservative party by two former Conservative MEPs, John Stephens and Brendan Donnelley.<sup>91</sup> Norton, in a survey comparing the Conservative parliamentary party before and after the 1997 election, argued that approximately 20% of MPs could be classified as Europhile, 30% as Eurosceptic and 50% as loyal to the leadership, a relatively unchanged balance.<sup>92</sup> The interesting factor about the minorities in both parties was the very resolute nature of their position, which often went further than the positions of the core of the opposing party. In sum, the Conservative minority was very pro-EMU and the Labour minority very anti-EMU. The other interesting point was that the divisions could not be seen in traditional Left/Right terms. On the Conservative side "moderates" such as William Waldegrave and Jim Prior were anti-EMU. On the Labour side "moderates" such as Field and Davies were anti-EMU whilst traditional "Left" figures such as Brian Sedgemore and Tony Banks were pro-EMU. The fissile, pluralistic qualities of EMU spread throughout the main parties but by 1999 the overall polarisation of the debate was becoming clear.

The fissile but polarised nature of the EMU debate was also reflected in a rash of pressure groups which were beginning to form and reform. Whilst these groups were significant in campaigning and organisational terms their influence on policy was limited given that EMU was such a central challenge to British governments. The splintering process was particularly prevalent on the anti-EMU side where a whole network of organisations

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<sup>90</sup> My own attendance at local party meetings on EMU reflected this core support although there was a noticeable difference between the passion of anti-EMU feelings of the Conservative meetings and the tacit pro-EMU acquiescence of the Labour meetings.

<sup>91</sup> Daily Telegraph, 21/7/1999.

<sup>92</sup> P. Norton, "Electing the Leader: The Conservative Leadership Contest 1997", Politics Review, Vol. 7, 1998.

bloomed. Five main groups can be identified. On the Conservative Eurosceptic wing were groups like Spicer's European Research Group and Cash's European Foundation. On the Labour side were the Euro-Safeguards Campaign and the Campaign Against Euro-Federalism. Key non-party groups included Lord Marsh's Business for Sterling and Lord Owen's New Europe. Key "nationalist" parties included the Democracy Movement (for which businessman Sykes had pledged £20 million) and the UK Independence Party. Finally, there were a host of smaller groups such as Save Britain's Fish and the British Weights and Measures Association.<sup>93</sup>

On the pro-EMU side the key groups were more united and established. The main cross-party group was the European Movement. Key spokesmen were Radice for Labour, Menzies Campbell for the Liberal Democrats and Clarke for the Conservatives. On the Labour side the Labour Movement for Europe had the support of approximately 100 Labour MPs.<sup>94</sup> The Conservative groups were more diverse. They included the Tory Reform Group, the Action Centre for Europe and Conservative Mainstream. These groups were co-ordinated under the umbrella group, Britain in Europe. Overall the greater cohesion and co-ordination but more limited range of the pro-EMU groups is significant.

The arguments put forward by Britain in Europe and New Europe reflected the whole range of arguments over EMU used in the party political debate though in a slightly more refined and complete manner. Britain in Europe's central argument was the need for Britain to finally decide whether she was "in" or "out" of Europe. Only "in" Europe could Britain exercise her full influence both in the economic arena of the Euro-X and in the

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<sup>93</sup> Sunday Telegraph, 1/11/1998.

<sup>94</sup> Financial Times, 6/1/1999.

wider arena of the EU.<sup>95</sup> There was also a strong focus on the perceived economic benefits of EMU membership including lower interest rates, lower inflation, price transparency and lower transaction costs. More specifically inside EMU British business would thrive with more investment, lower costs and a competitive advantage. Outside EMU British business would suffer exchange rate volatility and a loss of inward investment. There were specific rebuttals of EMU-sceptic arguments such as a denial that tax harmonisation will occur, a denial that Britain will pay for other countries' pensions and a denial that Europe will take control of economic policy. The key message though was that "out of Europe and Britain is left behind" whilst "inside the single currency Britain will lead in Europe-making Europe work for us, with real influence to achieve reform".<sup>96</sup>

The most significant group to emerge on the EMU-sceptic side was arguably "New Europe" led by Lord David Owen, former Labour Foreign Secretary, and including former ministers Denis Healey (Labour) and James Prior (Conservative). The group claimed to be pro-European but anti-EMU and reflected centrist opinion as opposed to the relative extremes of many other EMU-sceptic groups. The "New Europe" group, whilst originally established as a campaigning group before the European election, primarily focused on developing the key arguments against EMU. Interestingly the main initial focus was on economic arguments with the group working closely with Business for Sterling.<sup>97</sup> Under the theme of "Advantage Britain" New Europe argued that "Britain will be better off outside the single currency". A single currency has no escape route, could lead to tighter regulations, an inappropriate interest rate and a large EU budget to counter regional variations.<sup>98</sup> The political arguments were also stressed though. Firstly, EMU membership would lead "to a major loss of power over our own affairs". Secondly,

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<sup>95</sup> Author's interview.

<sup>96</sup> "Are we in or are we out", Britain in Europe, (Wellington Design, London, 1999).

<sup>97</sup> Author's interview.

<sup>98</sup> Author's interview.

outside EMU the government was answerable to the electorate for its economic policy. Thirdly, the key influence argument was specifically rebutted on the basis of Britain being the fifth biggest economy in the world, a key player in NATO with a major defence capability, a permanent member of the Security Council and a trusted ally of the US.<sup>99</sup>

Owen himself has presented a series of idiosyncratic political arguments around EMU including the widest meaning of political sovereignty. EMU, for Owen, was a "highly political animal" with a destiny of a federal Europe which was not shared by Britain. EMU was the last attempt at a centralised EU model with the ECB being even more secret and unaccountable than the European Commission. Thus, it was "not just economic sovereignty which could be foregone, but political sovereignty as well".<sup>100</sup> The most interesting aspect of Owen's critique of EMU was the linkage made between EMU and British foreign policy. Owen was concerned that EMU could damage relations with the USA both in terms of EMU competing with the US dollar as a global currency and in wider foreign policy questions. Membership of EMU would, in Owen's opinion, sap Britain's "inner confidence" to step outside an EU consensus position. EU foreign policy positions within a euro zone would inevitably "keep policy within the middle of the pack", which would be against Britain's independent interests. Above all, Britain would not be as free to support its traditional ally, the United States, whose decisiveness (on Iraq for example) is contrasted with inconsistent EU policy (on, for example, the recognition of Croatia).<sup>101</sup> In sum, these wide ranging criticisms again stressed the widest political meaning to sovereignty from a relatively moderate spokesperson.

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<sup>99</sup> "Our vision", New Europe, (Merchant Publishing, London, 1999).

<sup>100</sup> Financial Times, 30/4/1998.

<sup>101</sup> D. Owen, "Yes to Europe, No to Federalism", (Unpublished Pamphlet, Jan 1998), pp:21-26; "The Future of the Nation State" (Social Market Foundation, London, 1999).

### **External Dynamics: Euro-X, Tax Harmonisation, EMU a Reality**

Whilst the domestic debate aligned differing conceptions of sovereignty with divergent policies the external dynamics of EMU presented a series of challenges which focused on differing aspects of the "sovereignty questions". The Euro-X grouping was an attempt, led by France, to establish a political co-ordinating body to counteract the institutional powers acquired by the ECB. The debate on tax harmonisation, inspired by German Finance Minister, Oskar Lafontaine, exploded late in 1998, impacting on the crucial area of fiscal sovereignty. The actual, and technically successful, start of EMU in January 1999 led to a degree of self-congratulation and a debate as to the next stage of the political integration process. Each of these external dynamics led to a series of challenges to the Labour government which were met with a variety of responses illustrating the dynamic ongoing debate around the key sovereignty questions.

The Euro-X grouping entered the debate in the autumn of 1997 following Brown's October 1997 statement. It largely reflected French efforts to forge a body for macro-economic co-ordination as opposed to regular meetings of ECOFIN. After the British decision not to join EMU in 1999 the government's aim was to ensure participation in the Euro-X or, at least, minimise the range of issues it dealt with to those strictly concerning EMU issues such as the setting of EMU's external exchange rate policy. At the Luxembourg summit in 1997 Britain had to accept that it could not join the Euro-X given its non-participation in EMU. However, Blair was successful in gaining assurances that the grouping would only deal with internal EMU affairs. The debate continued in 1998 but Blair took advantage of French unpopularity at the Brussels summit in May (following the dispute over the head of the ECB) to gain further agreement as to the limits of the Euro-X. These included assurances that non-EMU states would be involved in preparations for meetings and confirmation of the overall primacy of ECOFIN in economic policy. In this venture Britain was supported by Germany who sought a strong

EMU free from political interference.<sup>102</sup> This development challenged the traditional view of Britain as an "awkward partner" unable to build coalitions. However, the symbolism of Britain's exclusion from the first meeting during the British Presidency was equally significant.<sup>103</sup> The role of the Euro-X grouping was limited for the time being but the external dynamic of EU developments was evident.

Whilst the government was moderately successful in initially resolving the Euro-X dispute it was caught by surprise by the tax harmonisation debate in the autumn of 1998 propagated dramatically by the new German Social Democrat government in the form of the radical Finance Minister, Lafontaine (known as "Red Oskar" to his political opponents). The initial debate was fostered by the Austrian presidency which placed tax harmonisation clearly on the EU agenda. A European Commission "code", launched by Commissioner Mario Monti, aimed at reducing unfair tax competition within the EU continued the debate. The French Finance minister, Dominique Strass-Kahn, sought to turn the voluntary code into a binding commitment.<sup>104</sup> However, it was Lafontaine's intervention that provoked a fierce domestic debate in Britain. A joint socialist document, "The New European Way", strongly advanced by Lafontaine and endorsed by the Labour government called for closer tax co-operation. A Franco-German summit in December 1998 set out further moves to strengthen integration continuing the tradition of the Franco-German "motor" as the central force in EU integration. The communique called for "a stronger co-ordination of economic policies" and a move to "press for rapid tax harmonisation".<sup>105</sup> Even more significant was the suggestion that tax measures should be subject to QMV rather than the national veto.<sup>106</sup>

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<sup>102</sup> Guardian, 1/5/1998.

<sup>103</sup> Independent, 29/4/1998.

<sup>104</sup> Times, 6/10/1998.

<sup>105</sup> Times, 2/12/1998.

<sup>106</sup> Times, 3/12/1998.

The domestic reaction of the Labour government to this spate of tax harmonisation initiatives was sharp. Whilst accepting moves to voluntary tax co-operation and the closing of "loopholes" Brown stressed that Britain would not support wider moves. He argued that "tax decisions will be made in Britain and not in Brussels" and insisted that Britain would "not hesitate to use its veto" to block moves towards further tax harmonisation.<sup>107</sup> This resolute defence of British interests and the threatened use of the veto recalled the language of the Major years. The response of EU politicians was highly critical with Strass-Kahn referring to Brown's threat as "virile" and Lafontaine arguing that he "had been misunderstood on the island".<sup>108</sup> The government had clearly been shaken into a defiant mood by the tax harmonisation debate.

A noticeable feature of the domestic tax harmonisation debate was the way in which a series of seemingly disjointed proposals were threaded into a uniform move to complete tax harmonisation in the EU. The Eurosceptic media undoubtedly played a key part in propagating the debate. The Sun, in characteristically dramatic terms, denounced Lafontaine with the question of "is this the most dangerous man in Europe?".<sup>109</sup> Blair himself counterattacked with a bitter attack on the media coverage of the debate;

"The two weeks in which the tax harmonisation row raged were bizarre. There were screaming headlines, about the Germans setting our taxes, VAT on children's clothes and our veto on tax being abolished...The casualty has been any sense of balance in the debate."<sup>110</sup>

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<sup>107</sup> Times, 24/11/1998.

<sup>108</sup> Times, 9/12/1998.

<sup>109</sup> Sun, 24/11/1998.

<sup>110</sup> T. Blair, Times, 14/12/1998.

Feeling the need to counterattack further Blair enlisted the support of German Chancellor Gerhard Schroder to issue a communique which ruled out the harmonisation of personal taxes and a unified system of corporate taxation (whilst supporting moves to iron out "unfair tax competition").<sup>111</sup> Whilst the tax harmonisation debate probably did generate more "heat than light" it served as an interesting microcosm of the "heat" that may be generated in any future referendum campaign. It also arguably illustrated a "functionalist" tendency for the debate to transfer from the monetary arena of EMU to the much more politically sensitive arena of taxation.<sup>112</sup>

The tax harmonisation debate in the autumn of 1998 was undoubtedly marked by generalities rather than specific proposals. The debate receded temporarily in early 1999 with the resignation of Lafontaine and the entire European Commission. However, there were some specific tax initiatives which illustrated the variety of the issues involved. A proposal to harmonise taxes in the art market was reluctantly accepted by Britain in spite of a net adverse effect on the British art market.<sup>113</sup> However, a move to impose withholding taxes on the Eurobond market evoked a more hostile response. This move was expected to hit the City significantly and led to strong opposition from the International Securities Markets Association. The government threatened to use the veto to block the measures. However, this was very much seen as a last resort and a preferred approach was to circumvent the effect of the proposals by a change in tax legislation. The deadlock on this issue at the Helsinki European Council in December 1999 with Britain again isolated in the EU highlighted the sensitivity of taxation issues.<sup>114</sup> There were also calls for tax havens such as the Channel Islands to be closed to avoid harmful tax

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<sup>111</sup> Times, 10/12/1998.

<sup>112</sup> Former Foreign Secretary Douglas Hurd stressed this argument in answering my question as to the linkage between the two arenas at the Lothian Conference on EMU, November 1997.

<sup>113</sup> Daily Telegraph, 21/1/1999.

<sup>114</sup> Financial Times, 10/12/1999. The proposal was eventually suspended in June 2000. Financial Times, 20/6/2000.

competition.<sup>115</sup> Ironically some of the effects of these varied proposals were contradictory. For example, the Eurobond move would probably benefit the Channel Islands, which are outside of the EU's jurisdiction.

The debate over tax harmonisation in Britain has often seemed at variance with actual developments. The discussion in Chapter 3 illustrated the complexity of the tax harmonisation process. The relevance of the debate in the corporation tax area in particular has arguably been overstated. A study of corporate taxation in the EU by Radaelli stressed the flexibility of global multinationals in minimising their corporation tax liability in any particular jurisdiction.<sup>116</sup> The very political controversy across the EU over detailed tax issues such as the Eurobond tax has delayed further proposals. Both the German and Austrian presidencies, which placed tax harmonisation at the heart of their objectives, failed to make significant progress with other issues such as European defence arrangements after the Kosovo conflict taking centre stage.<sup>117</sup> Arguably taxation issues with their traditional links to territory and democratic representation are of even greater political significance than monetary issues making change more problematic.<sup>118</sup> However, the key argument made here is that the details have tended to be overridden in the politicisation of the tax harmonisation debate, which focused on a prime aspect of the sovereignty debate.

The actual launch of EMU in January 1999 highlighted Britain's marginalisation on EMU and prompted a debate as to future developments after EMU. The launch itself went

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<sup>115</sup> Daily Telegraph, 2/1/1999.

<sup>116</sup> C.M.Radaelli, The Politics of Corporate Taxation in the European Union: Knowledge and International Policy Agendas, (Routledge Publishing, London, 1997).

<sup>117</sup> Author's interviews.

<sup>118</sup> Ibid.

relatively smoothly both in terms of technical financial systems, an avoidance of pre-launch speculative activity and an initial strengthening of the new currency. It signified the realisation of a grand scheme which Major had once referred to as a "rain dance", implying pious hopes rather than actual achievements. In his response to the launch Blair praised EMU and pointed to many of the potential benefits including exchange rate stability, price transparency and lower transactions costs without mentioning any potential drawbacks. This was another signal of the government's warming tone toward EMU. However, there were also symbols of Britain's marginalisation. Brown's decision not to go to the EMU launch celebrations and to send Britain's ambassador to the EU was an interesting symbolic parallel to Britain's decision to send a civil servant to the Messina summit.<sup>119</sup> An even more poignant symbol in terms of scale was the comparison between the high risk launch of EMU and Brown's immediate response, which was to announce a revision of the statistical method for calculating inflation in order to align the measure with the EMU states.<sup>120</sup>

Other than the symbolism of the launch the main effect was to engender a debate as to the EU's next step. The leading EU politicians crowned EMU's launch by stressing its political nature. For Santer, President of the EU Commission, it was "now up to us to see that we embark on the next stage leading to political unity". For the Italian Finance Minister EMU was a "decisive step towards ever closer political and institutional union". Duisenberg stressed that monetary policy, "usually an essential part of national sovereignty will be decided by a truly European institution". The German economy and technology minister emphasised the need for "economic policy co-ordination" and tax reform to meet "the need to eliminate unfair competition".<sup>121</sup> The wider political implications were stressed by proposals for a "Mr Euro" to speak for the Euro-zone in

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<sup>119</sup> Daily Telegraph, 31/12/1998.

<sup>120</sup> Sunday Telegraph, 27/12/1998.

<sup>121</sup> Daily Telegraph, 1/1/1999.

wider international institutions such as the G-7 and the IMF.<sup>122</sup> Domestically the launch of EMU accelerated the debate leading to calls from the Liberal Democrats and the Labour Movement for Europe for a specific entry date.<sup>123</sup> Radice, chairman of the European Movement, argued in dramatic terms that "Britain is in danger of being left out and ultimately left behind".<sup>124</sup> Clearly many of these contributions were the rhetorical marking of an historic event and the future of further integrative moves remained highly uncertain.

After three months the initial successful launch of EMU looked less auspicious following a 10% decline in value against sterling and continued recession in the euro-zone. The EU itself had to face a host of other problems including the resignation of the entire Commission, enlargement and budgetary problems.<sup>125</sup> These problems could, though, paradoxically strengthen integrative moves (as the ERM crisis in 1992 had strengthened resolve to attain EMU). However, as the tax harmonisation debacle in the autumn of 1998 had illustrated, the external dynamic of EU developments, whether in terms of integrative leaps or incremental compromises, would continue to challenge the government's cautious "euro-creep" strategy. Above all, the sovereignty questions of fiscal sovereignty (in the tax harmonisation debate), institutional sovereignty (in the Euro-X grouping) and political sovereignty (in the EMU launch debate) were at the centre of the debate.

### **Internal Dynamics: The 1999 European Election**

The European election of June 1999 represented the first major test of UK opinion since the launch of EMU. The results were both surprising and paradoxical in two main

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<sup>122</sup> Times, 5/11/1998.

<sup>123</sup> Financial Times, 6/1/1999.

<sup>124</sup> Guardian, 1/1/1999.

<sup>125</sup> Sunday Telegraph, 4/4/1999.

respects. Firstly, the turnout in the election at 26% was the lowest turnout for any UK election in the 20th century. Secondly, in contrast to national opinion polls showing a clear lead for the Labour government over the other parties, the Conservative party emerged as the largest single party (with 36% of the vote) pushing Labour (28%) into second place. There was also significant support for the Eurosceptic UK Independence Party (7%) and the Green Party (6%) whilst the Liberal Democrats (13%) vote receded and the new Pro-Euro Conservative party (1%) failed to make any impact.<sup>126</sup> The initial reactions then were of agnosticism and scepticism on European issues though the low turnout necessarily made any psephological conclusions highly tentative. However, the campaign and subsequent reactions confirmed the centrality of British membership of EMU at the heart of the European debate, the continued polarisation of the debate and the continued constraint of the referendum commitment in the light of public hostility to EMU.

The campaign itself was marked by a clear divergence between the two main parties with the Conservatives seeking to make the campaign "a referendum on the pound" whilst Labour sought to focus on domestic issues. The Conservative campaign openly sought to defend the pound under the slogan of "In Europe but not run by Europe". An election communication by Hague made the position very explicit;

"The Labour government and their Liberal allies want to scrap the Pound. Only the Conservatives will fight the next election pledged to oppose the single currency during the next Parliament. So if anyone wants to tell Labour and the Liberals they are opposed to their plans to scrap the Pound, then vote Conservative."<sup>127</sup>

Although the policy remained restricted to the "next Parliament" the strong language of

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<sup>126</sup> Economist, 19/6/1999.

<sup>127</sup> "In Europe, not run by Europe", Conservative Election Communication South East Region, June 1999.

"scrap the pound" was very significant. Whilst the Conservatives were opposed by the new Pro-Euro Conservative party they were assisted by the decision of leading politicians Clarke and Heseltine to remain silent on EMU during the campaign.

The Labour government fought the campaign on a basis of a joint manifesto with other European socialist parties. This document supported EMU which "should make a significant contribution to promoting sustainable growth, low inflation and high levels of employment".<sup>128</sup> In their domestic campaign literature Labour sought to stress the importance of domestic rather than European election issues. Indeed their South East campaign document did not even mention EMU at all.<sup>129</sup> The title of one leaflet "What has Europe ever done for you" was regarded by one Labour MP as being indistinguishable from the claim made by the UK Independence Party.<sup>130</sup> The Liberal Democrats, whilst also focusing on domestic issues, made clear their support for an early referendum on UK membership of EMU based on the need to avoid continued marginalisation between the US dollar and the euro.<sup>131</sup> The Green Party and the UK Independence Party were both opposed in principle to UK membership of EMU.<sup>132</sup>

EMU membership quickly became the central question of the campaign. At the start of the campaign Blair sought to reaffirm the continuity of the government's position on EMU membership by stressing the test of national economic interest based on "real intention" to join a successful EMU provided that "real conditions" were met. He refused

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<sup>128</sup> Party of European Socialists, Manifesto for the 1999 European Elections, p.8.

<sup>129</sup> "Taking a Lead on Europe", Labour European Election Communication South East Region, June 1999.

<sup>130</sup> Author's interview.

<sup>131</sup> Liberal Democrat manifesto for the 1999 European Elections, www.libdems.euro99.cix.co.uk

<sup>132</sup> "Green Votes Count", Green Party European Election Communication South East Region and "Keep the Pound, Leave the EU", UK Independence Party European Election Communication South East Region.

to set an arbitrary time limit for the referendum and sought to focus on domestic issues and Conservative divisions over Europe.<sup>133</sup> In contrast the Conservative campaign openly focused on "saving the pound". Hague declared that "as long I am leader I will never agree to surrendering control of the economy to Brussels", a statement later modified to match official policy.<sup>134</sup> From the pro-EMU angle, Ashdown sought to aim for "clear yellow water" between the Liberal Democrats and Labour, who were "sitting on the fence" on EMU and the Conservatives who were saying to the world "we want to get off".<sup>135</sup> With other smaller parties taking radical positions in favour or against EMU membership the polarisation process had developed significantly.

The development of the campaign was marked by a Conservative offensive designed to place EMU membership at the centre of the campaign and a Labour defence seeking to stop the election becoming a shadow referendum. Portillo emerged from political purdah to accuse the Labour government of submerging British identity in a rush to join EMU.<sup>136</sup> Hague urged voters to "put the country before the party". Blair admitted that were a referendum to be held on EMU membership at this time it would be lost and also admitted that EMU was "a political idea", though British membership would be determined by economic interests.<sup>137</sup> At the Cologne summit in the last week of the campaign Blair sharply defended the government's line on EMU emphasising again the real intention to join if the real conditions were met.<sup>138</sup> The EMU membership issue was then the focus of an albeit lacklustre campaign which was partly overshadowed by the Kosovo conflict.

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<sup>133</sup> Guardian, 20/5/1999.

<sup>134</sup> Independent, 18/5/1999.

<sup>135</sup> Times, 18/5/1999.

<sup>136</sup> Guardian, 9/6/1999.

<sup>137</sup> Guardian, 10/6/1999; Financial Times, 7/6/1999.

<sup>138</sup> Financial Times, 4/11/1999.

## The Aftermath: Political Sovereignty Centrestage

The European election results could be interpreted as either a demonstration of Euroscepticism or Euroagnosticism. For the Conservatives their "save the pound" strategy seemed to be vindicated further marginalising the shrinking pro-EMU minority and strengthening Hague's fragile leadership. The most interesting debate was in the pro-EMU camp focusing on the delayed official launch of the umbrella group, Britain in Europe (BiE). For some in BiE the lack of active leadership by the government was effectively leaving the stage open to the EMU-sceptic campaigners. Leading pro-EMU business campaigner, Niall Fitzgerald, openly urged Blair to attend the launch of BiE. The role of Heseltine and Clarke was also uncertain as they sought to ensure Blair's support before becoming actively involved themselves.<sup>139</sup> A pro-EMU Labour MP argued that Blair and Brown must actively lead the campaign for EMU membership in view of the European election results, which even opened the question of continued UK membership of the EU.<sup>140</sup>

The government's response was initially to reaffirm its pragmatic line on EMU. However, the tensions were clearly below the surface. Alistair Campbell, Blair's press secretary, was reported as saying that he didn't understand the purpose of BiE. He wondered whether it was a campaign about Britain in Europe or the start of the campaign to join EMU as the "two things are entirely different".<sup>141</sup> In contrast, for some in the BiE campaign these two were explicitly linked with the EMU decision being a choice between "working at the heart of Europe or going it alone in isolation".<sup>142</sup> These tensions were reflected in a significant and direct statement by Blair in which he described two

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<sup>139</sup> Financial Times, 17/6/1999.

<sup>140</sup> Author's interview.

<sup>141</sup> Financial Times, 22/6/1999.

<sup>142</sup> Britain in Europe, "Are we in or are we out?", June 1999.

EMU policy positions as "daft". The first was that Britain should join EMU now and the second was the "no, never" attitude of the Conservatives. In contrast the "prepare and decide" policy of the government was the only sensible course. He also stressed the need for wider economic reform of the EU which has been interpreted by some as adding a "sixth economic test".<sup>143</sup> The equal bracketing of pro-EMU supporters with Conservative opponents was a significant development reflecting Labour sensitivity to continued, and even increasing, popular scepticism on EMU membership. An internal Labour report into their poor showing in the European election highlighted the hostility of older, traditional Labour voters to EMU membership.<sup>144</sup>

The tensions between the BiE and the government led to cancellation of the BiE's formal launch in July 1999 until the autumn. After detailed negotiations Blair agreed to support the BiE provided that its aims were modified from being a campaign group for British membership of EMU to the wider issue of supporting British membership of the EU. Mandelson acted as a negotiator to ensure that Heseltine and Clarke would also be aboard the relaunched cross-party campaign. BiE denied that its aims had changed but claimed the summer recess was not an appropriate time for a launch.<sup>145</sup> Clearly the government's "prepare and decide" policy was being reviewed, in the light of the European election, in a more cautious direction. Cook argued that it was "preposterous" to suggest that a referendum after the next election was "inevitable", contrasting Jack Cunningham's statement during the European election campaign that it would be "extraordinary" if the referendum did not take place during the same period.<sup>146</sup> The continued uncertainty over future policy was reflected by speculation that Brown, previously regarded as the most pro-EMU minister, wished to focus on domestic economic issues and was urging a delay

<sup>143</sup> Financial Times, 21/6/1999. See also T. Blair, Europe: The Third Way, 8/6/1999 and G. Brown, Speech to the TUC Conference on EMU, 13/5/1999.

<sup>144</sup> Author's interview.

<sup>145</sup> Financial Times, 13/7/1999.

<sup>146</sup> Daily Telegraph, 21/7/1999; Financial Times, 7/6/1999.

in any future referendum for a number of years.<sup>147</sup> The uncertainty which had marked government EMU policy throughout the decade was again demonstrated.

The “Britain in Europe” campaign launch symbolised the wider focus on Britain’s membership of the EU as opposed to EMU ‘per se’. Announcing formally that he would lead the Britain in Europe campaign Blair denounced the “reflexive anti-Europeanism” of the Conservatives which “has left it lurching down an extremist path and contemplating a complete withdrawal”.<sup>148</sup> For Hague, conversely, the “battle” for the pound was a key political issue of the time;

“Sticking solely to the economics would be a mistake. The debate about the pound is also a debate about Britain’s place in the world and about the place of democracy in Britain.”<sup>149</sup>

Such a statement contrasted sharply with a policy of remaining outside EMU only until the end of the following Parliament. The formal launch of Britain in Europe in October 1999 with Blair flanked by pro-European Conservatives Clarke and Heseltine followed the next day by Hague’s “Save the Pound” campaign symbolised the polarisation in the British debate. Equally significant was the conflation of EMU with the wider question of Britain’s relationship with the EU. Britain in Europe’s mission statement focused on the aim of promoting “public understanding of Britain playing a leading role in the European Union, and of retaining the option to join the single currency in the next Parliament”.<sup>150</sup> In sum, the EMU debate had become inextricably interwoven with the wider debate on British political sovereignty in relation to the EU.

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<sup>147</sup> Guardian, 20/7/1999.

<sup>148</sup> T. Blair, Speech to the London Business School, 27/7/1999.

<sup>149</sup> W. Hague, Daily Telegraph, 27/7/1999.

<sup>150</sup> Daily Telegraph, 15/10/1999.

The other interesting dimension to the EMU debate was the spread of the divided debate to other issues. The Conservatives increasingly saw the government's policy as one of seeking to enter EMU by "stealth". A government decision to replace reserves of gold with euros and dollars was criticised by the opposition as a step toward EMU membership rather than, as the government argued, a rebalancing of reserves. Even the dropping of the £ symbol on the new £20 note was interpreted as a step towards EMU membership by some Conservatives.<sup>151</sup> Similarly debate over possible exchange rate targets for the Bank of England given the strength of sterling was interpreted as a possible or desirable move toward EMU membership.<sup>152</sup> Public divisions within key institutions were also evident. In the Bank of England Eddie George's admission to the Treasury Select Committee that EMU membership was "an act of faith" contrasted with Willem Buiter's argument that staying out of EMU was an "expensive luxury" to maintain sovereignty.<sup>153</sup> Treasury civil servant Nigel Wicks took the unusual step in penning an article arguing that EMU would not have wider economic and political implications.<sup>154</sup> Finally, an exchange of letters between retired diplomats over the question of British influence arising from EMU membership served to further illustrate the divisive nature of the EMU debate throughout the political establishment.<sup>155</sup>

The divisive debate was also illustrated by growing tactical divisions within the government. This tension was captured by the paradox between the emphasis on the need for political influence arising from EMU membership whilst arguably tightening the

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<sup>151</sup> Times, 28/6/1999.

<sup>152</sup> Times 19/5/1999.

<sup>153</sup> Financial Times, 17/6/1999.

<sup>154</sup> Financial Times, 17/5/1999.

<sup>155</sup> Sunday Telegraph, 4/7/1999.

economic conditions. In an intriguing personal switch Foreign Secretary Cook in Japan openly espoused the political influence argument, whilst Chancellor Brown stressed the continued economic conditions.<sup>156</sup> This switch of positions may have reflected internal Labour cabinet politics, bureaucratic politics between the Treasury and the Foreign Office or, more probably, tactical positions. Cook argued that the government could not go through the next election campaign without issuing an update on the five economic tests, whilst Brown wished to emphasise the government record on the economy.<sup>157</sup> Cook was joined by Mandelson and new Industry Secretary Stephen Byers in stressing the political and economic advantages to EMU. However, Brown, in his annual Mansion House speech, reasserted his position that "the tests, for which this Government and *this Treasury* is the guardian are real".<sup>158</sup> Nevertheless the longer-term goal of achieving EMU membership remained government policy subject to achievement of the five economic tests.

Overall the aftermath of the 1999 European election was marked by a continuing divergence between the two main parties in terms of the discourse. Ironically though continued pragmatism by both parties, especially by the government given its reluctance to set a date for a referendum, meant that the policy divergence had stabilised. Indeed given increased government caution there could even be a convergence of policy if a referendum was delayed beyond the following Parliament. The debate had become focused on the political sovereignty question of the nature of Britain's relationship with the EU. For Blair, whilst sticking to the "prepare and decide" policy, the "crusade" had begun against the anti-Europeanism (not just Euroscepticism) of the Conservatives and sections of the media.<sup>159</sup> This represented a tactical change to focusing on affirmation of Britain's place within the EU prior to openly campaigning for EMU entry.

<sup>156</sup> Financial Times, 24/9/1999.

<sup>157</sup> Times, 17/1/2000.

<sup>158</sup> G. Brown, Speech at the Mansion House, 15/6/2000. My italics.

<sup>159</sup> T. Blair, Speech to the London Business School, 27/7/1999.

Blair's position reflected continuing public hostility to British membership of EMU captured in the MORI/Salomon Smith Barney survey. From the summer of 1999 there was a marked increase in overall hostility with the margin of respondents opposed to EMU membership increasing to 31% in July 1999, a trend that continued at a figure of 29% in November 1999.<sup>160</sup> The government implicitly recognised the popular scepticism. Mandelson acknowledged that the government strategy of downplaying political and constitutional arguments on the EMU issue was a "mistake".<sup>161</sup> As seen Blair acknowledged, prior to the European election result, that a referendum could not then be won. In a later TV interview he acknowledged that the British people were opposed to EMU membership, stressed that he would not "bounce" Britain into a referendum shortly after an election victory and admitted that it could take "several years" to turn opinion around.<sup>162</sup> He even explicitly acknowledged the strength of the finite sovereignty argument put forward by opponents of EMU membership. In a speech, which argued that Britain was a "pivotal" power between the USA and the EU, he admitted that the political debate was;

"...absolutely saturated with the notion that wherever Britain co-operates with...Europe it is somehow yielding up its national sovereignty. *This argument is powerful. It plays to the instinctive dislike of change.*"<sup>163</sup>

Here was an explicit admission by the Prime Minister on the influence of a specific discourse of sovereignty on the wider public debate.

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<sup>160</sup> [www.mori.co.uk](http://www.mori.co.uk), Report January 2000.

<sup>161</sup> Financial Times, 16/11/2000.

<sup>162</sup> Financial Times, 17/1/2000.

<sup>163</sup> Guardian, 23/11/1999. My italics.

## Conclusions

The post-election period provided an environment in which a clear policy divergence developed between the two main parties. A broad pattern was emerging. The cores of both parties coalesced around distinctive policies. For the Conservatives this meant staying out of EMU for two Parliaments. For Labour EMU was supported in principle but with a "prepare and decide" policy at some future date when the five economic tests were met. Around the core significant minorities in each party remained strongly opposed to official policies. The polarisation was reflected in the formation of a wide range of groupings providing the foundations for any future referendum campaign.

The policy divergence was now clearly aligned with the conceptions of sovereignty formulated by both parties. The Conservative position utilised an absolutist conception of sovereignty which was very difficult to reconcile with future EMU membership. The speeches of Hague and Portillo argued that EMU was seen as undermining key aspects of the four sovereignty questions; monetary, fiscal, institutional and political. It was difficult to reconcile Hague's speeches with future membership at any time, let alone within two Parliaments. The aim was to create "clear blue water" with the government but also succeeded in creating "clear blue water" with the Conservative pro-European minority.

The Labour government explicitly placed economics as an important factor in their policy on EMU in the form of the five economic tests. However, these tests were extremely subjective. The detailed analysis of the tests by the Treasury Select Committee illustrated their subjective nature. The conclusion of the Committee that the Treasury should set out more precisely the way in which the tests would be assessed reflected their vague nature. Whilst the Labour government explicitly stressed economics the construction of the tests

themselves presented a barrier to the articulation of the perceived economic advantages of EMU. In sum the economics of EMU in government discourse remained uncertain throughout this period. The decision to remain outside of EMU "for this Parliament" reflected the political dimension of EMU policy. Blair's admission that a referendum could not be won and the decision to focus on pro-EU rather than pro-EMU arguments in the Britain in Europe campaign reflected the continued resonance of the politics of sovereignty.

Electoral considerations affected the timing of the policy changes in 1997. The government moved to set policy for the entire Parliament free from immediate electoral concerns. The landslide defeat for the Conservatives allowed the majority anti-EMU forces within the party to take over the leadership of the party and definitively change policy in an anti-EMU direction. However, Labour's continued promise of a referendum effectively transferred the EMU issue away from general election politics. Continued public scepticism reflected in opinion polls and the 1999 European election results reinforced the continued delay and caution epitomised by the referendum decision. The Conservatives took an increasingly robust anti-EMU line. Throughout the period the EMU policies of the two main parties continued to slowly diverge marked by the formation of EMU-specific groupings. There was no moderation of EMU policies for electoral reasons in the pre-2001 election period.

The Labour government developed a long-term policy toward eventual EMU membership in alignment with a conception of sovereignty. The policy was sufficiently flexible to adapt to possibly changed circumstances in the future either externally (such as problems with EMU itself) or internally (such as continued underlying EMU-scepticism in public opinion). However, in examining the discourse the bias in favour of eventual EMU membership seemed to be increasingly clear. Whilst the New Labour

government approached Europe with a good deal of rhetoric on "leading Europe" and "people's Europe" there was arguably a clear underlying policy. Likewise, underneath the rhetoric of globalisation and modernity there was an underlying discourse on sovereignty. This discourse focused on pooling or sharing sovereignty. Given this discourse a move to EMU could be rationalised with the continued maintenance of sovereignty. Indeed a subtext to the main argument was that sovereignty, in terms of influence, could actually be increased by EMU membership. This could apply to all of the sovereignty questions though it was denied that EMU would necessarily challenge sovereignty outside of the monetary sector. Most significantly the government had explicitly declared that there was no constitutional barrier to British membership of EMU.

The polarisation of the debate was marked by the fact that EMU had become a symbol of the wider relationship between Britain and Europe. The political sovereignty question had become the central focus of the debate. For the Conservatives EMU was an unacceptable challenge to political sovereignty epitomised in their "Save the Pound" campaign. For the Labour government it was necessary to reassert the overall benefits of the EU prior to focusing on EMU membership. The changed priorities of Britain in Europe at its official launch following Labour government pressure were indicative of this tactical switch.

Whilst the Labour government's conception of sovereignty allowed EMU membership it was ironic that the policy was constrained by an earlier manifestation of the sovereignty debate. The decision to make EMU membership subject to a popular referendum in 1996 was an implicit recognition of the importance of the EMU issue and of the significance of popular sovereignty. The ultimate authority or sovereignty on British membership of EMU was to reside with the British people. Whilst the decision to accede to a referendum in 1996 was triggered by party political factors the referendum commitment had been reaffirmed many times during both the 1997 general election and in subsequent

statements. It is indeed one of the ironies of the Labour government policy that, whilst stressing that referendums should be reserved for constitutional issues such as devolution and electoral reform, they explicitly deny a constitutional barrier to British membership of EMU. Given the consistent polling data against EMU, the results of the 1999 European election and a generally Eurosceptic media the referendum commitment placed a clear constraint on the development of a more favourable pro-EMU policy in the short-term. In this manner the discourses of sovereignty were not only aligned with the policies of the two parties but were actively influencing these policies.

## **CHAPTER 7: BRITISH BUSINESS PERSPECTIVES ON EMU**

### **Introduction**

The purpose of this chapter is to analyse the British business debate over membership of EMU. The central question addressed in this chapter is to what extent has there been an alternative business debate outside of the political sovereignty debate? Clearly the two debates are interrelated but it is possible to distinguish a business debate, focused on the economic attributes of EMU, from a political debate centred around sovereignty. The business debate over British membership of EMU has developed in a complex manner since the Major government negotiated the "opt-out" provision in the Maastricht treaty. The argument put forward in this chapter is that the business debate has largely been subordinated to the political sovereignty debate. Indeed there has not been a clear alternative discourse in the business arena which has unduly influenced government policy on EMU. The business debate has been marked by a heterogeneity of views and a demand for certainty in policy as opposed to its direction. A functional trend in favour of British membership of EMU was evident over time but has yet to significantly influence policy. The general "wait and see" policy followed by both the Conservative and Labour governments, partly engendered by the sovereignty debate, created an uncertain environment for business.

This chapter will focus on the business debate on EMU in four main areas. Firstly, an overview of the wider business debate in Britain amongst leading peak business organisations will be discussed prior to and, in the immediate aftermath of, the 1997 general election. Secondly, the perceived polarisation and deepening of the business debate after the 1997 election will be considered. Thirdly, the salient feature of the prevailing uncertainty in the business debate will be discussed. Finally, in the light of the above debate, the detailed EMU arrangements of two large British companies with which I was involved will be discussed.

## **The Business Debate: 1992-1997**

Within Britain the conventional approach to studying the relationship between business and politics has been to focus on the attitudes of the peak business organisations such as the Confederation of British Industry (CBI), the Institute of Directors (IoD) and the British Chambers of Commerce (BCC). With the accession of the Conservative government in 1979 there was arguably a fundamental change in the nature of the business-government relationship away from the corporatist relationship to one where interest groups were largely ignored in the government decision making process.<sup>1</sup> An alternative view was that the nature of business representation changed toward contacts with individual companies as opposed to peak business organisations.<sup>2</sup> In addition, the role of industry specific trade associations also needs to be taken into account.<sup>3</sup> In sum a wide range of channels need to be considered in analysing the business-government dialogue over EMU.

What overall influence does business exercise in relation to government in Britain? The primary emphasis in this chapter is the debate within business towards EMU rather than business-government relations. However, the question of the influence of business in Britain remains a pertinent one. There can be little doubt that business exercises considerable economic leverage but the translation of this leverage into the political arena is more problematic. Grant argued that;

"...Britain has a business sector in which there is an increasing concentration of economic

<sup>1</sup> See B. Jones (Ed.), Politics UK, (Macmillan Press Limited, Basingstoke, 1994); B. Coxall and L. Robins, Contemporary British Politics, (Macmillan Press Limited, Basingstoke, 1994); I. Budge and D. Mackay (Eds.), The Developing British Political System, (Longman Publishing, Harlow, 1993).

<sup>2</sup> W. Grant, Business and Politics in Britain, (Macmillan Press Limited, Basingstoke, 1994).

<sup>3</sup> See T.C. May, J. McHigh and T. Taylor, "Business Representation in the UK", Political Studies, Vol. 46, No. 2, June 1998.

power, but business remains politically weak."<sup>4</sup>

This relative political weakness lies in the multiple channels used and the very diversity of the business sector in terms of company size and interests. In the parliamentary arena Judge argued that, whilst Parliament has maintained the legitimacy of the industrial process (by supporting free market ideas), it has failed to effectively represent its functional interests.<sup>5</sup> I will argue that the debate over EMU supported Grant's basic thesis as to the relative political weakness of business. However, on EMU this relative political weakness was also exacerbated by the absence of a cohesive policy position.

The business debate on EMU was far more varied than commonly portrayed in the British media where there was often an implicit assumption that business is generally pro-EMU. The views of the CBI developed slowly over time toward a more pro-EMU position. Kate Barker, an economist at the CBI in a submission to the Kingsdown Enquiry in 1995, argued that industrialists had not focused on intangible issues such as sovereignty but on more practical issues such as the costs and benefits of EMU.<sup>6</sup> The benefits were perceived in the longer term to be a better macro environment for trade and investment. However, there were reasons for caution including potential fiscal transfers, the need for labour flexibility and the volatility of British interest rates.<sup>7</sup> In sum, there was an overall perceived economic benefit of EMU ignoring political considerations. However, in 1995 these views were expressed in a very cautious manner;

"While there is still uncertainty about the process of transition, CBI members support the government in maintaining its option on EMU, but consider it important that this is

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<sup>4</sup> W. Grant, Business and Politics in Britain, (Macmillan Education Limited, Basingstoke, 1987).

<sup>5</sup> D. Judge, Parliament and Industry, (Dartmouth Publishing Company, Aldershot, 1990), p.2.

<sup>6</sup> K. Barker, "EMU and Industry" in C. Taylor, European Monetary Union: The Kingsdown Enquiry, (Macmillan Press Limited, London, 1996), p. 241.

<sup>7</sup> Ibid, p.243.

thought of as an opt-in as much as an opt-out."<sup>8</sup>

This trend was reemphasised during evidence given to the Treasury Select Committee in 1996 by Adair Turner, the Director General, and Barker. The memorandum presented to the Committee urged the need for a steer from government as the CBI felt that it was "totally in the dark".<sup>9</sup> They stressed the need for guidelines on a variety of factors including the prospects of Britain meeting the Maastricht convergence criteria, other relevant economic criteria, the likelihood of other EU member states joining EMU in the first wave, the dependence on a clear legislative framework and the degree of popular support needed for British membership. The CBI also argued for a "national steering structure" to act as a focal point in the education process for EMU. In an ironic but perceptive comment they stated that they realised that the chance of obtaining clear guidelines was an "unrealistic hope".<sup>10</sup>

The CBI were pushing for a government lead partly because their own views were at that stage unclear. Turner admitted that the CBI were hedging their position as a unified view had yet to emerge with a nuance, though not wide, in views between large companies which tended to favour EMU and small companies which tended to be opposed.<sup>11</sup> Whilst admitting that uncertainty was bad for business Turner developed this theme by arguing that the abolition of exchange rate uncertainty was "the fundamental argument" for joining EMU.<sup>12</sup> However, he personally favoured entry based on tight convergence

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<sup>8</sup> Ibid., p.244.

<sup>9</sup> HC 283 iv 1995/6, Treasury Select Committee, The Prognosis for Stage 3 of Economic and Monetary Union, 25/3/1996, p.48.

<sup>10</sup> Ibid., p.49.

<sup>11</sup> Ibid., Q182.

<sup>12</sup> Ibid., Q239.

criteria rather than the "1999 or never" argument.<sup>13</sup> An interesting comment arose during a discussion of the surveys carried out by the CBI when one of the Select Committee members, asked Turner the reasons for the CBI "sitting back" on such a major national issue and "waiting for the next questionnaire". The reply came that the CBI "was not a dictatorship" and had to consult widely with its members.<sup>14</sup> This episode reflected the cautious approach of the CBI towards the political forces underlying EMU, rather than seeking to influence these forces, and the continuing uncertainty within its own membership.

The very cautious pro-EMU position of 1995 and 1996 had changed markedly by the November 1997 CBI conference. This closely reflected the move in the position of the Labour government in its October 1997 statement from a policy of "wait and see" to "prepare and decide". However, it was not until July 1997, after the General Election and following a four month consultation period, that the CBI finally came out openly in favour of EMU when the economic conditions were right. During the 1997 general election campaign the CBI stuck steadfastly to its own "wait and see" policy, in spite of speculation that they were moving toward a more pro-EMU position. In April 1997 a controversy had arisen over the three options being considered in the CBI consultation paper. The CBI Eurosceptics argued that these three options were all in favour of joining EMU when they were actually not joining at all or in the "foreseeable future" (seen as at least ten years), joining as soon as practicable and joining in the medium-term.<sup>15</sup> Colin Marshall, president of the CBI, wrote a letter to the Financial Times expressly denying that the CBI was set to back EMU.<sup>16</sup> The long gestation period before the CBI's eventual pro-EMU position (albeit when conditions were right) reflected the wide range of opinions within its membership on the EMU issue.

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<sup>13</sup> Ibid., Q244.

<sup>14</sup> Ibid., Q245.

<sup>15</sup> Guardian, 26/4/1997.

<sup>16</sup> Financial Times, 23/4/1997.

The eventual declaration of support for EMU by the CBI in July 1997 was hedged by the pragmatic position that Britain should only enter when the time is ripe, a clear reflection of the Labour government's view. Turner emphasised the economic basis of the CBI's decision in an interesting passage of an article outlining the CBI's new policy after a long period of "sitting on the fence";

"For some EMU is primarily a political question. Some believe it a necessary precursor to a desirable political union; others a threat to national sovereignty. And it would be absurd to deny that EMU has a political dimension. But I think some of the arguments are overplayed. National economic sovereignty is severely constrained by the facts of economic life. The issue is how to maximise economic success, not the illusion of national control. It is on the economic arguments for or against that we need to focus,"<sup>17</sup>

The positive economic case stressed by Turner included exchange rate stability, price transparency, a single European capital market and completion of the Single Market. However, the requisite conditions included sustained economic convergence and labour market flexibility. In January 1998 the new president-elect of the CBI, Clive Thompson argued in a similar positive manner that EMU would be good for Britain;

"What the single currency represents is the opportunity for stability, the opportunity for lower interest rates which in turn means growth in levels of employment, which is good for everyone."<sup>18</sup>

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<sup>17</sup> Adair Turner, *Financial Times*, 23/7/1997.

<sup>18</sup> *Independent*, 26/6/1998.

The pragmatic pro-EMU position, however, also highlighted the perceived fear of Britain being outside of EMU rather than the positive case of membership. Turner, in an interview in November 1997, stressed the importance of flexible labour markets as much as EMU membership. Other arguments included the myth that the exchange rate can be a useful economic weapon. In particular there was a denial that Britain's membership of the ERM was an unmitigated disaster with the blame being laid more with the "Lawson boom" of 1986-1989, when lax macroeconomic management overheated the economy. The key argument though was that there are "significant dangers" of being out in the longer term. This led to a difference with the Labour government position in urging the retention of an option of joining in 2001 or 2002 during the same parliamentary term.<sup>19</sup> A similar practical argument advanced was that British business will adopt the Euro 'de facto' even if Britain stays outside EMU.<sup>20</sup>

The eventual pragmatic pro-EMU position of the CBI masked some clear divergences within the CBI over EMU. On the one side were clear pro-EMU supporters such as Niall Fitzgerald (chairman of Unilever) and David Simon (former chairman of BP) and on the other equally clear opponents including Stanley Kalms (chairman of Dixons) and Lord Hanson. A letter to the Sunday Times in January 1997 signed by eighteen top businessmen argued that EMU could "be disastrous for Britain".<sup>21</sup> These divergences became clear during a debate at the November 1997 conference. Fitzgerald argued that Britain should not continue the policy of "missed chances" in Europe which had done "terrible damage to British interests and influence". Britain should join EMU at the earliest opportunity and business should take a vigorous approach to promote the benefits of EMU. In contrast, Kalms argued that EMU would impose further crippling burdens on British business and lead to a federal superstate.<sup>22</sup> This would lead to drastic

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<sup>19</sup> Guardian, 6/11/1997.

<sup>20</sup> Independent, 6/11/1997.

<sup>21</sup> Sunday Times, 19/1/1997.

<sup>22</sup> Daily Telegraph, 11/11/1997.

consequences;

"Membership of a single currency would be irreversible, irrevocable and irretrievable. The nearest analogy is castration: our voices may be pitched higher in the councils of Europe but only at the cost of our economic virility."<sup>23</sup>

From a more moderate EMU-sceptic viewpoint Martin Taylor, then chief executive of Barclays bank, argued that EMU would inevitably lead to a federal tax system and an increased EU budget in order to meet the resulting high regional unemployment.<sup>24</sup>

The differences within the senior ranks of the CBI raised the question as to the extent to which the CBI represents business opinion. The CBI claimed 250,000 members, though many are affiliated through trade associations. The Eurosceptics have argued that the CBI failed to represent the broad mass of its members and was dominated by large business interests. Kalms argued that on EMU the CBI had been "hijacked" by the "loudest voices" which explained its pro-EMU policy.<sup>25</sup> The CBI annual surveys of its membership on EMU have attracted a wide degree of criticism from a variety of sources. An Independent article argued that the questions were never the same twice and "are asked to elicit the biggest yes vote".<sup>26</sup> In its survey prior to its November 1997 conference the CBI claimed that 72% of its respondents supported EMU "as soon as economic convergence is in place" with only 16% against. However, replies were received from only 30% of the 2,441 companies polled. Wagstyl of the Financial Times argued that the CBI should let an independent pollster manage its EMU polls.<sup>27</sup> A MORI

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<sup>23</sup> Independent, 11/11/1997.

<sup>24</sup> Financial Times, 11/11/1997.

<sup>25</sup> Sir Stanley Kalms, Sunday Telegraph, 9/11/1997.

<sup>26</sup> Independent, 14/11/1997.

<sup>27</sup> Financial Times, 13/11/1997.

poll of 5,000 companies in 1996 found 56% of business in favour in principle of British entry in principle.<sup>28</sup> A Gallup poll for the Daily Telegraph showed 61% in favour of British membership and 39% opposed which they concluded revealed "widespread but shallow" support for EMU.<sup>29</sup> In the same survey over half of the businessman surveyed feared a similar outcome to the ERM debacle. These surveys lent some putative support to the CBI survey and to the CBI's general view on EMU. However, even if the majority of British business was pro-EMU it was clear that a substantial minority remained opposed or agnostic.

The British Chambers of Commerce (BCC), which claimed to represent over 200,000 businesses the majority of which have less than 20 employees, took a slightly more restrained approach to EMU than the CBI. In a memorandum to the Treasury Select Committee they argued that the relative balance of costs and benefits on EMU were not conclusive and, hence, they were agnostic about EMU. They, therefore, proposed the establishment of an independent committee to hear evidence and distribute impartial information.<sup>30</sup> Two key points arose from their evidence to the Committee. Firstly, they stressed unequivocally that there will be winners and losers in the process which leads to the need to get away from the use of the generic term "business". The other key element was the continued stress on uncertainty;

"It is extremely difficult to plan for a single currency whilst so many uncertainties remain."<sup>31</sup>

This uncertainty was clarified more fully by Mr. Geldard (President) when, under questioning, he identified three types of uncertainty which had "frustrated" his members.

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<sup>28</sup> Ibid.

<sup>29</sup> Daily Telegraph, 10/11/1997.

<sup>30</sup> HC 283 iv, 1995/6, Memorandum presented by British Chambers of Commerce, 1/1/1996, p.64.

<sup>31</sup> Ibid. p.69.

These were the political uncertainty as to EMU itself (including British membership), the financial uncertainties (especially in relation to the changeover costs), and the sheer complexity of the transition process (exacerbated by the lack of proper practical information). In sum, he concluded that "uncertainty is very damaging" and "it is the leap in the dark" which surrounds EMU.<sup>32</sup> The discourse itself was very apposite with the Chambers calling for the whole issue to be "depoliticised" with the view that since the ratification of the Maastricht treaty there had been little meaningful debate.<sup>33</sup> The BCC eventually followed the CBI move to open support for EMU in principle, though in a more cautious manner, in September 1997. They outlined their policy of support for eventual EMU membership on the basis that the "UK's long-term economic interests are best served through its membership of EMU".<sup>34</sup>

The other major business organisation is the Institute of Directors (IoD). The IoD traditionally represented smaller businesses than the CBI (claiming a similar membership of 250,000). These smaller businesses inevitably saw the short-term costs of EMU as opposed to any potential long-term benefits. The IoD's political view is very free market and anti-regulation. On EMU its position from the start was very clear being against EMU for the "foreseeable future", which meant many years.<sup>35</sup> The IoD's reasons for staying out of EMU were primarily economic, especially the perceived key structural differences between the British economy and the economies of other EU members. These included the larger importance of the energy and service industries in Britain, the shorter term structural basis of British debt, the volatility of British interest rates and an economic cycle more akin to the US than the rest of the EU. However, they also pointed to the wider case that EMU, in their opinion, was essentially a political move which will

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<sup>32</sup> Ibid., Q265, Q291 and Q292.

<sup>33</sup> Ibid., p.69.

<sup>34</sup> British Chambers of Commerce, "Policy Brief: European Monetary Union", September 1997.

<sup>35</sup> Tim Melville-Ross, Daily Telegraph, 24/4/1997.

lead to fiscal union and arguably political union.<sup>36</sup> The definitive opposition of the IoD to EMU led to a clash of opinion with the CBI during the 1997 election campaign as the CBI veered slowly toward a more pro-EMU position. Lord Young, former Conservative minister during many confrontations between the Thatcher government and the CBI in the 1980s and then IoD President, attacked the CBI for seeing EMU as the "easy way" out. A constant IoD theme was the need for big companies to look beyond their own corporate interest to the wider economy.<sup>37</sup> Not surprisingly IoD surveys of its membership have tended to confirm overall opposition to EMU.

An Andersens survey of 26 senior executives of multinational businesses based in London in Spring 1995 shed greater light on the detailed attitudes of key business leaders at that time. The survey was not necessarily representative and excluded small and medium-sized businesses. There was a perceived benefit from Britain joining EMU in terms of providing a stable business environment but in particular that British industry would face greater disadvantages if Britain were to choose not to join EMU.<sup>38</sup> Whilst predominantly concerned with economic issues it was interesting to note that amongst the potential disadvantages of EMU were aspects of sovereignty. In the area of the potential loss of monetary sovereignty one business executive was quoted as follows;

"Business would be unable to lobby for appropriate monetary policies, if this is a disadvantage."<sup>39</sup>

There was also a significant minority which supported the hypothesis that Britain's economic position was significantly different from the Continent and that the ECB would

<sup>36</sup> HC 283 II 1995/6, Evidence given by Ruth Lea (Head of the Policy Unit) and Tim Melville-Ross (Director General) to the Treasury Select Committee, The Prognosis for Stage 3 of Economic and Monetary Union, Q729-730.

<sup>37</sup> Tim Melville-Ross, Director-General, "Directors and CBI slug it out on the euro", The Daily Telegraph, 24/4/1997.

<sup>38</sup> Andersen Consulting, "The Impact of European Economic and Monetary Union on British Industry" in C. Taylor (Ed.), European Monetary Union: The Kingsdown Enquiry, (Macmillan Press Limited, London, 1996), p.251.

<sup>39</sup> Ibid., p.256.

be unlikely to follow a policy which would be beneficial for British industry. However, whilst there were some concerns as to the loss of an independent monetary policy, the prominent concern was that Britain would lose influence from remaining outside EMU, reflecting the "influence" as opposed to the "sovereignty" discourse. This even led 15 of the 26 business executives interviewed to feel that the EU could apply covert protectionist measures if Britain did not join EMU.<sup>40</sup>

### **Post-1997 General Election Polarisation?**

In spite of the long gestation period in which the peak business organisations developed their views on EMU there was a polarisation of views on EMU following the 1997 General Election. This polarisation included the beginning of nascent organisational frameworks reflecting a similar trend to the organisational polarisation in the political arena. These represented not just the split between the CBI and the IoD but EMU-specific pressure groups which sought to put forward the views of business on EMU. It should be emphasised that the divisions on EMU did not generally reflect the overall views of business on the EU in general. Business was generally in favour of the Single Market in particular and was also united against extensive social provisions arising from the Social Chapter and the perceived "excesses" of regulations from the European Commission. Nevertheless most of the business peak organisations sought to influence affairs directly through representation in Brussels (especially the BCC), using informal business networks such as European Business Agenda.<sup>41</sup> These increasing networks led Greenwood and Stancich to conclude their study of business attitudes to the EU as;

"...British business is likely to become more socialized and integrated into mainstream European values."<sup>42</sup>

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<sup>40</sup> Ibid., p.273.

<sup>41</sup> J. Greenwood and L. Stancich, "British Business: Managing Complexity" in D. Baker and D. Seawright (Eds.), Britain For and Against Europe, (Oxford University Press, Oxford, 1998), p. 163.

<sup>42</sup> Ibid., p.164.

The nascent organisational frameworks included participation in the Britain in Europe campaign group.<sup>43</sup> On the anti-EMU side the formation of the group "Business for Sterling", led by Lord Marsh, provided the organisational framework for the business anti-EMU campaign. These polarised groupings were reflected in the vigorous views propounded by EMU business proponents and opponents, the discourse of which was evident by letters published in the national press in 1998. The "Business for Sterling" campaign was launched in June 1998 with an open letter in the Times. The main arguments stressed were the economic differences between Britain and the rest of the EU. These included structural differences such as the relative volatility of British interest rates and the idea that the timing of Britain's economic cycle was necessarily different to the rest of the EU. In addition, general economic arguments militated against EMU such as the lack of labour mobility throughout the EMU area and moves to fiscal and tax harmonisation. Underlying the economic arguments was the notion that EMU was a political move leading to excessive integration;

"EMU is essentially a project of political integration...For Britain, with its special trading, investment and financial patterns, the risk of jeopardising our competitive edge through excessive integration remains too high to be acceptable."<sup>44</sup>

Writing in reply to the news that the CBI was to cancel its 1998 annual survey on EMU representatives from the "Business for Sterling" pressure group launched an open attack on the CBI's EMU policy. The strength of their opposition was clear in the following phrase;

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<sup>43</sup> Times, 9/10/1998.

<sup>44</sup> Times, 11/6/1998.

"We believe that Britain is in danger of being bulldozed into what could at worst be a disastrous decision."<sup>45</sup>

This was backed by a claim that concern about the dangers of British membership of EMU was shared by business persons from every section of British industry and commerce. The CBI were regarded as seeking to deny a public debate on EMU. The letter was signed by Lord Marsh, Michael Edwardes, John Craven, Rodney Leach, Malcolm McAlpine and Lord Young.

From the pro-EMU camp a letter was published in the Financial Times on 23 November 1998 co-ordinated by the European Movement and containing 114 signatories. This letter argued both a positive and negative case for British membership of EMU. The positive case argued that EMU would be a force for economic stability and would promote trade, investment and economic growth. However, equally significant was the negative case for British membership;

"A decision to remain outside the single currency indefinitely, on the other hand, would pose a serious threat to our future prosperity and to our influence in the world."<sup>46</sup>

Prosperity would be impacted by higher interest rates and a more exposed currency. Influence would be reduced by exclusion from the Euro-X grouping. This led to the conclusion that the best economic interest would be served by joining soon after EMU is established and the best policy was based on the assumption that Britain will join. The letter was signed by representatives from 29 of the FT-SE 100 companies highlighting the support for British membership of EMU from the larger companies and also by several representatives from key inward investing companies. However, it should be pointed out that the signatories signed in a personal capacity as opposed to their corporate

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<sup>45</sup> Daily Telegraph, 7/9/1998.

<sup>46</sup> Financial Times, 23/11/1998.

capacity. It was arguably the most significant pro-EMU business statement and represented a hardening of business opinion on the eve of the launch of EMU. However, given the continuing opposition to British membership of EMU it failed to deliver a "knock-out blow".<sup>47</sup>

The perceived polarisation of the debate was also present at the CBI conference in November 1998. Following the acrimonious debates at the 1997 conference the decision was taken not to hold a major debate on EMU during the main session and to defer a survey of member companies attitudes on EMU.<sup>48</sup> However, the speeches by Chancellor Brown and Industry Secretary Mandelson at the start of the conference seemed to indicate a possible change in the government's attitude toward EMU to one of "when rather than if" Britain would enter EMU (though it was later denied that the policy was changed at all).<sup>49</sup> In addition the looming launch of EMU in continental Europe was underlined by speeches from the new German Chancellor Schroder, and the Spanish Premier Aznar urging British entry into EMU. These speeches set the tone for the conference though the message from the CBI was consistent in the call for more certainty from the government. Clive Thompson, the CBI president, argued that;

"There isn't enough leadership being given by the Government in terms of preparation for the euro...We are not at all prepared in this country to the extent we should be and this would be helped by the Government setting a date."<sup>50</sup>

The internal CBI debate over EMU was relegated to a fringe debate which, whilst fiery, was a reflection of the CBI leadership's attempt to downplay the EMU issue at the

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<sup>47</sup> Financial Times, 23/11/1998.

<sup>48</sup> Daily Telegraph, 4/11/1998.

<sup>49</sup> Ibid.

<sup>50</sup> In Ibid.

conference given the perceived polarisation of business attitudes toward EMU. Adair Turner, the CBI director-general, argued that there had been a polarisation between those who were definitely anti-EMU and those who were not just in favour in principle but wanted to also "get on with it as soon as possible". However, the current period was too much of a "phoney war period" in which to have a full debate.<sup>51</sup>

By 1999 there was a clear polarisation between the leading business organisations. After many delays the CBI carried out an opinion poll of its own members through MORI. This reaffirmed the central policy of support for EMU in principle subject to a number of conditions. 52% of respondents supported EMU in principle and sought British membership at an uncertain future date. 36% of respondents favoured a total "wait and see" policy with only 10% opposed to EMU in principle. For CBI President Thompson the survey supported the CBI policy of supporting "UK membership of a successful EMU", which "would enable British firms to participate fully in a more complete and competitive single market."<sup>52</sup> Two qualifications arose from the survey. Firstly, many members wished to enter EMU at a rate of 2.65-2.70 Deutschemarks, well below the then prevailing rate. Secondly, only just over one-quarter of firms responded to the MORI survey. The EMU-sceptic organisations, including the IoD and the Federation of Small Business, remained implacably opposed to EMU membership. A Business for Sterling poll found 59% of firms opposed to EMU membership.<sup>53</sup> The "battle of the polls" symbolically marked the polarisation of the leading business organisations.

Whilst the polarisation of views had developed it was noticeable that the pro-EMU business organisations continued to take a cautious stance tactically in the light of a

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<sup>51</sup> Daily Telegraph, 2/11/1998.

<sup>52</sup> CBI Press Release, "CBI Members Reaffirm Support for EMU Membership in Principle" (CBI, London, 20/7/1999).

<sup>53</sup> www.bfors.com, July 1999.

perceived drift in government policy on EMU and continued differences within their own membership. The CBI, following the replacement of Director-General Turner by Digby Jones, decided that open campaigning for EMU would be suspended for the time being.<sup>54</sup> A more dramatic switch was taken by the BCC following an extensive poll of their membership. This showed that its members were totally divided with 38% supporting membership and 36% wanting to rule out membership for the foreseeable future. Given this position the BCC Deputy Director, Ian Peters, stated that not only would the BCC not campaign for EMU in principle but would neither "encourage membership...or discourage membership". In a telling comment he added that should the government wish to support membership "the onus is on ministers to take the lead".<sup>55</sup> Arguably there was even a drift in business sentiment against EMU. The BCC poll showed a marked increase in scepticism from its 1997 survey and a poll of finance directors in late 1999 showed that 55% were opposed to membership in the next Parliament (as compared with 42% in early 1999). Reasons given included the continued strong performance of the British economy, the continued weakness of the euro and comments by Bank of England governor Eddie George that Britain was "prospering" outside EMU.<sup>56</sup>

### **Business Debate: Widespread Uncertainty?**

The most significant trend was that, beneath the apparent polarisation of business views, there was an underlying uncertainty and ignorance. This can be seen anecdotally as well as arising from wider surveys. The business cases discussed later certainly give support to this view. Murray, business correspondent of the Times, captured the situation on observing the EMU discussion at a business conference by noting that the "overwhelming feeling" was that EMU was a practical problem that companies will have to get on with.<sup>57</sup> However, EMU was only seen as one amongst many key business issues such as solving

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<sup>54</sup> Financial Times, 27/11/1999.

<sup>55</sup> Financial Times, 31/3/2000.

<sup>56</sup> Accountancy Age, 6/1/2000.

<sup>57</sup> A. Murray, Times, 25/9/1998.

the Millennium bug or the wider problems of the international economy. Nevertheless, although seen as a practical issue there was also an underlying fatalistic belief that EMU will inevitably happen and that, therefore, preparations must be made. This could lead to functional, 'de facto' support for EMU on the basis of time and effort foregone in business preparations rather than on the intrinsic merits, political or economic, of the EMU project. As Murray puts it;

"It is not that the grassroots business believes the broader political questions to be unimportant, simply that industry is unable to divorce this aspect from the practical realities of the arrival of the single currency. It is a less fundamentalist approach than that adopted by politicians and the more vocal pros and antis in the business lobby."<sup>58</sup>

A manifestation of the practical approach toward EMU was the growing perception that the euro currency would be widely accepted as a 'de facto' currency in Britain even though it remains officially outside the EMU zone. This point had already been highlighted by the Business Advisory Group established by the Labour government in 1997.<sup>59</sup>

The underlying agnosticism and ignorance was captured by a Financial Times/MORI survey in September 1998. This showed a majority of businesses (63%) in favour of immediate or eventual EMU entry but also highlighted a lack of preparation.<sup>60</sup> Equally significantly less than half of the businesses surveyed felt that full participation in EMU would be good for the economy. This seemed to support the argument advanced that business tends to take a realistic view that British membership of EMU will happen and should be implemented as effectively as possible rather than being in favour 'per se'. Another significant finding was that 59% of businesses surveyed felt that they were not

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<sup>58</sup> Ibid.

<sup>59</sup> HC503 i, Treasury Select Committee, Fifth Report, The UK and Preparations for Stage 3 of EMU, 1997/8, 53-55.

<sup>60</sup> Financial Times, 28/11/1998.

very informed or not at all informed. A key conditional factor for EMU support was the exchange rate at which the Britain entered EMU, namely the desire for a competitive exchange rate (defined as less than 2.70 Deutschemarks). However, 57% of businesses surveyed felt that they would be using the euro by 2010 reflecting the feeling of inevitability around eventual British entry into EMU. The key word here is probably "eventual" as the survey found that only 60% of large companies (defined as companies with 200 or more employees) and only 17% of small companies (those with less than 50 employees) had made some preparations for EMU.<sup>61</sup> The survey revealed significant sectoral differences with larger, Southern, financial services firms more likely to support EMU than smaller, Northern manufacturing firms. In sum, the survey underpinned the uncertainty of the business debate over EMU but with a growing 'de facto' acceptance of the likelihood of British entry into EMU. This "functional" approach to British entry contrasted vividly to the "heat" generated by the political sovereignty debate.

The relationship between the political sovereignty debate and the business debate was intriguingly captured in a Treasury Select Committee cross-examination of leading representatives of the CBI, the Engineering Employers Federation (EEF), the Federation of Small Businesses (FSB) and the British Retail Consortium (BRC).<sup>62</sup> Particularly significant was the exchange between Spicer, the Eurosceptic MP, and Barker, the CBI representative. Questioned on the "pooling" of sovereignty involved in EMU she sought to distinguish between monetary and fiscal sovereignty in arguing that national tax systems could remain distinct in EMU. There was a similar rejection of the view that the CBI's conditional support for EMU led them to additionally support "ever closer union" in the EU;

"I am not sure that the CBI, as an organisation has expressed a very strong view on the

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<sup>61</sup> Ibid.

<sup>62</sup> HC503 vi, Treasury Select Committee, Fifth Report, The UK and Preparations for Stage 3 of Economic and Monetary Union, 1997/8.

question of ever closer union...in particular the CBI as a business organisation has generally taken the view that the way forward for Europe is towards an organisation that fosters trade and makes economies work better and function better."<sup>63</sup>

The limited role of the CBI is stressed in response to further questioning about the CBI's role in any future referendum;

"When we have a popular referendum on monetary union, it will then correctly be the case that individuals' voting will take into account the political element. The CBI's role in that is to comment on what they believe the balance of business and economic facts to be and I think they would say that was positive. The political questions I think we would rightly hesitate to express a view on because it is not correct for us to have a view on it or undue influence on political processes."<sup>64</sup>

The clear distinction made here between the "political" and the "economic" highlights the reluctance of the CBI, the most pro-EMU business organisation, to campaign openly on all questions surrounding EMU, especially the political questions. The reservations expressed by the CBI on labour market flexibility, the need for fiscal prudence and limitation on further political integration also indicated the conditionality of the CBI's support for EMU.

The Select Committee examination highlighted three other arguments outlined in this chapter. The diversity of the business debate was provided by the general EMU positions of the business organisations. The conditional pro-EMU view of the CBI was contradicted by the general scepticism of the Federation of Small Businesses. This dichotomy was balanced by the stated neutral positions of the British Retail Consortium

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<sup>63</sup> Ibid. 116.

<sup>64</sup> Ibid. 117.

and the Engineering Employers Federation. The concern with the practical, functional issues of EMU was prevalent throughout the minutes of evidence. In particular concern was expressed at the entry exchange rate for Britain into EMU and the costs of transition. It was also widely felt that the market impact of EMU, even without British membership, would be felt throughout the British economy. However, the key message throughout was the difficulty of preparation for EMU in an environment of political uncertainty. The concluding words of the Chair, Malcolm Bruce, were significant in this respect;

"I think one of the things that has become apparent, however, is that your *{the four business representatives}* answers might have been crisper if you knew exactly when this damn thing was going to happen.

(Mr. Williams) *{Representative of the British Retail Consortium}* It would be a great help."<sup>65</sup>

As well as presenting a series of political challenges EMU presented a range of technical challenges to businesses and regulatory authorities in preparing for its introduction. A Deloittes survey on preparations in 1997 highlighted the differences between EU member states and Britain. Most of the other EU states established working groups co-ordinated by Finance Ministries.<sup>66</sup> In Britain the Bank of England was the focal point of co-ordination for EMU preparations. This was an interesting comment on the degree of political input in the EMU preparation process. Austria even went as far to appoint a minister specifically for the Euro.<sup>67</sup>

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<sup>65</sup> Ibid. 130. My italics.

<sup>66</sup> Deloitte, Touche, Tohmatsu International, Managing the Euro, (Deloitte, Touche, Tohmatsu International Studio, London, 1997), p.43.

<sup>67</sup> Ibid. pp.5-6.

In the areas of accountancy and company law a majority of states implemented blanket legislation on the substitution of currencies whilst Britain was only planning to amend each relevant law. Interestingly British company law tends to be more flexible in terms of its treatment of currencies. It is one of the few countries that recognises that international businesses which trade in goods and services in a non-sterling currency should be free to use that currency for accounting purposes. A good example is the oil industry where most transactions are carried out in US dollars. The principle adopted in Britain is that the accounting currency should reflect the primary economic environment in which the company operates. The other extreme is the position in Sweden where national legislation insists that Swedish krona must be used for all transactions (in other words final figures can not just be translated into Swedish krona at the end of the financial year).<sup>68</sup> Clearly differences in these areas reflected national traditions as much as the relative position of preparations for EMU but the contrast between Britain and most of her EU partners is again conspicuous.

Whilst the focus of Deloitte's survey was on technical preparation in specialised functional areas a Kleinwort Peats survey on strategic planning and business opinion reinforced the contrast between Britain and its EU partners. Asked about the importance of EMU vis-a-vis other key business issues only 30% of the UK companies surveyed put EMU towards the top of their list, the lowest percentage of all EU members save Scandinavia.<sup>69</sup> Again on expected benefits from EMU only 56% of UK businesses saw any benefits, the lowest in the EU.<sup>70</sup> The most significant finding was the degree of strategic planning for EMU. 19% of UK companies had a strategy in place and 30% were planning to develop one (a total of 49%) which was again the lowest of all EU members.<sup>71</sup> The equivalent total figures were 94% for Italy, 85% for Germany, 65% for

<sup>68</sup> Ibid., p.12.

<sup>69</sup> KPMG Management Consulting, Economic and Monetary Union Research Report, (KPMG Management Consulting, 1997), p.10.

<sup>70</sup> Ibid., p.11.

<sup>71</sup> Ibid., p.22.

Benelux and 55% for France.<sup>72</sup> In estimating the costs of conversion to EMU only 18% of UK companies had an estimate, lower than EU member states except France and Scandinavia.<sup>73</sup> Given these results the executive summary concluded;

"The state of companies' planning for EMU was woefully inadequate. Two thirds of respondents had no plans in place to cope with the introduction of EMU...German companies were most prepared: over one half had a plan; and one third were preparing a plan. UK respondents were the least well prepared: only one in five had a plan; although one quarter of UK respondents were preparing one, over half of the UK companies without a plan were not developing one."<sup>74</sup>

These conclusions were supported by similar surveys in 1998. Another KPMG survey on the transitional issues of EMU which required special national legislation for the introduction of the euro notes showed that only some transitional legislation dealing with adverse tax consequences was proposed in the UK. By contrast most of the other EU member states had detailed plans co-ordinated by the Finance ministries including significantly Sweden, which, like the UK, did not join EMU in the first wave.<sup>75</sup> Even more prescient was the conclusion of a Treasury survey on awareness among UK businesses of EMU. Their telephone survey of a wide range of businesses found that awareness of the impact of EMU was 10% below the EU average, a finding supported by similar surveys by the accountancy firms, KPMG and Grant Thornton. Most significantly though was that, in spite of greater awareness by the larger companies, in the survey they were failing to make a lead in technical EMU preparations;

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<sup>72</sup> Ibid.

<sup>73</sup> Ibid., p.28.

<sup>74</sup> Ibid., p.1.

<sup>75</sup> KPMG, EU Economic and Monetary Union, June 1998.

"Whilst these larger firms obviously have a better grasp of the basics than the SMEs (Small to Medium Enterprises) researched...they demonstrate a lack of strategic and detailed, 'technical' planning."<sup>76</sup>

The relationship between the government and business can be seen as a symbiotic relationship in that each side, by continually urging the need for greater preparations for EMU on the other, led to a resultant functional development of both sides in moves toward EMU. The call at the CBI conference in November 1998 for greater government direction to stimulate investment in EMU preparations was matched by the speeches of the Chancellor Brown and Industry Secretary Mandelson hinting at a warmer tone toward EMU. This was in turn matched later by the Financial Times letter urging a clearer government policy to which the government response was to stress the coming launch in January 1999 of the National Changeover Plan in order to "send a further signal" to business that it should prepare seriously for UK entry.<sup>77</sup>

It is clear that the likelihood of Britain's later entry into EMU was reflected in the relative lack of preparation by British companies. However, uncertainty as to the EMU project itself and Britain's participation were probably the key factors. British companies seem less concerned about whether their Government takes them into EMU than they are by a high and continuing level of uncertainty. I would argue that uncertainty as opposed to business preferences over EMU has been the key characteristic of the British business debate to date. This uncertainty was reflected in an increasingly accelerated symbiotic debate between government and business with each side urging greater preparations on the other. This may lead functionally to greater preparations for British membership and arguably a growing perception that membership is an inevitability. However, the political constraint of attaining support in a referendum remained paramount.

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<sup>76</sup> HM Treasury Euro Preparations Unit, Research Findings on Awareness Among UK Businesses of the Single Currency, June 1998.

<sup>77</sup> Financial Times, 23/11/1998.

## **Business Cases**

My personal experience on the EMU preparations of two large British companies between 1997 and 1999 has tended to support the argument made that business required a greater degree of certainty in government policy on EMU.<sup>78</sup> This led in turn to a relative lack of preparation and lack of clear strategic planning toward EMU. The following summaries will refer to five areas of the EMU planning of the two companies concerned. These were the general company policy toward EMU, the organisation of strategic planning within the firms, the level of awareness throughout each company on EMU, the relative preparation of different functional areas and the key problems affecting EMU planning. The two companies, one an energy company and the other a financial services company, whilst from very different business sectors, were similar in that they were primarily UK based but had some European interests.

Both companies took a strictly neutral position in their general attitude toward EMU in public pronouncements. This was reflected internally by the corollary that EMU was primarily a technical business issue which needed to be addressed. However, this is not to say that there was no debate as to the general advantages and disadvantages of EMU. In the energy company there was a significant debate as to whether the company should adopt a cautious pro-EMU attitude provided that the convergence criteria were followed and Britain entered at a competitive exchange rate. However, this position was rejected and a strictly neutral position was followed. In the financial services company there was a gridlock situation at the board level with one key director a strong advocate of EMU and another a strong opponent. The outcome was an unwritten 'modus vivendi' that EMU would not be discussed at main Board level with the result that EMU planning was passed to the next level of management under the remit of a third director.

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<sup>78</sup> This section is derived from a series of personal interviews across the two companies.

The neutral EMU policy position of both companies directly influenced their overall strategies toward EMU. Both companies adopted a general strategy of compliance toward EMU. This meant that priority was given to ensuring that information systems and accounting systems were compliant in terms of being able to process EMU transactions. This strategy inevitably downplayed alternative strategies aimed at assessing the strategic impact that EMU would have on the individual business environments of the two companies. It also led to a concern with the costs of EMU as a compliance project rather than enumeration of longer-term advantages. A classic symptom of this approach within the financial services company was the amount of time spent on internal arguments as to how the costs of the EMU project were to be allocated across the business.

The neutral policy toward EMU was reflected in a low key approach in the political contacts carried out by the two companies. Grant argued that firms which had regular contacts with government tended to fall into two main groups. These were the 'tripartite' firms which tended to prefer bureaucratised contacts with government often via multilateral business organisations and the 'capitalist aggressive' firms which tended to favour more personal contacts.<sup>79</sup> In my own experience this distinction was not followed in practice as both companies sought to utilise a wide range of government contacts over EMU. The energy company maintained an office in Brussels in order to directly obtain information and lobby over developments in the EU. However, the company's interests on EMU were channelled through the European Committee of the CBI. The financial services company used direct contacts with the Treasury in order to confirm its planning assumptions on EMU. In addition, they were represented on the relevant industry committee on EMU which also had contacts with the government. In spite of the use of multiple channels the neutral policy toward EMU adopted by both companies meant that most of the government contacts were conducted in a low key manner with the primary

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<sup>79</sup> W. Grant and J. Sargent, Business and Politics in Britain, (Macmillan Education Limited, London, 1987), p.93.

aim of obtaining detailed information on EMU for planning purposes.

The organisation of EMU planning in the two companies was markedly different but reflected a lack of cohesive leadership from the board of directors in both cases. In the energy company responsibility for EMU was assigned to the finance director who in turn delegated responsibility to the treasury function. This immediately meant that EMU was treated in a highly specialised way rather than as a cross-functional project which would affect all areas of the business. Indeed by vesting the responsibility with treasury specialists, led by an idiosyncratic manager, the range of skills required for a cross-functional co-ordination review were much reduced. The inertia and political sensitivities inherent in large organisations meant that any attempt to transfer EMU responsibilities to other areas was negated. An internal audit review suggesting the establishment of a cross-functional working group to replace the individual responsibility of the Treasury department was subsequently diluted to a narrower working group under Treasury leadership. The result was a hiatus in co-ordinated planning across the company and the formation of "islands" of uncoordinated EMU activity. This situation was gradually addressed during 1998 as the wider issues raised by EMU were progressively seen to be of greater significance than previously believed. This led to a much wider group co-ordinating group being established albeit still under Treasury leadership.

The outcome of the organisational structure adopted by the energy company led to a decentralised style of decision making. This meant that crucial planning assumptions necessary for EMU were not developed in any detail. There was some consideration and discussion as to the likely business scenarios within the co-ordinating groups but no clear planning assumptions had been made by the end of 1998. These would have included the likely date of British entry into EMU, the probability of British entry at all, the nature or

length of the transition period, the overall accounting policy and whether systems would be converted in a "big bang" or over a staged conversion process. Planning assumptions were left to individual business and functional areas with a resultant differentiation in EMU activity dependent on resource availability. This was a particular concern for the European branches which were largely left to develop their own local EMU strategies with minimal support from the UK head office.

In the financial services company the gridlock at board level led one of the main business unit directors (reportedly with the consent of the rest of the board) to establish a dedicated EMU planning team with a specific budget. This meant that EMU planning was not confined to a narrow functional department but was established on a wider basis within the major business unit of the company. The result was a set of relatively clear planning assumptions and a project plan with specific stages. The planning assumptions made included the assumption of British entry into EMU in 2002, the operation of a transition period for at least 18 months when both sterling and euros would be legally acceptable and a "big bang" conversion strategy with regard to information systems. The project plan contained three main stages. These were an initial strategy review, an evaluation of planning options and a detailed impact assessment. However, whilst this relatively centralised EMU team was making some progress the company itself was going through a phase of radical decentralisation into smaller units which inevitably impacted upon EMU planning. The result was a series of "turf wars" within the wider business unit which threatened to undermine the progress of EMU planning.

The level of awareness throughout both companies on the issues raised by EMU can only be described as extremely poor. Five general attitudes can be stressed. The first was the general level of ignorance amongst all levels of staff as to basic facts around EMU such as the name of the currency or the timetable for first wave members. Secondly, there was

a widespread misunderstanding as to the nature of EMU. A large number of people thought that EMU was just another temporary exchange rate arrangement like the Exchange Rate Mechanism rather than an irrevocable single currency. The third tendency was to compare EMU with decimalisation in 1971 even though the scale of EMU was considerably greater. The most significant perception though was that EMU was something that was happening in continental Europe which would not ultimately affect Britain. There was a similar attitude to Major's comment about EMU as a "rain dance" following the Maastricht debates which may be more in hope than expectation. Even when there was an acceptance that EMU was a reality, a fifth attitude was the tendency to underestimate the complexity of the necessary changes. EMU was often regarded as merely a required change to currency indicators rather than as a change which would have a series of significant impacts across the wider business environment.

Given the absence of a cohesive business strategy in both companies together with the wide lack of staff awareness towards EMU it was difficult to differentiate the degree of planning within different functions. Indeed the primary characteristic in the EMU planning process in both companies was that progress depended on the enthusiasm of a few key individuals. Thus, EMU planning developed haphazardly as "islands" of detailed work were carried out in certain areas leading to both duplication and omission. In the energy company the main "islands" were in the legal and finance departments. However, there was a complete lack of planning in the procurement and computing departments. In the financial services company the computing department led the way to such an extent that EMU planning was beginning to be system-led rather than business-led. This was due largely to one individual whose enthusiasm and knowledge led to a rapid degree of progress being made. In contrast the marketing department, which played a key role in the development of new products, was still not taking any account of EMU in its product planning even by the end of 1998. A noticeable development was that many of the managers who were involved in EMU planning in both companies seemed to almost imperceptibly and increasingly assume that EMU, including British entry, was both

ultimately inevitable and also beneficial. This tended to support the functional trend noticeable within the business arena since the 1997 general election.

What were the main problems of EMU planning? Four key problems were common to both companies. The first was that EMU presented a wide range of issues which could not be dealt with by a single department or function. This meant that a large degree of co-ordination was required across both large companies which inevitably engendered a degree of bureaucratic politics in both cases. Secondly, there was the problem of attaining appropriate staff resources. EMU was not seen by many staff as necessarily a good career move and tended to be filled by less enthusiastic or less skilled staff. Another resource planning problem was that, given the long-term nature of EMU planning, staff resources tended to be taken from the project at short notice on to more immediate projects. The third problem was the presence of the Year 2000 computer problem, which was very significant for both companies. The key feature of the "Millennium bug" was that it was a definite problem with a definite deadline. This focused the necessary management processes required to resolve the problem and required a large input of scarce and expensive computer staff resources. A coincidental outcome of the "Millennium bug" was the perception that the "Millennium bug" and EMU planning were similar business problems when in actuality EMU was both a wider and more uncertain business issue. The fourth and most significant problem though was the lack of certainty surrounding the likelihood and timing of British entry into EMU. In the light of this uncertainty both companies were reluctant to commit the necessary resources to ensure comprehensive EMU planning. EMU was only one of many issues faced by both companies most of which were both more certain and needed to be resolved in a shorter time frame. The uncertainty was reflected by the lack of a clear direction from board level, defensive strategies aimed at low cost compliance and a general lack of awareness amongst all levels of staff.

In sum, the two business cases tend to support the argument as to the relative lack of detailed preparation of British companies engendered by the uncertainty surrounding British entry into EMU. It is difficult to draw general conclusions from just two companies. However, the cases tend to support the wider survey and oral evidence discussed earlier in the chapter. The two companies showed inevitable differences in their approaches to EMU planning which partly reflected their differing business environments and corporate philosophies. The financial services company had carried out a noticeably more detailed level of EMU planning compared to the energy company. Another difference was that whilst in the energy company the EMU project was led by the treasury department the financial services company utilised a dedicated EMU planning team which included representatives from a variety of functions. However, the similarities between the two companies, companies from very different business sectors, were much more pronounced. These included the neutral approach to EMU, the general compliance strategy taken towards EMU planning, the absence of clear leadership at board level and the tendency for EMU planning to reflect the isolated actions of key individuals rather than organised bureaucratic controls. These characteristics reflected the general desire of business to carry out EMU planning in the light of a clearly stated government objective of British entry within a stated timetable.

### **Conclusions**

Five tentative conclusions can be drawn on the business debate on EMU. The first was the general heterogeneity of the business community in their attitudes on EMU reflecting the wider divisions within other groups. Although there was arguably a narrow pro-EMU majority there were a wide variety of views on the issue. There appeared to be a division between larger businesses favouring EMU whilst smaller companies opposed EMU, partly reflecting the asymmetric advantages which are likely to accrue to larger companies. The sectoral situation was less clear given the complex effects of EMU on each sector. Secondly, there has been some attempt to counter the political nature of the debate with a debate as to the relative economic advantages and disadvantages of EMU.

Thirdly, in spite of the general stress on the economic debate there were some subsidiary political undercurrents to the business debate. These have tended to mirror the wider political debate with the fear of loss of influence being argued in the pro-EMU cause and fear of a regulating, overbureaucratic EU in the anti-EMU cause. The fourth element was that the business debate seems to have followed rather than led the political party debate. The long time frame within the CBI before the decision to advocate a cautious pro-EMU position was indicative of this lag.

Arguably the most important outcome of the heterogeneity and caution of the business debate has been to add to the prevailing sense of uncertainty in respect of Britain's eventual policy toward EMU. The uncertainty in policy, engendered in part by the sovereignty questions in the political arena, has not been challenged by a cohesive business position on EMU. The outcome was a relative lack of preparations for EMU entry. The two individual company cases tend to support the conclusions outlined above.

Whilst general conclusions can be made the timing of the debate was also noticeable. There was an increasingly polarised debate amongst leading businessmen over British entry into EMU. The timing was significant in that it took place in the changed environment of a new Labour government with a more favourable policy toward EMU compared with the previous Conservative government and a delayed realisation that EMU was certain to take place in the majority of EU states. This has been reflected in the organisation of EMU specific business groups. The increasing stress in the discourse by both government and business on the need to prepare has arguably led to a functional trend which may be significant in ultimate British entry. However, underlying the apparent polarisation there remains a serious degree of uncertainty in business preparations.

Although the business debate had taken a higher profile since the election of the Labour government political considerations remained paramount. The cautious approach of the Labour government with its "prepare and decide" policy, based on a decision to be made in the following Parliament, was rooted in the political calculation that it did not wish other important legislation in its first term to be jeopardised by an acrimonious debate over EMU. This gradualist strategy was based on detailed preparations being made together with business which may lead to a clear coalition of interests arguing in favour of EMU entry. This development was based on a "sparring" debate between government and business. Government stressed the need for preparations from business whilst business in turn sought certainty from government leading to a functional move towards EMU entry. The actual realisation of EMU in the eleven first-wave states accelerated this move.

Business groups also ultimately accepted the subordination of business interests to the sovereignty debate. Business interests were basically driven by economic factors with those companies trading in the EU favouring EMU membership, whilst domestically orientated companies were opposed. However, even pro-EMU business supporters recognised the overriding nature of the sovereignty debate. The discourse of the CBI representatives in the Select Committee evidence discussed was itself indicative of this general caution. The decision of both the CBI and the BCC to suspend active campaigning on EMU in 1999 was a practical expression of the cautious approach. Business recognised self-limitations on their influence over EMU.

Ultimately though the clear party political divisions over EMU and the promise of a referendum on EMU entry acted as a "gatekeeper" to any functional trend towards British

membership. EMU was increasingly regarded as a "litmus test" on Britain's overall relationship with the EU. The absence of a clear, cohesive discourse from business allowed considerations such as sovereignty to take centre stage, considerations which have made uncertainty the primary feature of the business debate over British entry into EMU. One prescient comment received during my involvement with one of the companies cited encapsulated the argument presented in this chapter. A manager, increasingly exasperated by the changing assumptions involved in EMU planning, commented that it was impossible to carry out EMU planning "whilst the politicians keep banging on about sovereignty".

## **CHAPTER 8: CONCLUSIONS: THE POLITICS OF SOVEREIGNTY AND EMU**

### **Introduction**

The aim of this concluding chapter is to draw together the main themes outlined in the seven previous chapters. Restating the central thesis the politics of sovereignty were key to understanding British government policy on EMU. The politics of sovereignty represented the multiple discourses of sovereignty developed by political actors in the wider debate on EMU and British sovereignty. EMU presented a series of challenges to British sovereignty which have been the subject of intense academic debate. The crucial argument made is that, whatever the academic arguments made in respect of EMU and sovereignty, it was the way in which the concepts of "EMU" and "sovereignty" were interpreted in the public debate that influenced government policy. The outcome of both the debate and government policy was uncertain and difficult to predict. Events could have been different if, say, there were clear economic advantages to EMU membership or a stronger political leadership approach had been taken.

Government policy on EMU was influenced by the politics of sovereignty in five ways. Firstly, the discourses of sovereignty reinforced the cautious style of government policy followed by both the Labour and the Conservative governments. Secondly, sovereignty was a key component of the Conservative divisions, which influenced the Major government. Thirdly, Conservative divisions, arguments on popular sovereignty and reaction by the Labour opposition fostered a referendum commitment by both major parties. Fourthly, the referendum commitment once given influenced Labour government policy after 1997. Finally, after 1997, there was an alignment between the alternative discourses of pooling and absolutist sovereignty of the two major parties and their divergent policies. The Conservative policy of "No EMU membership for two Parliaments" was underpinned by an absolutist conception of sovereignty. For the Labour government a pooling conception supported its policy of conditional support for EMU

membership subject to economic tests. These five relationships operated in a dynamic and interrelated manner. Conservative divisions during the Maastricht ratification process fostered the referendum commitment by the Major government. In a case of action-reaction the Labour opposition made a similar referendum commitment which, following their accession to government in 1997, held back the development of a more pro-EMU policy. The key features of these five relationships are summarised below before consideration of other explanations of British government EMU policy in relation to the politics of sovereignty.

### **The Sovereignty Debate: Key Features**

Given the external challenge of EMU and the internal constraint of sovereignty, the sovereignty debate in the public arena developed a series of discourses of sovereignty focused around an absolutist conception, a pooling conception and a popular conception. These discourses have influenced government policy in the five key respects outlined above. The general caution of both Conservative and Labour governments on EMU was prevalent throughout given the challenge of EMU, the sovereignty barrier and the heat generated by the sovereignty debate. The arguments around sovereignty reinforced the natural forces of inertia which need to be overcome for Britain to accede to EMU membership. Throughout the debate the zeal of absolutist sovereignty arguments favoured by EMU opponents contrasted with the caution of EMU proponents. The epithets marking the policy have been "wait and see", "negotiate then decide", "prepare and decide" and "real conditions". Timetables have only been noticeable by their absence. For a long time the Conservative government gave the impression that EMU would not even take place. This ambivalence and caution was characteristic of both the Labour and Conservative governments, despite their very different majorities in the House of Commons. Labour maintained its caution even with a huge parliamentary majority and a popular leader. It is tempting to interpret this caution as instinctive British pragmatism but it has developed along with the ongoing sovereignty debate.

The long Maastricht ratification debate was crucial in allowing the discourses of sovereignty to dominate the agenda and set the dynamics of the debate. Both parties thereafter continually responded in a short-term fashion reacting to rather than leading events. Four classic examples were Major's decision to suspend the Maastricht ratification debate after the Danish "No" vote, the "rain dance" speech denying EMU will occur, the media spin crisis which engulfed the Labour government prior to its October 1997 statement and the virtually non-existent government campaign on EMU in the 1999 European election. The ambivalence of government policy opened it up to incessant reinterpretation by the media leading to further governmental caution and a cycle of denial and counter-denial.

The second relationship between the discourses of sovereignty and government policy was the divisions within the Conservative party over EMU, which reflected deep feelings over sovereignty. Labour divisions were serious but manageable whilst the Conservative splits were deep and bitter. One Labour MP aptly summarised the difference between the "extinct" Labour volcanoes and the "erupting" Conservative volcanoes.<sup>1</sup> The depth of the divisions was shown by the organised rebellions, breakdown of traditional party loyalty, divisions within the Cabinet and the fact that within five years the Eurosceptics had effectively transformed Conservative policy. The strength of feeling of the dwindling but influential Europhiles was also very noticeable. A new and significant cleavage was created in the party along a sovereignty/interdependence axis. These divisions acted as the agency through which the idea of sovereignty influenced Conservative government policy with a gradual erosion of the "wait and see" policy. Once in opposition under Hague a clearer EMU-sceptic policy evolved (with a few conditions). The divisions were extraordinary in historical perspective. As Mark Stuart commented in his biography of Douglas Hurd;

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<sup>1</sup> Author's interview.

"There was a widespread view in the Party that further European integration threatened the British way of life, its parliamentary institutions and its cherished institutions...It was the emotional response to this perceived threat which caused the Conservative party to tear itself apart whilst in government...Ideology and emotion held sway over pragmatism."<sup>2</sup>

The root of these divisions was an absolutist conception of sovereignty which was deemed to be undermined by EMU.

The divisions within the Conservative party were probably the most decisive factor in the third key relationship, namely the 1996 referendum commitment made by the Conservative government shortly followed by the Labour opposition. This contrasted with political tradition with the only UK-wide referendum to date having been on EC membership in 1975. The importance of the referendum commitment cannot be overstated as it qualitatively changed the EMU debate. The debate was taken from the parliamentary sphere in which the Maastricht ratification predominated into the wider public sphere. The centrality of the EMU issue in the 1997 general election campaign highlighted the importance of the public dimension. The key reason for the referendum was probably the desire of the Conservative government to minimise internal party divisions prior to the general election in an intriguing parallel to Wilson's decision to launch the 1975 referendum. Labour followed with their own commitment primarily for electoral reasons and to avoid opening a flank to Conservative attack. A further consideration was the widespread feeling that EMU was an issue of such significance for the future of the British state that a referendum was required. Any final decision on EMU membership would need to be approved by the popular sovereignty of the vote of the British people. Whilst this may have been a widespread feeling it does not account for the timing of the referendum commitment which was due to electoral considerations.

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<sup>2</sup> M. Stuart, Douglas Hurd: A Public Servant, (Mainstream Publishing, Edinburgh, 1998), pp:427-428.

The referendum commitment itself acted as the fourth relationship between the discourses of sovereignty and government policy in that once the referendum commitment had been pledged this further acted as a constraining influence on policy, particularly for the Labour government. The Labour party gave the referendum pledge for reassurance to the electorate and made it a central plank of their 1997 general election campaign. Having made this promise they were inevitably prey to the vagaries of public opinion on this issue. Public opinion surveys have shown consistently large majorities against British membership of EMU. Given this scepticism the government had to be careful about an EMU policy openly in favour of membership. The referendum constraint was a key factor in deferring policy into the distant future. Blair's admission that a referendum could not be won in 1999 and decision to focus on restating the case for active British membership in the EU in heading the Britain in Europe campaign were indicative of the cautious approach to winning over a sceptical electorate. Pro-EMU campaigners argued that the opposition was relatively fickle, the electorate would be won over by a determined government campaign (as occurred in the 1975 EC referendum) and were effectively resigned to eventual EMU membership. However, as one MP commented, it was one thing to say that the people were resigned to EMU membership it was another question entirely to get the "resigned" to turn out to vote in a referendum.<sup>3</sup> The other noticeable element was the greater zeal of the EMU-sceptic campaigners as illustrated by the plethora of publications and campaign groups. The referendum commitment, initially triggered by internal Conservative divisions, had ironically come to act as a major influence on the Labour government.

The final key relationship was the alignment between the multiple discourses of sovereignty and the different policies carried out by the Conservative and Labour parties.

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<sup>3</sup> Author's interview.

The Conservative government, given its internal divisions, did not develop a coherent discourse of sovereignty but acknowledged that EMU membership would have considerable constitutional consequences. They were, though, under significant pressure from an increasingly vocal Eurosceptic wing with a clear absolutist conception of sovereignty. The Labour government focused explicitly on a concept of sharing sovereignty with EU partners. These differing discourses were finally marked by a clear divergence of policy after the 1997 general election between the Labour government's "prepare and decide" policy and the Conservative opposition's "no EMU for two Parliaments" policy. Whilst qualifications and caveats continued to feature in both policies they still amounted to distinctly different policies.

Why was there a time lag between the divergent discourses and the divergent policies? The main reasons were the continuing uncertainty of the EMU project itself and the focus of both main parties on the 1997 election which encouraged them to remain cautious on EMU. In this sense their policies were largely indistinguishable during the 1997 election the main difference being Labour's success in maintaining a united front compared with the Conservatives. The significance of the differing discourses of sovereignty has, though, become evident over the longer term. By defining the problem in terms of sharing sovereignty, Labour have been able to support EMU in principle and deny any overriding constitutional impediment to EMU membership making it conceivable, and even probable, that they will eventually support EMU membership. In contrast the discourse of sovereignty used by the Conservative opposition to support its "save the pound" campaign make it *inconceivable* that the party would support EMU membership, in spite of the commitment only to rule EMU membership for one parliamentary term.

### **Alternative Interpretations?**

Other interpretations have been put forward to account for government EMU policy. Those considered throughout this thesis include business interests, electoral considerations, economics, structural explanations of history and geography, the media and national identity. The key points can be summarised here in relation to the sovereignty debate. A chapter was devoted to the business debate given the importance and nature of the EMU issue. The business debate tended to follow rather than lead the political debate which developed during the Maastricht ratification process. This was probably because the nature of the business debate focused on economic questions rather than more fundamental sovereignty questions. As EMU progressively became more probable the business debate developed, including different underlying conceptions of the EU from the "market Europe" vision of the CBI to the "regulatory Europe" vision of the IoD. The issue undoubtedly caused significant divisions throughout the business community. The influence of business opinion was probably greater on the Labour government given the Conservative government concern with internal party divisions. The overriding theme though was a demand for certainty of policy to assist business planning which was still in an undeveloped phase. Business groups also ultimately accepted the subordination of business interests to the sovereignty debate. Overall though the business debate has been a subsidiary factor in government policy on EMU.

The electoral politics argument stressed that political parties adjust their policies to maximise the possibility of re-election. In particular the major political parties reacted to each other in a balancing manner. In this way Labour scepticism on Europe in the 1970s was balanced by Conservative pro-Europeanism and the growth of Euroscepticism in the Conservative party in the 1980s prompted the Labour party to move in a pro-European direction.<sup>4</sup> In the EMU debate electoral considerations were significant, especially in the

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<sup>4</sup> N. Ashford, "The Political Parties" in S. George (Ed.), Britain and the European Community: The Politics of Semi-Detachment, (Oxford University Press, Oxford, 1992).

Labour party decision to support a referendum on EMU in 1996 reacting to the same decision by the Conservative government. Electoral considerations also provided a very broad constraint in that, even under Hague, the Conservatives did not say “never” to EMU membership and public scepticism on EMU constrained the Labour government.

Whilst significant in certain respects the electoral politics argument has four key limitations. Firstly, whilst the public was sceptical toward EMU, EMU itself was not necessarily the key issue for voters. The Salomon Smith Mori surveys consistently ranked EMU below other issues such as health, education and law and order.<sup>5</sup> Secondly, the referendum itself deferred the EMU issue to an uncertain future date. Labour stressed the referendum commitment in both the 1997 and 2001 general elections thereby defusing the immediate relevance of EMU as a *general election* issue. Ironically constant reiteration of the referendum commitment made Labour government policy sensitive to the whims of public opinion. Language was indeed part of the action and the specific issue of EMU would be subject to a future referendum, unlike the myriad range of issues at a general election. Thirdly, there was no overall balancing of party positions. Indeed there was a clear divergence of positions between the major parties both in terms of sovereignty discourses but also practical EMU policies. Finally, the constraints of sovereignty as a value, as a practical barrier to EMU through the referendum and as opposing a change to the status quo were far more significant than the looser constraints of electoral politics. In sum, ideology held sway over pragmatism.

The economics of EMU have inevitably been the focus of intense debate given the nature of EMU. The central economic factor throughout the period covered was the uncertainty of EMU actually succeeding in reality. The lack of preparations made by British business and the lack of economic convergence by 1997 was certainly a factor in the Labour

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<sup>5</sup> [www.mori.co.uk](http://www.mori.co.uk)

government's decision to delay EMU beyond 1999. Over the longer term though the economic benefits or costs of EMU, especially to Britain, were unclear (reflected in widespread disagreement between academic economists). The benefits of EMU such as lower interest rates and lower inflation tended to be both longer term and more uncertain than the initial transition costs of EMU. The key point though was that any economic benefits were not articulated in the political debate. Whilst the government mentioned the perceived long-term economic benefits they also established the five economic tests for British accession to EMU.

The economic tests were not significant barriers to Britain joining EMU. The tests themselves were extremely vague as discussed in the Treasury Select Committee evidence. The Labour government insisted that the economic tests were real conditions and a summary of Britain's economic self-interest in joining EMU. They seem though, like the Maastricht convergence criteria, to be indicators rather than significant barriers. The statement that the tests would be reviewed in the "next Parliament" highlighted the importance of political as opposed to economic timing (unless the political cycle has also converged to the economic cycle). The fact that the outcome of the Treasury analysis of the tests was delayed until at least 2003, together with the uncertainty of this analysis, meant that the government could not articulate specific economic advantages to EMU. This allowed the arguments around sovereignty to be dominant throughout the period covered in this thesis. Should the government come out strongly in favour of the beneficial economics of EMU in the future then the economics of EMU could challenge the politics of sovereignty. However, this has yet to occur.

As outlined in Chapter 2 structural explanations of history and geography have been put forward to explain Britain's "semi-detachment" from the rest of the EU. Historically Britain's traditions of avoiding war on its territory, centralised government and

bureaucracy and parliamentary traditions were seen as distinctive compared to the rest of the EU. Similarly the "offshore island" mentality and close links to the US and the Commonwealth were geographical differences. Whilst these factors were of some significance they had to be constructed within the debate to attain a degree of contemporary relevance. Parliamentary sovereignty was an important conception of sovereignty but was one amongst a plurality of other competing conceptions. Geographically the EMU debate has been largely marked by an absence of specific alternatives expressed in terms of stronger Atlantic or Commonwealth links (a contrast to the 1975 debate). There has been some debate at the level of general values such as Anglo-Saxon capitalism versus the European Social model. Specific alternatives to EMU membership in monetary terms have tended to stress either Britain's global role (from EMU opponents) or Britain's isolation (from EMU supporters).

The role of the media has certainly added flavour to the EMU debate, especially the popular press. A clear majority of the press is undoubtedly EMU-sceptic. These include the Daily Telegraph, the Times, the Daily Mail and most outspokenly the Sun. On the pro-EMU side are the Financial Times, the Independent, the Daily Express and, albeit critically, the Guardian. According to the analysis of Anderson and Weymouth approximately two-thirds of the total readership read the EMU-sceptic press and one-third the pro-EMU press.<sup>6</sup> This contrasted vividly with the situation in 1975 when most of the press supported Britain's EC membership. The tone of the debate was, to put it mildly, basic and significantly polarised. For the Sun Blair and then Lafontaine were, in turn, possibly the most dangerous men in Britain. Concern has also been voiced over the excessive influence of Rupert Murdoch and at times EMU has been portrayed as a Blair .v. Murdoch issue. The overall influence was clearly important but difficult to assess. Broadly independent coverage remained on the key media channel of television. The press undoubtedly influenced the debate but current public scepticism on EMU clearly

<sup>6</sup> P. Anderson and A. Weymouth, Insulting the Public? The British Press and the European Union, (Addison Weseley Publishing, London, 1999).

has a deeper base than just the EMU-sceptic press.

The other political factor in the realm of ideas has been the assertion that national identity has become a crucial component in the debate, especially in the Conservative party. Philip Lynch traced the importance of the "politics of nationhood" in the history of the Conservative party.<sup>7</sup> In the EMU debate there have been clear expressions of nationhood. Arguably Major's most famous statement reflected a traditional nation of "warm beer, invincible green suburbs, dog lovers and...old maids bicycling to communion".<sup>8</sup> Labour too has started to engage in ideas of nationhood in its political campaigning. The sovereignty debate significantly overlapped with ideas of national identity, especially in the conception of popular sovereignty utilised in the debate, which stressed the role of the "people" (often loosely equated to the "nation"). However, two qualifications need to be made. Firstly, the majority of statements have focused narrowly on the issue of sovereignty in terms of final and absolute authority over the particular issue areas of monetary policy, fiscal policy, the institution of the ECB and, above all, political integration. The second qualification is that whilst in government statements on nationhood and EMU have largely been absent or deliberately vague. Finally, whilst the relationship between EMU and sovereignty is clear but contested the link between EMU and national identity was logically more problematic and indirect. In sum, I would argue that the "politics of sovereignty" were more significant than the "politics of nationhood" on the EMU issue.

### **"Wait and See": An Understandable Policy?**

The complexity of government EMU policy has clearly been influenced by a wide range of factors but central to its understanding are the multiple discourses of sovereignty

<sup>7</sup> P. Lynch, The Politics of Nationhood: Sovereignty, Britishness and Conservative Politics, (Macmillan Publishing, London, 1998).

<sup>8</sup> Quoted in A. Seldon, Major: A Political Life, (Wiedenfeld and Nicolson Publishing, London, 1997), p.370. In his autobiography Major downplayed the significance of this speech. J. Major, John Major: The Autobiography, (HarperCollins Publishers, 1999), p.376.

which have influenced policy through the five relationships outlined in this conclusion. The final remaining question is that in addition to understanding government policy has the largely "wait and see" policy followed by both governments been an understandable or justifiable one? There were four grounds for a reasoned argument that the general "wait and see" policy was an understandable approach. Firstly, there can be little doubt that EMU membership is one of the most important issues facing British politics for a number of years, especially as it is a binary issue requiring a "Yes" or "No" position. A *Guardian* discussion paper on EMU captured this in a superbly understated manner;

"The single currency is not one of the great existential dilemmas of all time, though it *is* perhaps the most important political decision to be taken in the lifetime of many people alive today."<sup>9</sup>

The second ground was the divisive nature of the EMU issue. Political parties, the press, business, trades unions, economists, academics and even the Bank of England have shown clear divisions in an increasingly polarised debate. Thirdly, the development of the political debate on EMU tended to collapse together the distinctive aspects of the four sovereignty questions into the more fundamental political sovereignty question of Britain's wider relationship with the EU. In effect EMU had become a litmus test of the degree to which Britain was integrated, semi-detached or detached in its relations with the EU. The general "wait and see" policy can be seen as a reasonable response to the severe and conflicting pressures created by EMU. Finally, in most of its conceptions, especially from government politicians, sovereignty was regarded as a key value and, therefore, posed a series of practical (such as winning a referendum) and conceptual (such as reconciling sovereignty with EMU membership) barriers to EMU membership. Given the inherent uncertainty of EMU and the range of complex political and economic issues involved the decision to wait a number of years before evaluating the overall costs and benefits of EMU seems a reasonable, if not brave, policy choice. Given the pressures involved the issue is unlikely to be resolved in the foreseeable future.

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<sup>9</sup> *Guardian Debate, The Single Currency: Should Britain Join?*, (Vintage Publishing, London, 1997), p.4.

Simon Bulmer argued that in accounting for British semi-detachment in the EU *British politics matters*.<sup>10</sup> I would agree with this comment but add that in the EMU debate the *idea of sovereignty matters*. Sovereignty was socially constructed in a number of ways which *taken together* influenced government policy in a number of analytically distinct but interlinked, dynamic ways. The power of the idea can be seen in the fact that the party which had dominated British politics for most of the 20th century became deeply divided by an event that could still conceivably never take place (namely British membership of EMU). The initial question that comes to mind on considering EMU and sovereignty is to assess how EMU affects British sovereignty. This inevitably leads to an essentially contested debate over a range of legal and political issues. Turning the question around allows an understanding of the policy response to EMU to be seen as linked to the essentially contested debate over sovereignty which has pervaded British politics. The conceptions of sovereignty, transmitted primarily through the agency of the party political system, underlines that British politics do matter along with a key idea. Anthony Forster, in concluding his book on Britain and the Maastricht negotiations, quoted Jean Monnet to summarise the British approach;

"There is only one thing you British will never understand: an idea. And there is one thing you are supremely good at grasping: a hard fact."<sup>11</sup>

In the EMU debate this dictum could probably be reversed. The debate had been dominated by an abstract idea, sovereignty, which operated in a heated manner making "hard fact" a very contested concept.

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<sup>10</sup> S. Bulmer in S. George(Ed.), The Politics of Semi-Detachment: Britain and the European Community, (Clarendon Press, Oxford, 1992). His italics p.2.

<sup>11</sup> A. Forster, Britain and the Maastricht Negotiations, (Macmillan Publishing, London, 1998), p.183.

## POSTSCRIPT: 2001 GENERAL ELECTION

The 2001 General Election illustrated once again the key features of the sovereignty debate on EMU. The central headline theme was the attempt by the Conservative party to place their “save the pound” message at the centre of the general election campaign. This was defeated in another Labour landslide victory marked by Labour’s continued promise of a referendum and the importance for the electorate of other election issues.<sup>1</sup> Underneath the headline theme the five key features of the sovereignty debate were reflected throughout the campaign.

The policy divergence between the main parties was clearly reflected in the campaign. The Labour party maintained its “prepare and decide” policy subject to the five economic tests, which would be reviewed within two years of an election victory. Any recommendation for entry would be subject to a referendum.<sup>2</sup> The Conservative party rejected EMU for the next Parliament, promising to “save the pound”.<sup>3</sup> The Liberal Democrats supported EMU entry in principle subject to a realistic exchange rate and a referendum.<sup>4</sup> The differing policies reflected different discourses of sovereignty with Labour and Liberal Democrats stressing the pooling of sovereignty and the Conservatives an absolutist conception. The subsequent election of Eurosceptic Ian Duncan-Smith as Conservative leader confirmed the policy divergence.

Differences within the Conservative party continued to rumble throughout the campaign. Whilst the Europhile minority, notably Ken Clarke, were largely silent differences

<sup>1</sup> Financial Times, 25/5/2001.

<sup>2</sup> Labour Manifesto, Ambitions for Britain, (Labour Party, London, 2001).

<sup>3</sup> Conservative Manifesto, Time for Common Sense, (Conservative Party, London, 2001).

<sup>4</sup> Liberal Democrat Manifesto, Freedom, Justice, Honesty, (Liberal Democratic Party, London, 2001).

continued between the official line of ruling out EMU for one parliamentary term and others ruling out EMU in principle. A symbol of this division was a speech by Mrs. Thatcher where she specifically emphasised that she would “never” join EMU.<sup>5</sup> There were also tactical differences within the leadership over the primary emphasis in the campaign on EMU rather than other issues such as public services. These differences were to become more apparent in the leadership election following the Labour landslide and Hague’s subsequent resignation. All of the candidates acknowledged that the EMU issue had been overplayed during the campaign. The choice of pro-Euro Ken Clarke and hardline Eurosceptic Ian Duncan-Smith as the two top candidates highlighted dramatically the polarisation within the party.<sup>6</sup>

The referendum commitment by Labour and the Liberal Democrats continued to be a major feature. The Conservatives sought to make the election a ‘de facto’ referendum on the pound. This was symbolised by a large clock counting down to the end of the pound. However, this tactic misfired given that a Conservative election defeat could be interpreted as a potential vote for the euro. The line was quickly amended to that of being the last “fair” vote on the pound given that, according to the Conservatives, any referendum question and campaign were likely to be biased in favour of the euro. In effect the electorate perceived the euro referendum as an issue to be decided at a future date rather than at the general election.<sup>7</sup>

Whilst the referendum commitment failed to help the Conservatives it also continued to constrain the government. Throughout the campaign the referendum commitment was

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<sup>5</sup> Daily Telegraph, 23/5/2001. Many individual candidates supported the “never” line in their campaign literature.

<sup>6</sup> Independent, 17/6/2001.

<sup>7</sup> Daily Telegraph, 28/5/2001.

constantly emphasised by Labour. Given their large opinion poll lead Blair was able to speculate about the future outcome of the euro issue. He argued that the referendum could be won and stated that, although the Treasury was the “guardian” of the economic tests, any decision to recommend the euro would be taken collectively by Cabinet.<sup>8</sup> No firm timetable was forthcoming throughout the campaign. Public opinion, whilst regarding the euro as a less significant election issue, still remained overwhelmingly hostile. The MORI opinion surveys referred to throughout this thesis revealed no material movement during or after the election campaign.<sup>9</sup>

The key feature of the politics of sovereignty during and after the campaign was the continued cautious approach of the government. This was accompanied by continuing speculation about the longer term intentions of the government. During the 1997 uncertainty over the new Labour government’s intentions on the euro a former Cabinet minister had referred to the “smoke and mirrors” nature of the political debate.<sup>10</sup> The Cabinet reshuffle, removing pro-Euro ministers Robin Cook and Stephen Byers from key positions and bringing in more “sceptical” ministers Jack Straw and Peter Hain to the Foreign Office, reflected the absence of clarity. One interpretation was that the government was seeking to present a united front and that presentation of a pro-euro policy by more “sceptical” ministers would win greater public support.<sup>11</sup> An alternative interpretation was that the move was simply the adoption of a more sceptical position on the euro.<sup>12</sup>

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<sup>8</sup> Financial Times, 26/5/2001.

<sup>9</sup> [www.mori.co.uk](http://www.mori.co.uk)

<sup>10</sup> Author’s interview.

<sup>11</sup> Financial Times, 11/6/2001.

<sup>12</sup> Independent, 17/6/2001.

Following the 2001 election landslide a similar situation developed to the 1997 uncertainty. Volatility on the currency markets together with pressure from pro-euro pressure groups forced the government onto the defensive. During his annual Mansion House speech Brown sought to push the euro issue into the “long grass”. He stressed that the Treasury had yet to commence the assessment of the economic tests and that the decision could be negative.<sup>13</sup> In further speeches the government appeared to raise further hurdles to euro entry. Brown stressed the weak accountability framework of the ECB compared to the Bank of England whilst Blair emphasised the need for wider economic reform in the EU.<sup>14</sup> However, the absence of specific timetables in the government position continued the “smoke and mirrors” political debate and led to further media speculation.<sup>15</sup> The opaque and cautious position of the government was the key feature of the politics of sovereignty during the election period. In spite of the Labour landslide victory the key features of the politics of sovereignty remained prevalent.

Raymond Keitch

September 2001

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<sup>13</sup> Independent, 21/6/2001.

<sup>14</sup> The Economist, 4/8/2001.

<sup>15</sup> Financial Times, 27/7/2001.

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