Institutionalised Europhobia: Britain & monetary policy integration

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Abstract
This paper examines British policy toward European monetary integration. It challenges dominant liberal theories of preference formation, suggesting an alternative intervening variable in the form of the electoral system, which privileges Euro-sceptical opinion in a relative sense. Empirical evidence is presented on both UK economic behaviour and the views of domestic economic interests from the decision not to join the Exchange Rate Mechanism in 1978 to the decision not to participate in the first wave of countries joining stage 3 of Economic and Monetary Union.

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Introduction

Why has Britain consistently resisted participating in closer monetary integration in the European Union (EU)? It is a truism that Britain takes a persistently awkward approach to 'Europe.' By awkwardness is meant a tendency to oppose formal, binding supranational agreements which lead to or are perceived to lead to a circumscription of national power.[1] The most visible episodes include the decision not to join the original Communities; intra-party divisions during the ratification process in 1971; subsequent renegotiations on the terms of accession and the 1975 referendum; disagreement over the budget contribution; refusal to sign the Social Charter and subsequently to agree to the Social Protocol in the Maastricht Treaty; the tardy entry into and untimely exit from the Exchange Rate Mechanism in the 1990s; the difficulties ratifying the Maastricht Treaty; the BSE crisis; and (the subject of this paper) the whole question of monetary integration.

What is the cause of this awkwardness? It is often attributed to a combination of historical experiences, giving rise to a distinct cultural bias which is inimical to continental-inspired integration. British island status combined with successful defence of its territory and a tendency to act as a counterweight to continental alliances have led it to be wary of European commitments. Britain has a long history of colonisation, experience as a world power, psychological attachment to the Commonwealth and the US, and an ongoing commitment to maintaining world order and open economic relations globally (see for example, Wallace, 1991). These experiences and cultural attributes are invoked as a collective reminder of the past. They are socialised into succeeding generations of political leaders -- across the political spectrum -- as well as the general population, raising formidable obstacles to participation in supranational regional integration because of a basic incompatibility with other EU states.

In addition to this cultural/historical explanation there is a line of thinking which concentrates on domestic politics, and especially on economic actors and conditions. According to this approach, for every episode of British intransigence, a unique constellation of domestic interests can be identified which explains the outcome (Moravcsik, 1998). It suggests that similar anti-integration interests are not present in other countries, or are contained by bargains, marginalised, or otherwise effectively silenced. Therefore, the conventional thinking is that awkwardness is due either to a

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[1]The various editions of Stephen George's influential book *An Awkward Partner* are responsible for this terminology. Scepticism, by contrast, usually refers to the views of individuals, not governments. It makes little sense to invent a new definition here and I adhere to this convention.

process of socialising past events and experiences, or a rational political calculation of the balance of domestic interests. In either scenario, policymaking on Europe is the product of a liberal assimilation of these social forces.

I suggest that the liberal explanations fail to take into account an important intervening variable which refracts social demands and views: namely, the effects of variation in domestic decisionmaking institutions. A growing body of research points to similarities across member states in political party positions and the views of organised interests on European integration (on parties see Marks and Wilson, 1998; Ray, 1997; on interests see Cowles, 1994). Political party views on integration correlate much more closely with ideology and party family than they do with nationality; this is counter-intuitive from the liberal perspective, which suggests that all parties would interpret domestic social signals on European integration in more or less the same manner. In addition, the views of economic interests tend to coincide depending on their circumstances: big business, multinationals, and export-dependent firms tend to support open trade regimes with binding rules and exchange rate stability regardless of their home state; small firms and those not trading internationally tend to be less supportive. As the British Chambers of Commerce, which represents mainly small UK firms, explained, 'each of the European countries has its sceptics ... at the smaller end of the market' (Commons, 1996: 74; for evidence of a convergence in views across member states see Commons, 1996: 67; BCC, 1994). The main labour organisations (including the Trades Union Congress in the UK) have converged on a generally positive view of European integration, with smaller fringe unions in protected or public sectors more negative.

Anti-integration opinion exists at the extremes of the traditional Left-Right political spectrum in all member states. The structure of intervening decisionmaking institutions determines which of this disparate social voice is privileged in the domestic polity. In the UK first-past-the-post (FPTP) electoral system, extremist opinion has little hope of parliamentary representation in small fringe parties. Consequently it gravitates toward the two main parties -- Labour and Conservative. The need to accommodate anti-European views into government policy in order to satisfy extremist backbenchers means the centre of balance on European policy is somewhere between the Euro-positive centre of the spectrum and the Euro-hostile extreme. In countries where coalition governments are the norm, power is usually shared among parties grouped more closely around the centre. This means that extremist parties, while finding it easier to gain representation in parliament in a proportional representation

(PR) system, find it more difficult to gain power in government. Thus, anti-EU MPs tend to be excluded from policymaking.

Ideology, interests, and Europe

What are the ideological and interest-based sources of negativism? On the right, nationalist opinion views the EU as a threat to the state in terms of both economy and identity. This opinion is represented by parties such as the Vlaams Blok, the National Front of France, and the Freedom Party. Their support has been increasing (Taggart, 1998; Betz, 1994; Fieschi et al, 1996) because of recession, the experience of Maastricht, increased immigration, and similar concerns.

Each member state also has sentiment on the left wing of the political spectrum in favour of a strong welfare state according to the post-war socialist or social democratic creed. This opinion favours state intervention, income redistribution, national ownership, Keynesian demand management, and social protection of various sorts. It prefers authoritative allocation of resources over market allocation. Each state has its peculiar institutions and mechanisms for dealing with this management, as well as distinct means of identifying participants, whether citizens or members of the work force.

For Leftists, social public goods remain very much state-bound, and they view international integration with suspicion because of its market orientation and the difficulties of harmonising welfare state institutions. Political parties such as Communists and Left-leaning Socialists and Labourites across Europe have consequently been opposed to integration and even in some cases advocated national withdrawal from the EC (as the Labour Party did from 1980-87). Most recently, this concern has been directed at economic and monetary union.

Fig. 1 The spectrum of social opinion on European integration

	Left ----------------	*Centre* ----------------	*Right*
Ideology	socialism	pragmatism	nationalism
Position	sceptical	positive	sceptical

The two ends of the spectrum produce anti-integration opinion, while the centre of the spectrum tends to be more favourably disposed to integration (see Figure 1). Centrists see integration as a byproduct of the increasing openness of the developed world, including increases in trade, investment, and financial capital movement. They accept the liberal welfare arguments associated with this openness, and perceive binding rules within international organisations as a necessary and welcome consequence of interdependence.

One potential criticism of this model is that separate ideological perspectives have been aggregated at the ends of the spectrum. For example, economic and identitive sources of nationalist sentiment are both contained in the Right; socialist and 'new politics' anti-rationalist technocracy sentiments are both contained in the Left. Indeed, observers who have examined British party divisions on the European question often note the existence of multiple factions or groups within each of the two main parties (Ashford, 1992; Lazer, 1976; Baker et al, 1993; King, 1977; Webb, 1997; Berrington and Hague, 1998; Baker and Seawright, 1998; Ludlam, 1998).

Nevertheless, the Left-Right spectrum in Figure 1 offers several advantages. First, when MPs are presented with a potentially integrative decision, they tend to view it in 'yes or no' terms. That there may be various reasons for the positions of MPs does not alter the fact that an engineering of policy must take place to balance these pro-anti forces. This occurs in the Labour party, where socialists and a minority of nationally-oriented MPs are opposed by the pragmatic centrists. It also occurs in the Conservative party, where a balance must take place between nationalist MPs and those who are more centrist.

The spectrum therefore accords with the reality 'on the ground' in most questions of European policy. Moreover, it serves as a useful heuristic device which captures many of the important divisions in Parliament. Therefore, it enables us to theorize the influence of parliamentary cleavages on government policy – a serious lacuna of the descriptive literature on British party divisions and European integration. It also corresponds to existing literature on policy space and coalition theory which suggests that in countries with a limited number of parties or blocs, the simple Left-Right dimension works relatively well in understanding party and government policy (Laver and Budge, 1992). More importantly, if the existence of Euro-sceptic social voice does not distinguish Britain from other European countries, then we must question whether it is methodologically appropriate to use it as a basis for explaining persistent British awkwardness.

Institutionalised Awkwardness

The FPTP electoral system penalises small parties and favours the two main parties (except where there is geographic concentration). Since smaller parties have little chance of gaining seats in Parliament, never mind government, the anti-integration opinion from the extreme ends of the spectrum tends to gravitate toward the two main parties.[2] The Whip system ensures unity within the parliamentary party, so that the government's line is not defied lightly. At the same time, the government (and Cabinet) must take account of this anti-integration opinion. The result is that power sharing occurs *within* the ruling party, and on questions of European policy the centre of balance occurs between the pro-integration centre of the spectrum and the anti-integration end of the spectrum. This is because of the need to accommodate anti-integration opinion within government policy in order to maintain unity.

Nearly all other EU member states have PR electoral systems, which usually result in coalition governments. PR encourages multipartism and this is far more likely to result in centrist government. Anti-integration opinion expressed in parties of the extreme Left or Right finds it much easier to gain representation in parliament, but they often have more difficulty gaining representation in government. In terms of government formation, coalition theories typically predict either a minimal winning coalition of parties (which is the minimum necessary to comprise the majority of parliamentary seats), or a minimal connected winning coalition (which adds the feature that these coalition parties be as ideologically compatible as possible; see Laver and Schofield, 1990: 89 et seq).

While neither theoretical approach excludes extremist parties *a priori*, coalition power-sharing creates strategic opportunities for centrist pro-integration governments to emerge, and in fact has a centripetal effect (Lijphart, 1994: 144). The 'median party' was either part of or supported 80% of European coalition governments in the post-war period (Laver and Schofield, 1990: 113). Combined with ideological compactness and a tendency to limit coalition partners, this means that anti-integration opinion tends to be marginalised from policymaking in countries with PR systems and coalition power sharing. The compromises between the coalition parties over European policy therefore occur closer to the pro-integration centre.[3]

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[2] Where anti-integrationists attempt to go it alone they have a miserable success rate. For example, the UK Independence Party, advocating withdrawal from the EU, polled a tiny percentage of the vote in the 1997 general election. The Referendum Party polled only about 3%.

[3] An example of this can be seen in Giscard's efforts in the mid-1970s to reform the EC institutions to bring direct EP elections into being (which had been envisioned in the Treaty of Rome). This initiative was due to his efforts to woo 'the remnants of the centre parties of the Fourth Republic, for whom a commitment to European integration was an item of faith' (George, 1990: 117-8). Thus he would be able to build a new majority that did not rely on the conservative Gaullists in his coalition.

Strategic incentives clearly encourage centrism, but normative factors were present too: Communist and neo-fascist parties were for a long period after World War II excluded from many west European governments on the grounds of their pariah status (Laver and Budge, 1992). This exclusion may be breaking down in practice: more extreme parties, such as the Leftist Alliance in Finland, the Communists in France, and the Reformed Communists in Italy, have found their way into coalition governments or pacts and they exert an anti-integrationist pull on government policy. The difference for Britain is that these anti-integration forces are *always* present in the ruling party, and their opinion must be taken into account on a routine basis (see Figure 2).

Figure 2 about here

There is an appreciation in the literature of the importance of the UK's political institutions in EU policymaking (Ashford, 1992; Denman, 1996; Bulmer, 1992, 1996; Young, 1993; Paterson and Henson, 1995; Shipley, 1995; King, 1977).[4] However, what is missing is the notion of the structural significance of party balance. Observers have tended to treat balance as episodic or an internal party problem, dealt with by different leaders in their own personal ways. The literature raises unique factors present at the time of the splits and has failed to generalise on the basis of clearly evident patterns of behaviour. Accounts have neglected to point out how consistent the problem is, how it affects governments of every ideological hue led by prime ministers of widely divergent character, and most importantly how the electoral system contributes to the problem.

Party balance and monetary integration

Britain has consistently been reluctant to embrace closer monetary integration in Europe. The most important explanations for this reluctance focus on British economic conditions. Two sets of economic problems are raised – one has to do with the fact that the British economy is less tied to the continent's economy than is the case for other member states. The second suggests that powerful economic actors in the UK are less inclined to support monetary integration.

[4] It is not possible to do justice here to the literature on institutions and Britain's European policy. Stephen George (1992) and his contributors examine many aspects of British institutions. Stuart Wilks (1996) elaborates an interesting argument regarding the centralised nature of the British polity and the consequential jealous guarding of sovereignty as an explanation of awkwardness.

Scholars who have looked at the reasons member states choose to pursue or reject monetary integration have found themselves with slightly different anomalous cases. Moravcsik, looking at the creation of the EMS in the late 1970s, says Italy was the anomaly, arguing for inclusion despite its highest inflation rate and the initial hostility of Confindustria (Moravcsik, 1998: 429fn; on Confindustria's position, see Ludlow, 1982). For Sandholtz, examining the creation of EMU, it was Britain: 'the analytically distinctive feature of the British case is this: alone among the EC countries that converted (at least in principle) to disinflation in the 1980s, Britain opposed monetary union' (Sandholtz, 1993: 9). The purpose of this section is to offer a more detailed analysis of the experience of UK governments on monetary integration, and it will try to account for the anomalies mentioned above. It will examine the efforts to maintain party balance, and thus highlight the crucial influence of domestic decisionmaking institutions on British policy (Walsh, 1994 explores the influence of domestic institutions on French and Italian adherence to macroeconomic convergence policies).

The European Monetary System (EMS) was devised by German Chancellor Helmut Schmidt and French President Valerie Giscard d'Estaing in 1978 as a reaction to the problems of floating currencies following the collapse of the Bretton Woods system. Despite the prodding of the French and especially German leaders for the UK to join, British prime minister James Callaghan demurred (for a description of events see Jenkins, 1991; Greenwood, 1992; George, 1998; Young, 1993; Denman, 1996).

Britain joined the EMS, but why did it remain outside the Exchange Rate Mechanism (ERM), which was the means of dampening nominal exchange rate volatility? The UK was a weak currency country (along with France and Italy), and the fear was that locking sterling to the low inflation deutsche mark would impose politically unacceptable disinflationary costs on the UK. Although Schmidt had hoped to achieve a symmetrical system, where costs would be shared equally between weak and strong currency countries, he was forced by domestic groups to insist upon an assymetrical system. Weak currency countries would be in the position of bearing the burden of adjustment.

Callaghan favoured retaining the option of stimulating domestic growth despite its inflationary consequences, something that Germany could not agree to; in addition British trade was still significantly less with European partners than with other countries, and this mirrored the traditional British preference for a more global approach to economic management, working with the US in the IMF. Other arguments suggested that oil production and highly liquid capital markets in London made the ERM less beneficial for the British economy than for the continental member states (Moravcsik, 1998: 276).

Thus, the British economic position was perceived to be out of synch with the rest of Europe. Denis Healey, Chancellor of the Exchequer at the time, explained that the UK government insisted upon a symmetrical system in which strong currency countries were obliged to sacrifice as much as weak currency countries. The government also wanted credits and intervention funds to be made available, among other things (Commons, 1978: 61). As Moravcsik points out: the 'ability and willingness to participate in a fixed-rate regime was an inverse function of underlying inflation' (1998: 289-90). Yet Italy, and to a lesser extent France, were in a similar position to the UK: they would be forced to adopt German-style price stability at their own expense. Credits and transfers were to be limited; inflationary ERM members would have to disinflate. France had begun the process of disinflating, but Italy had not, and yet both countries were eager to be members of the new monetary arrangement. In addition, compromises reached in 1978 on stimulating demand in Germany shifted Callaghan and British Chancellor Denis Healey toward a more favourable view of EMS. At least tentative initial steps toward domestic economic convergence were set in motion.

Many British economic interests felt that membership was not their top priority. The Confederation of British Industry (CBI) wanted exchange rate stability, but this was a lower priority for them than competitive exchange rates and, by extension, low interest rates and export prices (Moravcsik, 1998: 276-7; Commons, 1978: 1-2). It believed that further coordination of economic and monetary policies were required before the UK joined (CBI, 1979). The Trades Union Congress (TUC) was also opposed (Commons, 1978: 138-143). On the other hand, the City was more positive. Three of the four major UK clearing banks favoured entry, though with changes to the Franco-German proposal (Ludlow, 1982: 222). In evidence submitted to a Commons enquiry, Robin Leigh-Pemberton, Chairman of NatWest, emphasized also the need to stabilize economic and monetary policies in the UK, with convergence being a necessary element of membership. He raised several points about the Franco-German proposal which needed clarification, but in general his attitude was one of cautious approval. He stressed the political influence to be gained by remaining committed to the proposed EMS.

The position of Lloyd's Bank was even more favourable, citing the disciplinary effect on inflation, the benefits of exchange rate stability, and the benefits of a common reserve and trading currency. Sir Jeremy Morse, chairman of Lloyd's Bank and the deputy chairman of the clearing bankers, argued in testimony before the Commons committee investigating the EMS that 'we need to be there fighting our corner' (Commons, 1978: 98). The majority of the quality press also favoured entry, as did the export oriented firms of the British Chambers of Commerce (BCC) and the multinationals such as Unilever and Shell. The BCC explained that 'flexibility in exchange rates permits monetary policies which in the long run are disastrous' (Commons, 1978: 116; also, see pp. 115-119 generally). Underlying their push for Britain to join the EMS was a desire to bring external controls to UK economic and monetary policies:

> It is the discipline imposed by the EMS which is the chief immediate gain from entry. No doubt *in theory* similar gains could be achieved by British governments adopting of their own accord sensible policies: but can they be trusted to maintain them? (Commons, 1978: 117).

Two points need to be made about this distribution of interests. First, there were interests both opposing and supporting entry. Even among those interests who were cautious or sceptical, viewpoints were not unequivocal. For example, the CBI stated in 1979 that 'a unified market with a common currency, where major economic decisions are taken collectively by the Community and not individually by member states has the CBI's support in principle.' Likewise, the City was favourably inclined to bring sterling into the new EMS but also argued for convergence. Sir Jeremy stated that the EMS should be launched in a calm period, when dollar volatility was not interfering with European exchange rates; but he also suggested that there would be 'three or four of these experiments. It is to be hoped that on each time the bundle of Europe's monetary position gets bigger and stronger, and less easily divided by dollars' (Commons, 1978: 95-96). One of the main reasons he advocated British membership was so that the three main non-DM zone currencies (Britain, France, and Italy) would serve as a counterweight to the DM zone. Given the plurality of interests and the level of equivocation the question that arises is why negative opinion was privileged in the final decision.

The second point is that the distribution of interests is similar to that in France and Italy. Confindustria, the Italian counterpart to the CBI, initially opposed entry by Italy though it later modified its position (Ludlow, 1982: 209, 147-8). As the decade neared its end, industrialists in all the weak currency countries were calling for currency appreciation to restrain wage inflation and to reduce public spending

(Moravcsik, 1998: 286). Similarities like these did not, however, lead to similar preferences among the weak currency member states.

The intervening influence of domestic decisionmaking institutions adds explanatory value to our understanding of British preferences on this issue. Callaghan was constrained both by advocates of full EMS membership and by Eurosceptics within his own parliamentary party. With a minority government, in a pact with the Liberals by March 1978, he was obliged to balance these forces to retain a viable government (Appendix 1; see Ludlow, 1982: 217-221 for an account of this). These forces included hostile Labour Leftists such as Tony Benn and Bryan Gould, as well as positive Labour centrists such as Roy Jenkins and the Labour Committee for Europe (see the statements of the Labour Committee for Europe and Bryan Gould in Commons: 1978: 120-2, 124-5). He proclaimed himself to be in favour of the Franco-German idea in general, but noted, 'I could not travel fast. Many people in the Labour Party remained suspicious of what they thought was too close an entanglement with Europe' (Callaghan, 1987: 493).

The liberal perspective does help account for the UK position, since Callaghan partly opposed membership because of the disinflationary costs to the UK economy. Nevertheless, at the Labour party conference in 1978 delegates raised serious opposition to EMS, which undoubtedly created an obstacle to full British participation, and Callaghan reversed his earlier positive opinion and opposed British membership. This episode reflects the experience prior to the 1976 party conference, when Callaghan issued a policy statement on Europe opposing greater supranational integration. Thus, from the perspective of timing, it is unclear why Callaghan would reverse himself as he did on these occasions, first supporting monetary integration (despite consistent opinion in British society that it would have disinflationary consequences), then changing his mind after strong opposition in the party ranks.

The intervening variable also helps explain the curious difference in preferences between Italy and Britain, both weak currency countries with some strong domestic political and administrative opposition (see Ludlow, 1982: 115, 217-221). In fact, the Italians tried hard to get the British aboard, precisely because of their similarities. But they failed, and the Italians pressed forward. Like in Britain, there is a cultural explanation for Italian enthusiasm for European initiatives such as the EMS – the 'Tonio Kröger' complex – in which the weaker Italians strive to keep up with their northern friends. However, there is also a structural explanation. In Italy, the governing parties were more centrist, excluding both the extreme left and the extreme right from power (see Appendix 2). That changed somewhat during the EMS negotiations. In March, 1978 the Andreotti Christian Democratic government was forced to negotiate a pact with four other parties: the Republicans, Social Democrats, Socialists, and Communists.[5] The farthest left party, Proletarian Democracy, was excluded.

One of the main features of the Callaghan premiership was a pact between the Labour and Liberal parties from 1977 to 1978. Although less formal than a coalition, this had the potential to create a more centrist and positive approach to European policy, except that the terms of the pact were limited almost exclusively to domestic policy matters (for the text, see Callaghan, 1987: 456-7). The one exception was on direct elections to the European Parliament, in which the (Labour) government pledged to take full account of the Liberal position in favour of a proportional representation electoral system. This was resisted by the Labour rank and file. In other European matters, including EMS, Labour set policy by itself, thus reducing the centripetal impact of the Lib-Lab agreement. The Liberal party had no influence at all on the EMS discussions, and in fact its leader David Steel had no interest in it. He records a meeting with Callaghan in his diary entry for April 10, 1978 which reads: '[Callaghan] talked about his private meetings at the weekend with Giscard and Schmidt and went on about the international financial scene at which my eyes glazed over' (Steel, 1980: 134). Such a response is not likely to produce an effect on government policy!

In 1979 the political landscape changed with the election of the first Thatcher government. Participation in the ERM was considered by Thatcher as early as 1979, but rejected because of inflation divergence between the UK and its European partners, because of the wide fluctuations in the sterling-dollar exchange rate, and because the means of controlling inflation differed (Howe, 1994: 274). However, by 1985, Nigel Lawson and Geoffrey Howe both favoured entry (Shipley, 1995: 72). They and others had concluded that Britain's economic interests were closely convergent with its European partners' interests. In 1987-8 Lawson shadowed the DM as prelude to joining the ERM, with the subsequent high interest rates aggravating the growing split between those on the right, including Thatcher and some of her ministers and advisors (such as John Biffen and Alan Walters), and those in the centre. Faced with a revolt by both Howe and Lawson, Thatcher agreed to join the ERM

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[5] Italian Communists have been more pro-integration than Communists elsewhere, but the Italian electoral system made opportunities available for other Left parties, such as Proletarian Democracy, to gain seats in the Chamber of Deputies.

when specific conditions were fulfilled -- lower domestic inflation and progress on the single market (Young, 1993: 157-8).[6]

Clearly there *were* some differences between the UK economy and those of the continent, but were they the reason for British reluctance? Over time, Britain was losing its distinctiveness: inflation had, after 1981, been closer to German levels than either French or Italian, although they increased again strongly from 1988-1991 (Gros and Thygesen, 1998). Therefore one of the main obstacles to British entry, from the standpoint of those concerned with domestic economic convergence, had been ameliorated in the 1980s. Moreover, external British economic activity had reoriented itself to the EU. Trade, investment, travel, and a number of other economic indicators were showing clear changes (see Appendix 3).[7] Almost without exception they pointed to greater social and economic links with the continent. It is important not to conflate functional change with preferences or, to put it another way, to assume that behavioural change necessarily brings new social demands in its wake. Yet at the very least it shows the weakness in the arguments that the UK economy was functionally a different animal from the continental economies. These arguments – usually without supporting data – continue to be made even today by those who are opposed to UK participation in EMU (see for example John Bercow, M.P., 1998).

As the 1980s progressed, economic interests *were* beginning to advocate ERM participation in ever greater numbers. By 1984 the CBI was in favour of ERM participation. The Institute of Directors (IoD) remained more cautious, tending to share strong neo-liberal Thatcherite leanings. The TUC, who were probably not consulted closely by Thatcher, still bridled at the EC in 1983, noting 'strictly speaking, the Treaty of Rome would forbid the industrial and trade policies set out in this *Economic Review*. It is for that reason that the TUC is campaigning for the UK to withdraw from the EEC' (TUC, 1983: 44). By 1990 their position had altered as well. The TUC advocated taking sterling into the ERM at a rate of DM2.70 and a broad +/- 6%, giving as their reasons the need for exchange rate stability, competitive exports, and the fight against inflation (TUC, 1990). It recognized the inflationary dangers inherent in the DM2.70 rate, but advocated credit controls as a means of overcoming this.

Why did Britain remain outside the ERM until 1990 given these shifts? One possibility is that the anti-integrationist wing of the Conservative party, which was opposed to

[6] Britain joined the ERM in October, 1990.

[7] These data are presented and discussed in more detail in Aspinwall, 1999.

sacrificing monetary policy autonomy in a fixed exchange rate system, was far stronger than the centrist, positive wing. This seems implausible given the number of top ministers favouring ERM entry. It is more likely that the beliefs of Thatcher herself were responsible for the delayed entry. By 1987-8 she had moved sharply to the right, and the full force of her increasing hostility to supranational integration was manifested in the Bruges speech in September, 1988. Criticism was raised against her by pro-integration Tories, including Edward Heath, Lord Cockfield, and Lord Plumb. This criticism sharpened following the poor results in the 1989 European Parliament elections. A number of figures in her Cabinet either resigned over Europe or took a more pro-European line, including Nigel Lawson, Michael Heseltine, Geoffrey Howe, Douglas Hurd, and John Major.

Among post-accession British prime ministers her distinguishing feature was that she ignored the 'requirement' to balance the two competing factions in her parliamentary party. She had clearly gone beyond what could be construed as the Tory centre of balance on Europe. She had become 'a natural member of the gallant but misguided group of [anti-integrationists]' (Howe, 1994: 537-8). For this she paid a heavy price, but it was not exacted for more than two years after she threw down the gauntlet at Bruges. The reason for this two-year stay of execution was the size of her majority (see Appendix 1). With a majority of 102 in September, 1988, declining to 99 in late 1990, Mrs Thatcher had a great deal more autonomy on European matters than did James Callaghan. The political capital afforded by this autonomy enabled her to choose between accepting the views of a growing number of interest groups, economists, and MPs, and joining the ERM, or siding with the Euro-sceptics and taking a nationalistic anti-European line (far from representing an anomaly or an isolated case, Mrs. Thatcher was one among many Euro-sceptics in the parliamentary Conservative party). She chose the latter, at least until October, 1990 when she took sterling into the ERM. By then she had one month remaining in her premiership.

Major began his premiership with a pledge to return Britain to 'the heart of Europe.' As the Chancellor who took sterling into the ERM, and with the business community busily preparing for the approaching single market, the portent for an improved relationship with Europe was very good. Major was perceived to be a more moderate Tory, with a common-sense pro-business, pro-European approach, so much so that right-wing Conservatives were alarmed (Sked and Cook, 1993: 560). He was a member of the Blue Chip group of Tory MPs before he became prime minister, a group which was 'very much in favour of European integration' according to some on the right of the party (Gorman, 1993: 14). He appeared to be a fellow traveller of those who believed instinctively that Britain needed to remain engaged in the integration process, and that Maastricht did not (at least once the British objectives had been achieved) represent a dangerous new supranational leap. Yet he was not as pro-European as Heseltine or Hurd (his competitors for the leadership), and his selection could be interpreted as an implicit effort by the Tories to choose a balancing leader.

Major faced a determined group of Euro-sceptics within his own party, not least of whom was Thatcher herself, who was still widely admired by many Tory MPs. Her steadfast opposition to a single currency, among other things, galvanised many MPs with similar inclinations and seriously constrained what might otherwise have seemed a logical course of action to John Major and others: cautious participation in the process of monetary integration, some influence over the course of events, and perhaps eventually a decision to take Britain into the single currency itself.

The most important early challenge for the Major government was negotiation of the Maastricht Treaty, and the EMU opt-out. One important interpretation of the EMU result is that Britain's opt-out reflected the interests of the business community in not being locked out of future participation, but also not being locked in (Moravcsik, 1998: 420 et seq). The CBI was primarily concerned about remaining competitive (through exchange rates) and linked to the single market. Yet it did endorse the single currency and argued that it would bring benefits to British business. In testimony to the House of Lords European Communities Committee in mid-1990, the CBI spokesman David Lees asserted that 'the ultimate goal of business, certainly my own view of the ultimate goal of business, is a single currency' (Lords, 1990: 120; this interpretation of the CBI being positive toward a single currency is shared by the House of Lords European Communities Committee in its report). The CBI opposed the Major government's reluctance to embrace the single currency (Moravcsik, 1998: 421). Several advantages to a single currency were cited by the CBI, including a reduction in hedging and transaction costs, reduced foreign exchange volatility, and an external control on inflation. Estimates of savings for British business were £300 million for hedging costs, £10 billion for transaction costs, and £3 billion for volatility costs (Lords, 1990: 119).

Yet the CBI also supported John Major's hard ecu proposal, not as an end in itself but as a 'critical bridge between ... entry to the ERM and that point at which ... we will be ready, together with our European partners, to move to the single currency' (Lords, 1990: 121). It was expected to serve as a learning process, by which firms would become familiar with the new currency prior to moving to a single currency. In addition there was serious concern among business over the levels of inflation and unit labour costs in the UK, but the emphasis was on getting these under control and convergent with other European economies so that Britain would not be harmed in the prospective EMU. The CBI also cited the difficulties British business would face outside a single currency area.

The IoD was more cautious, supporting only the hard Ecu (Lords, 1990), which was also advocated by a number of City banks, represented by the British Invisible Exports Council (BIEC; see testimony and written submissions of Sir Michael Butler and Barclays Bank in Lords, 1990). The main concern was to promote price stability and economic convergence among likely participants in a monetary union while maintaining the maximum level of national policy autonomy. It was a market-driven proposal, relying on market actors to make the choice whether to adopt the parallel currency.

In addition, inflation had reemerged as a serious problem in the late 1980s, and by 1990 was well above the French, German, and even Italian levels. A British recession juxtaposed to a German reunification-spurred demand boom exacerbated the economic differences between the two countries. This provides a plausible economic reason for British negotiators to be wary of commitment to a monetary system that might require severe adjustment.

The point here is not to argue that domestic economic interests *did* want a single currency and the government failed to deliver it; rather it is to argue that opinion was again somewhat divergent and equivocal. Important economic actors wanted the government to move to a single currency; others were more reluctant or advocated a policy which kept Britain within the game but not necessarily as a participant in the single currency. Moreover, as we have seen elsewhere, British business believed it had broad consensus with other national business groups within UNICE on the direction a single currency should take. True there were nuances in national positions, but European business had broadly united behind the Delors report. The CBI argued in testimony that 'the main objective which UNICE represents in European business, about which there is no doubt [presumably including the CBI] is the need (a) to maintain price stability and (b) to get a single currency' (Lords 1990: 125).

Again, the question is why, given the broad consensus among European business interests on the need for a single currency and the mix of views within the UK among all economic actors, the government chose the position it did. Several possible answers might be plausible. First, as Moravcsik argues, the government followed the bulk of business opinion and refused to be left behind but also left open the possibility of not joining stage 3. A second possibility is that Major, when negotiating EMU as prime minister, intentionally balanced the anti-integration identity-conscious wing of the party with the pro-integration liberal wing. During the period from late 1990 to late 1991, when the treaty was being negotiated, Major's majority declined slightly from 99 to 95. This probably afforded him enough autonomy to make some choices about the treaty outcome without reference to balancing the wings of the party. So, a cautious, middle-of-the-road approach would have been his own choice. In other words, without the need to balance, Major may have done it of his own volition, mindful of the recent difficulties the party had gone through under Thatcher's extremism. Yet we cannot disregard the influence of mixed economic interest opinion and it is quite possible that the equivocal signals received from interest groups, as well as high inflation, were paramount in the government's decisionmaking.

After the next general election, the parliamentary arithmetic changed for John Major. He was returned to power, but with a majority of only 21, declining to nine over the five years of his government. By 1996 the question was being asked whether the UK should join in the first wave, and once again economic interests were split (for the details of positions see Commons, 1996 passim). The CBI was uncommitted, with big firms in favour. The IoD was opposed; the BCC advocated a wait and see approach; banks and multinationals such as ICI were supportive of early membership; the TUC (rather gingerly to be sure) advocated remaining among the first wave member states.

Although there is clearly not a consensus among interest groups in favour of UK membership, several factors suggest that their views may not have been decisive in government policy. The first is that evidence again points to broadly similar views between UK interests' positions and those from other member states. Big firms wanted a single currency, small firms were more sceptical, the national trade union umbrella groups all favoured a single currency (see Commons, 1996: 67, 72, 74, 133). The one exception was the CBI's uncommitted stance, which distinguished it from other UNICE members.

The second reason is that opinion polls among even the uncommitted UK business associations showed a majority of member firms supporting the single currency; again, the exception was small firms, but even here the support was evenly divided, with 46% supporting and 46% opposing introduction of the single currency in a 1994 survey (the survey was comprised mainly of firms employing 50 people or fewer, but with some firms employing up to 99; see BCC, 1994). Two-thirds of Britain's large firms supported the single currency. This compares to German findings: in September, 1995 the German Chambers of Industry and Commerce (DIHT) published survey results indicating that only 33% of businesses employing fewer than 20 people supported the single currency, while 64% of those employing more than 1000 did so (cited in BCC evidence in Commons, 1996: 67).

The third reason is that UK economic interests, regardless of their views on British participation in the single currency, tended to support strongly a clear position by the government one way or another. As ICI's corporate chief economist explained, regardless of whether the UK was in or out, certain preparations needed to be made, for which certainty would be helpful (Commons, 1996: 80). In this they were disappointed.

Conclusion: party balance & British exceptionalism

This paper has sought to question liberal accounts of UK preference formation on monetary integration, suggesting that an intervening institutional variable may add to our understanding of a number of episodes (some liberal variants do point to the interest aggregation stage as a determinant in preference formation; see eg., Moravcsik, 1997). At crucial stages in the process of monetary integration, UK economic performance was more compatible with the low inflation states who were at the vanguard, than with the weak currency, high inflation states. At other times, high inflation states like Italy were pressing for membership of the club. As the cases of both Britain and Italy showed, the relationship between inflation and support for monetary integration seems tenuous. Also, economic interests shared broadly the same goals across member states depending on their exposure and vulnerability to international economic fluctuations.

I do not suggest that scholars dismiss liberal sources of preference formation, for these sources are very likely to be the most important independent variables in government policymaking. Yet it would appear that liberal accounts have failed to fully devlop or explore an important intervening variable in this process of preference formation on Europe. This variable provides a structural guarantee that anti-integration opinion will be taken into account in Britain by consistently including that opinion within the ruling party, the government, and (if a leader is wise) the Cabinet.

I conclude with two predictions based upon the influence of centrism and UK governmental majority. The first is that with a different set of political institutions, a more positive European policy would emerge, even without changing social inputs. The present government has toyed with the idea of changing to a proportional representation electoral system for national elections (this has already been done for Scottish, Welsh, and European Parliament elections). It is likely that such a change (admittedly remote) would produce a result where no single party had an overall majority, leading to a coalition government, with more extreme parties remaining outside government.

The second prediction is that if a Blair government is returned after the next general election, but with a small majority, the government's position on monetary integration will become much more negative. The reason is that decisionmakers will be more reliant on Euro-sceptic backbench MPs to maintain a viable government. Forced to take their views into account, plans for a late but graceful British entry into the single currency will quietly be shelved.

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Figure 2

The spectrum of social opinion and PR parliamentary parties

Left ----------------- Centre ----------------- Right

Ideology	anti-market	pragmatist	nationalist
Position	sceptical	positive	sceptical

Parties*	**[Com]**	**[Soc]**	**[SocDem]**	**[Centre]**	**[Lib]**	**[CD]**	**[Con]**	**[Nat]**
% of seats	**5**	**10**	**15**	**20**	**18**	**15**	**12**	**5**

Gov't 1 = **SocDem/Centre/Lib**
Gov't 2 = **Centre/Lib/CD**

*This is a hypothetical example which is intended to show the narrower ideological basis of parties in PR electoral systems and its effect on government formation. Assuming the median party is the Centre party, and that it will form part of the governing coalition, and also assuming that a minimal connected winning coalition is sought, the two possible governments are shown. Note that they both exclude sceptical parties on the extreme wings.

Com = Communist; Soc = Socialist; SocDem = Social Democrat; Lib = Liberal; CD = Christian Democrat; Con = Conservative; Nat = National.

The spectrum of social opinion and the main British parties

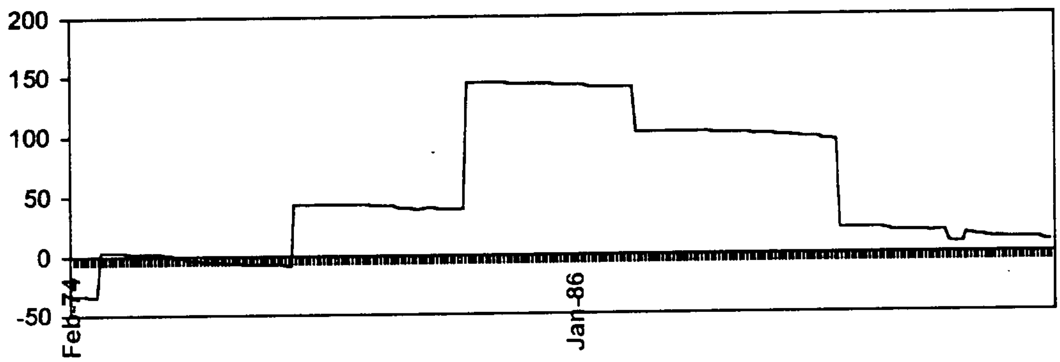
Left ----------------- Centre ----------------- Right

Ideology	socialist	pragmatist	nationalist
Position	sceptical	positive	sceptical

Parties **[------------Labour----------][------------Tory-------------]**

Appendix 1

Government majorities, February 1974-May, 1997



Sources: House of Commons Public Information Office; David Butler and Gareth Butler (1994) *British Political Facts, 1900-1994* (Basingstoke: Macmillan), 7th ed.

Appendix 2

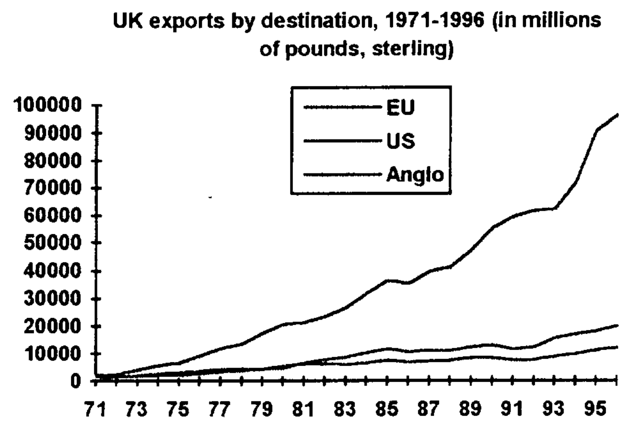
Italian parliamentary parties

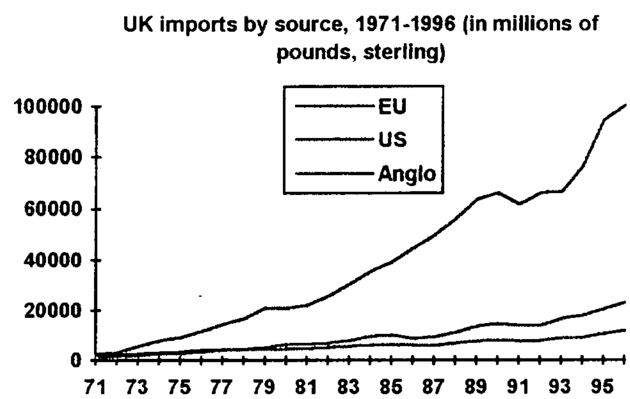
1979	PD/6	C/201	PR/18	S/62	SD/20	R/16	CD/262	L/9	MSI/30
1976	PD/6	C/228	PR/4	S/57	SD/15	R/14	CD/263	L/5	MSI/35

Underlined parties are those in government. Elections only shown here. In March, 1978 Andreotti's Christian Democratic government signed a pact with four other parties: the Republicans, Social Democrats, Socialists, and Communists.

Parties
CD = Christian Democrat
C = Communists
S = Socialist
SD = Social Democrat
L = Liberal
R = Republican
MSI = Italian Social Movement (right wing)
PD = Proletarian Democracy
PR = Radical

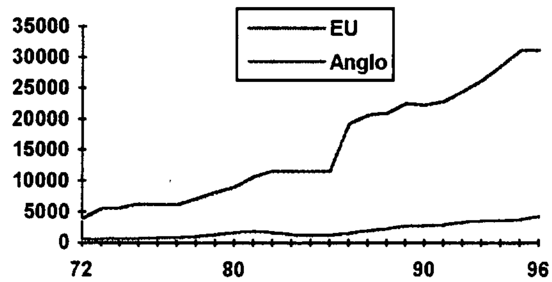
Appendix 3



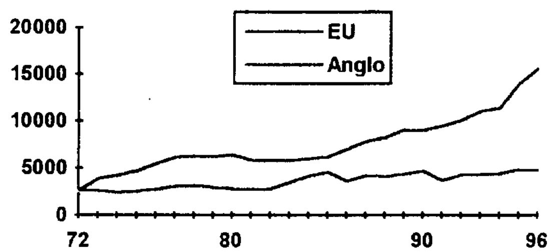


Source: Office for National Statistics
Note: Anglo countries include Canada, New Zealand, Australia, South Africa, India, Nigeria, and Hong Kong.

UK travellers abroad by destination region, 1972-1996 (in thousands)



Overseas visitors to the UK by home region, 1972-1996 (in thousands)



Source: Office for National Statistics.
Note: The 'Anglo' category comprises the US, Canada, South Africa, Australia, and New Zealand. Figures for other Commonwealth and English-speaking countries are not compiled separately. Figures for South Africa are not available until 1976.