

CURRENT HISTORY

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“Through a renegotiation of its own fundamental membership terms, Britain wants to reform Europe from within—but by staying out of the euro it refuses to be at the core of European policy making.”

Britain and Europe: The End of the Affair?

MATTHIAS MATTHIJS

After a tumultuous professional marriage of just over 40 years, Britain and Europe are facing the possibility of divorce. In January 2013, Prime Minister David Cameron decided to celebrate Britain’s 40th anniversary as a member of the European Union by pledging a fundamental renegotiation of his country’s terms of membership. Cameron further promised to submit any renegotiated deal to a clear “in-or-out” referendum in 2017 on whether or not to leave the EU, assuming his own Conservative Party wins a majority in the next general election in May 2015. Egged on by his party’s growing ranks of restive Euroskeptics and trying to fight off a challenge on his right flank from populist Nigel Farage’s UK Independence Party (UKIP), Cameron rolled the dice. He hoped to settle once and for all the Europe question, which has so often cast a dark shadow over the political debate in Westminster and Whitehall.

Renegotiating international treaties is extremely difficult, given that such pacts usually result from carefully crafted compromises among multiple states. Undoing one element could quickly unravel the whole construction. Additionally, the 27 other members of the EU—emerging cautiously from the existential angst of the euro crisis and visibly frustrated with Britain’s increasingly obstructive attitude toward Brussels—are in no mood to permit substantial steps in the direction of à la carte membership. Allowing such flexibility for Britain would open the door to renegotiations for other members as well. While there is undoubtedly some sympathy for Britain’s qualms from like-minded northern member states such as

Sweden, the Netherlands, and Germany, any new deal that Cameron can negotiate will likely fall well short of his party’s Euroskeptic bottom line.

A Conservative majority is still a distant prospect for next year’s general election—at the time of writing, another hung Parliament seems the most likely outcome—but it is certainly within the realm of possibility, especially if growth picks up, living standards start to improve, and the economy recovers from five years of stagnation. As a result, Britain today is as close as it has ever been to actually leaving the EU, and at risk of turning inward to embrace not-so-splendid isolation.

How did it come to this? Cameron is not the first occupant of 10 Downing Street to struggle with former US Secretary of State Dean Acheson’s famous thesis, expounded in a 1962 speech at West Point, that Britain had “lost an empire and has not yet found a role.” Ever since World War II, British prime ministers—Edward Heath being the one notable exception—have tried to deny their country’s European destiny.

Resisting the calls for unity from Brussels in favor of a rather vague notion of a “global” Britain, free from continental chains, most British leaders either have been seduced by the mirage of being America’s junior partner or have fallen prey to the legacy of an empire on which the sun never set. However, since Heath achieved accession to the European Economic Community (EEC) in 1973, every British leader has been unable to stop the momentum behind European integration. They have found their country—for better or worse—tied closer to Europe and its supranational institutions than they were ever willing to admit.

Since the advent of the euro crisis, though, the dynamic of European integration has qualitatively changed. The pace of integration has dramatically picked up, and the direction Europe is now taking toward more supranational oversight of economic

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and financial policy is increasingly at odds with how Britain has defined its national interests. The City, London's financial district, is worried about a barrage of restrictive regulations from Brussels. With the UK unlikely to join the euro and, with continental Europeans determined to do whatever it takes to save the common currency—including surrendering ever more sovereignty to Brussels to build a more genuine Economic and Monetary Union (EMU)—London has started to wonder whether its EU game is still worth the candle.

POSTWAR FOG

V-E Day—May 8, 1945—marked the end of European hostilities in World War II and put Britain in the unique position of being the only European power that had not been occupied or defeated. This fact alone made the country of Winston Churchill the natural leader of Europe. The small island nation had stood alone against Nazi Germany for 18 long months. Aside from an upsurge of patriotic fervor, the other legacy of war was that it left Britain financially vulnerable, if not bankrupt. Britain managed to stay afloat during the war thanks to America's Lend-Lease Act, but when that funding was abruptly cut off in the summer of 1945, it left the new Labour Party government of Clement Attlee scrambling.

At the same time, Britain was quickly exposed as a power in decline, suffering from "imperial overstretch" (as the historian Paul Kennedy put it). It faced turmoil in India, a relentless drain of US dollars to pay for national reconstruction, the mounting cost of building a universal wel-

fare state at home, and the need to maintain the British garrison in defeated Germany. India—the jewel in the crown of the British Empire—became an independent country in 1947. It was not until Marshall Plan aid reached Britain in 1948 and a 30 percent devaluation of sterling in 1949 that Britain's economy started to make a full recovery.

The Cold War was under way, and it was clear to many observers at the time (though to almost no one in Britain) that the world was increasingly turning bipolar, with America in the West and the Soviet Union in the East fighting for global supremacy. Britain was relegated to second-power status, occupied with "the orderly management of decline." The first three postwar prime ministers—Attlee (1945–51), Churchill (1951–55), and Anthony Eden (1955–57)—all preferred to ignore reality and deliberately kept their foreign policy focus away from Europe, toward the wider world.

Defeated and humiliated, France realized that any future peace in Europe could only be secured through some kind of pragmatic reconciliation with its archenemy Germany. Britain had initially resisted taking part in the continental endeavors of what quickly became "the Six" (France, West Germany, Italy, and the Benelux countries), starting with French Foreign Minister Robert Schuman's call for a European Coal and Steel Community in 1950. Britain was also notably absent in Messina, Italy, in 1955 when the idea of a European common market first took hold. An aging Churchill, back in office in 1951, showed no interest. Nor did his successor Eden, whose chancellor of the exchequer, R.A. Butler, derisively referred to the Messina talks as "archaeological excavations." But the Six went ahead, and the Treaty of Rome was signed in May 1957 without Britain's participation.

In October of that same year, a *London Times* headline famously read: "Heavy Fog in Channel—Continent Cut Off." Nothing summed up better the British state of mind regarding Europe than the idea that the world still evolved around "Great" Britain—that the continent could somehow be "cut off" from the island, rather than the other way around. The "heavy fog" in the channel was an apt metaphor for the enduring and often willful British misreading of what exactly those continentals in Brussels were up to.

When Harold Macmillan became prime minister in 1957, Britain's attitude toward Europe slowly started to change. While he was himself very much a Conservative politician in the mold

From the archives
of *Current History*...

"The plain truth is that the league of free nations, if it is to be a reality, must do no less than supersede empire altogether; it must end not only this new German imperialism which is struggling so savagely and powerfully to possess the earth, but British imperialism and French imperialism which do now so largely and inaggressively possess it."

H.G. Wells

"The Death Knell of Empire"

August 1918

HISTORY IN THE MAKING
100
years
1914 - 2014

of Churchill, periodically musing that postwar Britain could play the role of an older and wiser Greece to America's increasingly imperial Rome, Macmillan was also a realist and a pragmatist. Not only did he observe the "winds of change" of national independence movements all over British Africa, he also saw the continental economies systematically outperform Britain's during the 1950s.

Macmillan eventually submitted a half-hearted application to Brussels in the early 1960s but went out of his way to emphasize that this was merely to find out whether "favorable membership conditions" could be established. French President Charles de Gaulle was having none of it, seeing Britain's application as an American Trojan horse, and proclaimed an unequivocal "Non" at a January 1963 press conference.

After Labour came back to power in 1964, Prime Minister Harold Wilson eventually decided to reapply in 1967, but for the second time de Gaulle issued a veto. A few months later, Wilson announced the withdrawal of all British military forces from "east of Suez." Britain had reached the limit of its global pretensions and needed to retrench. The Europe question still loomed, with the fog in the Channel thicker than ever.

BOLD STATESMANSHIP

"A week is a long time in politics," Wilson once remarked to an aide. Two years after his second veto of Britain, de Gaulle left the French political scene and was replaced by Georges Pompidou, himself a Gaullist but much less intransigent than his predecessor. One year later, in 1970, Edward Heath's Tories surprised everyone by beating Wilson's Labour in a general election. Suddenly the Europe question took on a renewed sense of urgency. Heath, who had experienced the carnage of World War II firsthand in both France and the Low Countries, was a true man of Europe. Having participated in the British liberation of Antwerp in September 1944, he was part of the "never again" generation of Europeans who passionately believed that reconstruction and reconciliation had to go hand in hand with greater political unity.

While his government's official reasons for reapplying to join the EEC in the early 1970s were mainly economic, Heath always emphasized the broader political significance of Britain's fully belonging to Europe. The negotiations were relatively swift, even

though some difficult issues like Britain's future budgetary contribution would have to be resolved later. Britain's entry in January 1973—alongside Denmark and Ireland—constituted a bold act of statesmanship and a personal triumph for Heath. At last, the Europe question received an unambiguous response. The fog had cleared.

The love affair would be short-lived. By early 1974, after yet another miners' strike, nationwide power cuts, and the imposition of a three-day workweek to conserve electricity, the British people answered the "Who Governs Britain?" general election slogan of Heath's Conservatives with "Not you." Wilson and Labour returned to power with a fragile minority government, and now had to honor their pledge to put Britain's EEC membership up for a nationwide referendum—the first in the country's history. Labour's left-wingers, led by Tony Benn and Barbara Castle, opposed the common market, which they saw as a free-market plot to undermine socialist planning and erode workers' rights.

To everyone's surprise, the 1975 referendum delivered a 2-to-1 endorsement of membership. While the Labour leadership, together with the opposition Conservatives, had campaigned in favor of staying in, Wilson and his successor James Callaghan did so only

reluctantly. The same was true for the leader of the opposition, Margaret Thatcher, who lacked the European zeal of her predecessor Heath.

While the Europe question was settled for the moment, the second half of the 1970s and the early 1980s were spent dealing with economic crises at home and saw few steps toward further integration. An exception was the establishment of the European Monetary System of fixed exchange rates in 1979, but Britain, led by Callaghan, refused to join.

THATCHER AND THE SUPERSTATE

The Europe question regained prominence during the mid-1980s with Thatcher in her second term as prime minister, her big economic battles at home decisively won. The first issue on her European agenda was to renegotiate Britain's budgetary contribution. Since Britain had a relatively efficient agricultural sector, it received comparatively small subsidies from the EEC's Common Agricultural Policy. At the same time, being a trad-

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ing nation with a long tradition of commerce with its former colonies, it also paid disproportionately more into the EEC budget than other members due to the common external tariff. Thatcher had made it clear that she wanted “our own money back” from Brussels.

During a June 1984 European summit in Fontainebleau, she bargained hard with French President François Mitterrand. They finally agreed that Britain would receive a 66 percent rebate of the amount it was “overpaying.” The deal was hailed as a decisive victory for Thatcher back home, but her confrontational method of negotiation would soon reach its limits. Mitterrand and German Chancellor Helmut Kohl, together with Jacques Delors—Mitterrand’s former finance minister and the new European Commission president—were determined to pursue further integration, despite Thatcher’s stubborn opposition.

Delors’s relaunch of Europe after 10 years of relatively little progress came in 1985, with a new intergovernmental conference on completing the common market. This led to the signing of the Single European Act in 1986, the first major revision of the Treaty of Rome. Thatcher eagerly signed on to the treaty because of its liberalizing, deregulating, and market-freeing potential and its overall sound economic rationale. However, the price she had to pay was an increase in qualified majority voting in the European Council, where more decisions concerning the common market would no longer require unanimity. The Single Act sailed through the House of Commons in six days, requiring little debate.

Thatcher exultantly claimed to have exported her free market revolution to the European continent. But that was not how Delors viewed the Single Act, which he favored because it made both political and economic sense, given the ascendancy of free market ideas at the time. For Delors, a *dirigiste* French socialist, the new treaty was but one necessary step toward a closer federal political union. Increased majority voting in the Council was a key part of that strategy.

On September 8, 1988, Delors received a hero’s welcome at the annual meeting of Britain’s Trades Union Congress, when thousands of Labour activists belted out “Frère Jacques”—most likely the only French tune they knew—marking Labour’s shift away from its knee-jerk Euroskepticism

toward an embrace of Delors’s strategy. Delors became their brother in arms against Thatcherism’s assault on union rights. Thatcher felt betrayed: This was not the Europe she had signed up for. Twelve days later, in a speech in Bruges, she attacked Delors’s vision of Europe, declaring, “We have not successfully rolled back the frontiers of the state in Britain only to see them reimposed at a European level, with a European superstate exercising a new dominance from Brussels.”

But the European train had already left the station. Thatcher found herself increasingly at odds with her two most faithful cabinet lieutenants, Nigel Lawson at the Treasury and Geoffrey Howe at the Foreign Office, over whether to join Europe’s Exchange Rate Mechanism (ERM) to fight inflation at home—a strategy Lawson favored—and over her intransigence toward European integration, an attitude Howe began to despise. After Lawson and Howe resigned, Thatcher’s animosity toward Europe only intensified as her reign drew to a close. Michael Heseltine, lamenting the disastrous state of Britain’s relations with Europe because of

“one woman’s prejudice,” openly challenged Thatcher’s party leadership. John Major beat Heseltine in the Tory contest to succeed her.

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MAASTRICHT’S AFTERMATH

After Thatcher’s defenestration in November 1990, the Europe issue turned toxic in the Conservative Party. While Major could by no means be classified as a Europhile, the Maastricht negotiations in December 1991 would test his diplomatic skills to the limit. Although Britain finally joined the ERM right before Thatcher’s resignation, it clearly would not take part in any early stage of Economic and Monetary Union.

The idea behind EMU was not new, harkening back to the the late 1960s. It gained new momentum after the Berlin Wall came down and German reunification became a geopolitical fact. EMU would incorporate a reunified Germany into an irreversible union with a single currency and tie Berlin’s fate to the rest of Europe through a common monetary policy. France was particularly keen on this, attracted by Germany’s hard-won reputation for price stability.

Moreover, European elites widely shared the view that the forces of globalization, evident in rapidly rising international trade and capital

flows, meant a substantial hollowing out of the traditional nation-state, and hence would require an answer at the supranational level. EMU was to serve as the vehicle that would enable Europe to compete as a unified economic bloc with a rising Japan, a nascent North American free trade area, and other emerging giants, mainly in Asia.

Major's Conservative government, with some exceptions such as Kenneth Clarke and Heseltine, did not share that view. There was no majority in the House of Commons for transferring so much sovereignty to an independent European Central Bank, and most policy makers in Britain agreed that it would be unwise to permanently give up its national monetary policy authority. Still, Kohl and Mitterrand were adamant in pursuing monetary union.

Aware that vetoing the Maastricht Treaty would leave Britain isolated in Europe, Major painstakingly negotiated hard opt-outs from the single currency (as well as from the Social Chapter, which concerned issues such as employment conditions and social security) before signing the treaty in February 1992. At the time, the general feeling in Britain was that Major had gotten a good deal for the country. Major himself might have exaggerated when he claimed "game, set, and match," but even Thatcher admitted that her successor had negotiated well. Two months later, in April 1992, Major unexpectedly led the Tories to another general election victory.

Soon after, open warfare broke out in the Conservative Party over the ratification of the Maastricht Treaty. A combative Thatcher, now in the House of Lords, tore the treaty to pieces and declared she would have never signed it. In May 1992, Major carried the narrowest of votes in favor of Maastricht in the House of Commons, but the wounds within his party were deep. Three months later, a humiliating exit from the ERM came on "Black Wednesday," as currency speculators forced the Bank of England's hand, leading to a significant devaluation of the pound. In one day, the Conservatives had lost their electoral trump card of economic competence.

Maastricht was the harbinger of new developments in British politics in the 1990s: the founding of UKIP in 1993, the electoral suicide of the Conservative Party over Europe in the mid-1990s after years of cabinet infighting, and New Labour's rise to power in 1997 after promising "five economic tests" to join the single currency. The euro eventually came into circulation in January 2002

without Britain's participation. The pro-European Prime Minister Tony Blair promised to join "when the time was right," but was held back by a much more skeptical Chancellor of the Exchequer Gordon Brown.

French and Dutch "no" votes in 2005 referenda put Europe's constitutional dreams on ice. The substitute was the much more modest Treaty of Lisbon, which kept most of the constitutional treaty's substance and aimed to make a much-enlarged union function better. Blair and Brown thus avoided the risk of a "no" vote in a referendum of their own.

Meanwhile, the Conservative Party started to emerge from the political wilderness after its third consecutive defeat at the polls by choosing David Cameron as its new leader. After the global financial crisis and the ensuing Great Recession led to the downfall of Gordon Brown and Labour in May 2010, the Tories—now more Euroskeptic than ever—returned to office in an awkward and unnatural coalition with the pro-European Liberal Democrats.

CAMERON'S DILEMMA

Cameron was barely installed as prime minister when he found himself in the midst of the European sovereign debt crisis. As many analysts had been pointing out since Maastricht, the EMU was only a half-built house: It had a common monetary policy, but lacked the elements of a real "economic government," including a fiscal union, a common debt instrument, a banking union, or the legitimacy of a political union. In order to save the euro, the euro zone members would now have to complete the unfinished tasks.

However, the logic of building a genuine EMU could only mean a further transfer of national powers to Brussels and Frankfurt—a clear red line for Cameron's government. The crisis laid bare the contradictions of a continent caught between the centripetal demands of making a supranational currency union function and the centrifugal force of more than 25 domestic political agendas. And for better or worse, democratic legitimacy still mainly lies with the nation-state, as Euroskeptic Britons know all too well.

With the UK out of the euro zone, and continental Europeans committed to completing their unfinished monetary union, Cameron faces a dilemma. On the one hand, he would like to see the euro succeed without Britain. However, that is only possible with much more centralized pow-

ers in Brussels and Frankfurt, which will have to implement a host of new regulations affecting all members of the common market, including those who are currently not members of the euro zone. This would do particular harm to Britain's powerful financial industry.

On the other hand, Cameron wants to maintain maximum sovereignty over his country's economic future, while retaining the ability to influence European decisions concerning the common market that directly affect Britain. It now looks increasingly as though Britain, if it wants a real say in the EU's future institutional infrastructure, will have to join the euro itself. Yet the depth and duration of the sovereign debt crisis have definitely not helped the case for euro entry.

PENNY WISE

There is no denying that the case for Britain to leave the EU altogether has become stronger since the euro crisis, if it wants to keep the pound. As Wolfgang Münchau of the *Financial Times* has argued, the euro zone is likely to supersede the common market as the main organizing principle for the EU, which weakens the case for Britain to stay. Radek Sikorski, Poland's foreign minister, unwittingly made the case for a British exit from the EU by arguing recently that the euro zone is the "real" EU. He committed his country to joining the single currency by 2020, since he feels that the euro is now the true political heart of Europe, and he wants Poland to play a central role in it.

Nigel Lawson, speaking for much of Euroskeptical Britain, argues that the costs imposed by harmful EU regulations cancel out the benefits from opening Europe's markets, especially in financial, legal, and consulting services, where Britain has a clear comparative advantage. Furthermore, Lawson points out, trade with the EU has reached a plateau, whereas growth potential lies with the emerging economies in Asia and Latin America. EU membership, the logic goes, holds Britain back from accessing those lucrative markets.

But that does not mean the benefits from leaving the EU would outweigh the costs, especially in the short and medium term. In a recent report for the Center for European Reform, a London-based think tank, John Springford and Simon Tilford point out that Britain has precious little

to gain, but a lot to lose. Any new arrangement with the EU after quitting—either as a member of the European Economic Area like Norway, a customs union à la Turkey, or a free trade agreement like Switzerland's—implies a loss of influence in negotiating nontariff barriers such as product and safety standards and environmental regulations. Springford and Tilford also note that Britain stands to gain the most from further liberalization of the services industry in Europe. The best guarantee for this *not* to happen would be for Britain to turn its back on the EU.

Leaving the EU would also mean a dramatic loss of influence on the world stage, not just in negotiations within the World Trade Organization, which are dominated by the United States, China, and the EU, but also in foreign affairs. Losing influence in Brussels will be equated to an overall loss of British power from the vantage point of Washington, Moscow, Beijing, or New Delhi.

GROWING TENSION

Objectively, the case for staying in the EU remains stronger than the case for leaving it. However, if we can believe the opinion polls, that is not how a majority of British voters currently sees it—a trend perhaps encouraged by chronic misinformation from the ferociously Euroskeptical tabloid press. From Cameron's point of view, the best way out is to create a different Europe. Not having been present at the creation always meant that the UK would have to join the club on Europe's terms, rather than its own.

Through a renegotiation of its own fundamental membership terms, Britain wants to reform Europe from within—but by staying out of the euro it refuses to be at the core of European policy making. In the words of Foreign Secretary William Hague, Britain wants to be "in Europe, but not run by Europe." After three years of the euro crisis, it is not clear how a country can remain in Europe without being subject to its laws and regulations, of which there will only be more in the future.

A sign of things to come is the growing tension between London and Brussels on the subject of the free movement of labor, one of the "four freedoms" that form the bedrock of the Treaty of Rome. After the December 2013 EU summit, Cameron—under huge pressure from his party to defy Brussels and maintain labor restric-

Every British leader has been unable to stop the momentum behind European integration.

tions against Bulgarians and Romanians—threatened to veto any new EU member accessions from the Balkans if welfare “benefit tourism” is not stamped out. This shows that Cameron’s Conservatives are concerned not only by fiscal and financial regulation, but also by basic questions of national sovereignty.

It might be too late for Britain to have its cake and eat it too. The reforms that London wants Europe to undertake, including structural measures to increase competitiveness and austerity budgets to put its fiscal house in order, will simply not be enough to save the euro and the European project in the long term. The single currency can only work if it is part of a broader

political project. If Britain decides that it wants no part of such a future, it may well choose the exit option. But before it comes to that, the Scots first have to decide in September 2014 whether they want to remain in the UK. Most opinion polls show that a clear majority would like to stay, so the main issue remains Britain’s relationship with Europe.

The irony is that even though Britain may decide to leave Europe, Europe will never leave Britain. If Britain leaves the EU, it will find that it is still “run by Europe” to some extent, as Switzerland and Norway can attest. The continent will never be truly “cut off.” But the heavy fog in the Channel is unlikely to clear anytime soon. ■

From *Current History*’s archives...

“The immediate risks of war, through which an ultimate war might have been avoided, were not taken. It is probably too late now to take them, even if British statesmanship should change its mind. The German power has already advanced too far to make such a retracing of steps possible. The peace of today has been bought at the price of the certainty of war tomorrow.”

Reinhold Niebuhr “Which Way, Great Britain?” November 1936

