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Political Economy and the Study of Britain and European Integration: A Global-National Perspective

Abstract

An extensive range of evidence and analysis has been employed to understand the complex relationship between Britain and the process of European integration. This paper builds on a body of work within the study of European integration that examines British economic interests in European policy making. However, I show that a comprehensive explanation of this relationship requires the application of a politico-economic analysis on national articulations of global and transnational processes. It is, I propose, Britain's distinctive insertion into the global economy that enables us to understand and explain Britain's problematic relationship to the processes of European integration. This is explored through an analytic narrative of Britain's historical relationship to the process of European integration. From a broad comparative perspective, I emphasise the exceptional character of Britain's globalised political economy.

Introduction

The broad generalisations that have been typical of much of the globalisation literature have faced considerable criticism from comparative political economy approaches that re-emphasise national and regional specificities (Canoy 1993; Weiss 1998; Hirst and Thompson 1999). However, a clear differentiation of national from global levels of analysis is not always possible or appropriate. A central argument of this paper is that a satisfactory political economy must address, both theoretically and empirically, national political orders within a context of transnational and global processes. Notably in the case of Britain and Europe, it is impossible fully to understand how this relationship has unfolded without exploring how national, regional and global processes interpenetrate and overlap. In the paper, I therefore set out a framework and narrative that will demonstrate how British political economy cannot be studied without understanding its relationship to the globalisation of political economic development¹. The objective is to show how Britain intersects globalisation and regionalisation in such a way that a very particular relationship to the process of European integration has emerged.

Britain and the political economy of European integration: the limits of the nation-state model

In recent years some seminal studies on the political economy of European integration have made an important contribution to understanding Britain's distinctive relationship with, and within, the European Union (Milward 1992; Moravcsik 1999). However, the approaches taken in these studies are theoretically limited and do not fully address the highly distinctive British interpenetration of the global and the national. In this section, I critically examine these approaches before going on to show how this limitation can be addressed.

The economic history set out by Milward in *The European Rescue of the Nation-State* (1992) is highly suggestive about the difficult relationship between Britain and the EC/EU (European Community/ European Union). It is against a model of national/European politico-economic modernisation that Milward evaluates post-war British European policy. He identified the formation of the European Community with the emergence of a common state model across Western Europe after the war (Milward 1992: 26). This state was organised in terms of a wider social consensus than had been seen in the past, including 'labour, agricultural producers, and a diffuse alliance of lower and middle income beneficiaries of the welfare state' (ibid: 27). In the case of the European Community, Milward shows that this politico-economic settlement also redefined the relations *between* states and secured future growth and stability. In contrast, he judges that in Britain the political consensus that brought about this reconstruction was absent (ibid: 433). The core political institutions of the British state, the Foreign Office and Treasury were dominated by an amateurish and socially prejudiced monied upper class (ibid: 431). Milward views the more global aspects of the British political economy as evidence of a failed European state. In Britain, the City dominated economic policy and was a 'closed social circle protected by its own restrictionist politics' (ibid: 395). It prioritised world wide commercial policies such as currency convertibility, which were unrealistic and fundamentally at odds with national industrial modernisation.

The tone of Milward's original argument has however shifted in his recent 'official history' of Britain and the European Community between 1945-63 that draws on a comprehensive study of the public records (2002). Here, the world wide policies of the British elites are explained in terms of a 'national strategy' that in the post-war context was entirely rational considering Britain's recent historical role as a world hegemon. In this account, Britain's attempt to push the member-states of the EC in a more liberal internationalist direction appear both feasible and possible and not as the last stand of a deluded imperial elite (2002: 418-419). It is ultimately thwarted by Britain's own weaknesses and the USA's willingness to support

a discriminatory European trade bloc. The contention of this paper is that when viewed through a different set of conceptual lenses the global dimensions of Britain's 'national strategy' are both more continuous and more significant than Milward implies. There remains an under theorised account of the British 'national political system' that underplays its distinctiveness from the European state system. The implication is that Britain's problems with the process of European integration have been chronic and structural rather than simply tactical and strategic.

A similar problem arises in the case of Moravscik (1999) in his more specific analysis of the role of commercial interests in the integration process. Moravscik (1999) argues, contra Milward, that British policy at the time of the Treaties of Rome was a 'rational, remarkably flexible, even far-sighted defense of enduring British economic interests' (ibid: 123). The distancing of Britain from European integration was justified in terms of the analysis of the economic implications of membership made by elites at the time (1999: 132). The political preferences and cleavages that emerged over the issue of European integration reflected core British economic interests and, while there was considerable concern over possible exclusion of Britain from a Customs Union, British policy came down on the side of these dominant economic interests (1999: 167-176). This meant support for Commonwealth trade until it became clear that the balance of British trade was significantly shifting towards the European Community (ibid). The support of big business for membership during the 1960s and 1970s, and its fear of exclusion from the European market, became the overriding factor in the minds of British political elites and translated into a consistent pro-European policy (ibid: 281). Despite longstanding opposition to the federalist aspects of integration, British elites have in the final analysis been reluctant to allow these concerns to override the possibility of British commercial exclusion from Europe. However, the 'nation-state' model that underpins this approach leads to a highly selective interpretation of evidence, particularly in the dismissal of geopolitical interests and ideologies. British elites are simply shown to be acting like other national elites processing core national economic interests. Notably, Moravscik does

not address the extent to which British elites have often represented, both strategically and ideologically, the interests of global fractions of capital and this has set Britain apart from other European states.

These studies provide significant insights into the causal processes of Britain's political economic relationship to European integration. In particular, they provide an important counter to diplomatic histories as they direct attention towards social power and economic interests and strategies rather than diplomatic high politics (see Moravcsik 1999: 87-88). However, they are not underpinned by a theoretically informed account of the British state and economy. It is only from such a perspective that the historical intermeshing of national and global economic strategies that finds continuous and contemporaneous expression in British elite practices can be fully explained.

Britain, Europe and globalisation

Hyperglobalist arguments (*inter alia* Ohmae 1990) claiming that sweeping transnational economic processes have resulted in inexorable state decline remain highly contentious. They have not only been criticised by work on comparative and regional political economy (Mann 1997; Hirst and Thompson 1999) but also by those who have identified the way in which processes in the global political economy are intrinsically and fundamentally constituted by national states (Poulantzas 1975; Arrighi 1994; Gowan 1999; Panitch 2000; Barrow 2005). The latter kinds of analyses are central to the arguments of this paper as they show that globalisation cannot be abstracted from the actions and policies of capitalist states. From this perspective, Britain's role in globalisation is shown to be central but secondary to the United States. In this section I set out this argument and show how it is essential to understanding British relations with, and within, the EC/EU.

The hegemonic role played by the US in post-war Western Europe was central to its reconstruction as a successful capitalist region and to its security in the Cold War. However, with the breakdown of the Bretton Woods order in the early 1970s there was a shift in economic relationship between the US and Western Europe. At the time, Nicos Poulantzas² (1975: 87) noted that the dollar crisis led to a series of withdrawals by the EEC over issues of monetary policy and the energy crisis in the face of US demands. He argued that in the context of the decline of Bretton Woods, Western Europe was more directly penetrated and targeted by US interests. This he believed represented an offensive ‘to undermine the place of a *secondary imperialism* that Europe had succeeded in occupying under its hegemony’ (ibid: 88 emphasis mine). From this perspective, globalisation represented a reorganisation of international capitalist relations under US hegemony. Since Poulantzas, commentators have shown how US, and US dominated institutions with a global reach have engaged in the restructuring of capitalist social relations across regions and countries (see Panitch 2000). Gowan, for example, identifies ‘The Dollar-Wall Street Regime’ as the key mechanism bringing about this transformation:

The American Government chooses not to seek fixed exchange rates with the other main currencies, since that would require the US Government to give up its use of the dollar price as an instrument for choosing its other goals. Therefore, under the regime, the dollar moves in great gyrations up and down against the other currencies, utterly transforming their trading and other environments. (1999: 33)

In moves engineered by US governments, the control of the value of exchange rates shifted from governments to international private finance. The turbulence created by the floating dollar and shifts in US interest rates forced increased reliance of states on US-dominated financial institutions. In addition, Gowan notes that Britain’s role in this had in fact been established by the early 1960s when the City of London became an ‘off-shore’ European base for dollars that could be borrowed and deposited by governments and businesses throughout the world (ibid: 22). In particular, it

allowed US banks to operate outside of US domestic regulations (ibid). Moreover, Gowan argues that the City's openness to the global economy was a direct consequence of British government policy (ibid: 38).

The emergence of the Eurodollar market in the City of London is generally seen to represent the beginnings of a shift away from nationally regulated capitalism and towards the re-establishment of the hegemony of global finance (Burn 1999: 226). Burn (1999) has documented exactly how its emergence was a consequence of the institutional architecture of British political economic governance established in the nineteenth century; the City-Bank of England-Treasury nexus. Such analyses locate Britain within politically driven processes of globalisation from well before the Thatcher and Blair Governments' espousals of free market principles. This proposition is highly suggestive of the role of British political institutions in transforming the global economy preceding the breakdown of Bretton Woods and contemporary processes of globalisation. However, it is since the 1980s that commentators have particularly emphasised the role of Britain in 'globalising' Europe. Schmitter and Streeck noted that 'deregulation thus spread from the United States to *Britain, the country with the most open capital markets*, and from there to the European continent, meeting with declining resistance in changing domestic political economies' (1991: 148 emphasis mine). The persistent opposition of British governments to a deeper project of European integration can be seen as part of an offensive against the emergence of a 'secondary imperialism' in Europe. From this viewpoint, Britain's role has been to open up Europe to the free movement of capital while at the same time restricting integration so the EC/EU does not develop the kind of political and social structures that could challenge US hegemony.

To conceive of globalisation as a product of contemporary capitalist state relations, enables a number of hypotheses concerning Britain's relationship to European integration to be formed. Firstly, that Britain has had a significant global political economic role that is related to its particular incorporation within US hegemony as well as to its own political economic

heritage. Secondly, the consequence of this has been to turn Britain into a vehicle and protagonist for the globalisation of Europe. The argument of this paper is that whilst these propositions are correct they have not been properly substantiated because of the focus on the generality of globalisation rather than its articulation within particular contexts and relations. The following analytic narrative therefore aims to demonstrate how globalisation is expressed in the British political economy and how this can illuminate Britain's relationship to the process of European integration. A third proposition to be considered is that Britain has successfully pursued its global agenda leading to a convergence of the European Union along the lines of a neo-liberal British model. The discussion will also demonstrate that the very specificity of Britain's globalised political economy means it is not appropriate to view Britain as a model for other European states and the European Union in general.

European integration and the renewal of Britain's global political economy

Since the middle of the nineteenth century, the British economy has on a range of measures been consistently more internationalised than its major competitors (Hirst and Thompson 2000: 340). Indeed Britain was no more globalised in the 1990s than it was in the 1890s (ibid). In exploring the inter-penetration of the British political order with transnational processes, it is necessary to see how the institutions of the British political economy have been historically globalised. The role that recent British governments have played in macro-engineering a liberalised global economic order can be viewed as consistent with a liberal political economic heritage that can be traced back to Britain's position as a hegemonic imperial power. The remainder of the paper identifies the distinctiveness of the 'British model' and how it articulates with, and within, the EC/EU.

From the middle of the nineteenth century, Britain controlled world money and global investment under the banner of free trade. This placed financial capital interests and three interconnected institutions at the centre of British

governance, and therefore, global power: the City of London, the Bank of England and the Treasury (Ingham 1984). This institutional nexus protected the interests of global financial capital against more modernised forms of state regulation and control. The role of the ‘official’ state institution in this relationship, the Treasury, was to ensure the business of financial capital was not unduly restricted by formal government activities. The Treasury’s capacity to maintain a liberal orthodoxy within the British state has been remarkably continuous (see Cain 1997: 97-98). Burn (1999: 251), drawing on the example of the Eurodollar markets, describes the relationship between state and civil society in Britain as a blurred one in which the Bank of England and City operate as a form of ‘private interest government’. It implied a more direct relationship between the British state and global capital than in more typical nation-states. A flexible, financially-driven model of capitalism was therefore embedded in the British political economy long before contemporary discourses of globalisation.

It was the success of the protectionist counter-movement, particularly in Germany and the USA, which signalled the end of British world power and free trade imperialism (Arrighi and Silver 2003: 337). Notably, the rise to world power of the USA was based on only a partial trade liberalisation and its ‘self-centred, largely self-sufficient, continent sized economy’ (ibid: 339). By the 1930s the era of a British dominated world economy was clearly at an end. Britain had been forced to abandon the gold standard and adopted protectionism in the form of an imperial preference system. Nevertheless, key British elites remained committed to a return to the ‘one-world system’ and economic liberalism (Strange 1967; Overbeek 1990; Milward and Brennan 1996). Despite a system of Commonwealth trade preferences and import controls in Britain, the overriding objectives of British governments during the 1950s were commercial and monetary policies based on global free trade principles. Governments believed that Britain could once again place itself at the centre of a liberal global economy because of its Commonwealth ties, its strong relationships with both Europe and the US, and the continued importance of sterling and the City to the world economy. Notably, from 1953 onwards Britain pursued

through the Organisation for European Economic Cooperation (OEEC) a liberalisation policy centred on currency convertibility and the abolition of all controls and trade discrimination³ (Milward and Brennan 1996). There was a continued commitment to sterling as a reserve currency which was not only viewed as essential to revive the City of London's role as a financial centre but also reinforced a financial conjunction of interests between Britain and the US (Schenk 2002). Britain was to re-assert its place in the global economy through placing itself at the centre of an integrated transatlantic economy. As part of this, British governments also ensured easy access of American investment to Britain and Europe. While Britain retained import controls on American goods, the post-war American penetration of the British economy was evident in the scale of American investment that increased by 151% between 1950 and 1958 (Overbeek 1990: 105).

The plans for an integrated European customs union with ambitions of political unity represented a clear threat to the British vision. It was viewed as another step in the direction of establishing a global economy based on exclusive protectionist blocs. British governments were concerned to restrict the consolidation of Europe and North America into distinct regional blocs of economic power. The first significant British response to European integration was to propose a European Free Trade Area (EFTA) that lacked the more extensive system of obligations and commitments of the EC. The six member-states of the EC were highly suspicious of a proposal that would have effectively permitted low cost imports from around the world to penetrate the common market, many entering undetected through Britain's commonwealth markets (Milward 2002: 268-269). The Macmillan Government (1959-1963) only began to pursue EC entry when it became clear that EFTA was not a serious alternative to a European customs union and that core British commercial interests lay in membership. Nevertheless, in so doing Britain was also carving out for itself a particular role within the EC/EU that would be more favourable to US interests and keep the Community from becoming an 'inward looking club' (Kaiser 1996: 130). Indeed, it seems that the same reasons *against* British EC membership

became transformed into the rationale *for* membership from about the late 1950s onwards. This raised significant problems for the achievement of British membership during the 1960s. Moravscik argues that the key factor behind de Gaulle's veto of British membership in 1963, was the concern that Britain would undermine the protection obtained for French agriculture in the CAP (1999: 190-195). It was likely that in GATT negotiations the British would have been sympathetic to the US objective of reducing European agricultural protection (ibid: 208). Britain appeared reluctant to have accepted any commercial framework that would continue discrimination against North America despite being more favourable to the CAP as a way of reducing the cost to the Treasury of supporting British farming. De Gaulle consistently, and correctly, viewed the British EC membership as a threat on the 'accepted economic purpose and rules of the Community, to create a regional discriminatory trade bloc' (Milward 2002: 481). In addition, Schenk (2002) has shown that the role of sterling as an international currency was a significant obstacle in the way of British EC membership during the 1960s because it was feared that the EC would be called upon to bail out Britain when it faced another sterling crisis. There were therefore significant politico-economic barriers to British membership of the EC despite growing support amongst the six member-states. British membership of the EC did not become a serious possibility until the end of the 1960s when the Wilson Government laid the groundwork for entry. Membership is usually associated with the fall from power of de Gaulle; however it was as much to do with changes in the political economic environment. For instance, the growing willingness of the member-states to move towards greater trade liberalisation with the US removed a potential source of conflict between Britain and the EC/EU. In addition, the problems with sterling seemed to have abated after a reduced role for the pound was accepted after 1968 and by the breakdown of Bretton Woods in the early 1970s.

From a domestic viewpoint, British governments' more 'global' approach to European membership was also viewed as consistent with strategies of economic modernisation. With the declining economic importance of the

Commonwealth, Britain was well placed to become an international gateway to European markets. The modernising implications of this for the domestic economy had much in common with traditional economic policies that enforced greater domestic competitiveness through the external sanction of free trade (Gamble 1994: 115). The outlook of an intensification of European competition for the less advanced sections of the British economy were likely to be negative. Nevertheless, the concern of those, particularly on the left, with the negative impact on small and medium sized British business was largely ignored by governing elites⁴ and membership of the EC was trumpeted as a liberal measure opening up British markets to competitive pressures that would force business to rationalise. The commercial pressure exerted on British governments to pursue membership came particularly from large-scale capital suggesting that the policy was firmly in line with the multinationalisation⁵ of the British economy and with securing Britain's role as a global financial centre.

Membership of the EC was part of rather than the solution to the structural contradictions and crisis that characterised the British post-war political economy. The commitment to the value of sterling as a top international reserve currency and a relatively open economy had compromised any restructuring of the British industrial base. A combination of high interest rates and deflationary strategies to defend against currency speculation, alongside surges of imports once the economy began to revive, created an environment in which domestic industries struggled. By the time the Heath Government finally signed the Treaty of Rome in January 1973, the problems of the British economy had become particularly acute and membership became the 'essential instrument' for achieving a degree of unity across the political class (Nairn 1973: 36). Membership was eventually achieved against the background of an unsustainable expansion of the economy, that resulted in a balance of payments crisis for the incoming Labour Government, and growing trade union militancy due to the failure of the Government to secure trade union reform and wage restraint. Nairn at the time argued that EC membership 'and it alone, offered the way out from the pitfalls which seemed to dominate the political

landscape of 1970' (ibid; also see Jessop 1980: 71-72). It is essential to emphasise the active support for membership of financial capital in the context of the dollar crisis and worsening domestic economic conditions (Nairn 1973: 20-27). British entry to the EC under the Heath Government was highly compromised, it was the only part of its political project left intact and had *de facto* been reduced to an aspect of crisis management designed to reassure international capital.

Membership of the EC/EU and the consolidation of Britain's global political economy

Membership of the EC had signalled a partial reorientation of Britain's political economy, however this did not result in the transformation of Britain into a more typical national industrial power. British political economy remained global in outlook despite the end of the one-world system envisaged by British policy makers in the 1950s, as the sterling area declined and Bretton Woods collapsed. The re-emergence of the City on the back of the Eurodollar markets and the dominance of multinationals continued to bolster the established institutions of British economic governance. This was evident in the Labour Government's decision in 1976 to apply for a loan from the International Monetary Fund (IMF) to stem a sterling crisis which brought about a reversal of electoral pledges on public spending and the introduction of policies centred on price stability and private investment. The IMF operating in alliance with the City-Bank-Treasury nexus attacked the forces of economic-corporatism in Britain and brought about a recomposition of British social relations (Jessop 1980: 81-82). In adopting neo-liberal policies, Panitch argues that the Labour Government were not simply 'managing the British crisis' but 'explicitly saw themselves as junior partners with the US in managing the international crisis, through policies to accelerate the free flow of capital' (2000: 13). In this context, the Labour Government was fully prepared to accept the globalisation of the domestic policy regime. Furthermore, this revived global and Atlanticist approach to economic management was being prioritised over European plans for monetary cooperation on which the British position was extremely cautious and at some points characterised by outright hostility (Jenkins 1991: 441-446).

Rather than viewing the British political economy as restructured by US hegemonic policies in the 1970s, it is more appropriate to see British elites as taking advantage of a structural context favourable to the historical organisation of British capitalist interests. Both in terms of outward and inward foreign investment, Britain benefited from the deregulation of

capital markets initiated by the United States and the expansionist fiscal policy of the early Reagan era. Gamble argues that the recovery in the British economy between 1981-1987 was fuelled by the budget and trade deficits of the United States that followed from this policy shift (1988: 98). Of course it was the Thatcher governments of the 1980s that radically set about restoring global capitalist accumulation in Britain by removing the interference of a state that was no longer trusted by business and commerce (Leys 1990). A large part of the British manufacturing base was not saved from collapse, unemployment was allowed to rise and organised labour was attacked. The barriers between the British economy and the global market place, such as capital controls, were removed. The upshot was to continue a trend whereby Britain's stock of overseas investments was considerably higher than all Western economies, apart from the US, and at the same time Britain extended its role as a 'host country' for foreign investment and multinationals, particularly American and Japanese (Gamble 1988: 20). In short, there was a denationalisation of the British economy:

British firms were recognised to be bad at manufacturing, therefore, revitalize manufacturing with Foreign Direct Investment (FDI). Foreign firms will bring new technology and best management practice. The UK would offer a flexible and relatively cheap labour force, with few rights or countervailing powers, and also an *entrée* into the European Union for Japanese and US firms. Removing exchange and capital movement controls would allow British financial institutions to export UK capital, and it would allow UK financial markets to trade globally. (Hirst and Thompson 2000: 353)

The full implication of this was evident by the mid-1990s when it was clear that the British economy was considerably more *globalised* than its major competitors (ibid 2000: 343). An examination of Foreign Direct Investment (FDI) shows that these flows had become far more important for the level of domestic investment and capital formation than in most other large economies. In this respect, Hirst and Thompson claim that 'it is more like a Malaysia or an Indonesia than it is an Italy or even a France' (ibid: 344).

While other countries have had similarly open economies, particularly smaller states such as the Netherlands and Switzerland, what distinguishes the British case was the extent to which globalisation had emerged as a distinctive strategy and ideology. Globalisation in Britain was a political project not just an economic reality and it was this project that began to find expression in relation to European integration in the 1980s and 1990s. The legacy of Thatcherism was to resolve Britain's post-imperial difficulties by fully embedding globalisation within the domestic policy regime. It was not solely the measurable levels of globalisation that made Britain distinctive but the existence of these within a relatively large European power that explicitly saw itself as a global ideological force. This had major implications for Britain's role in the second wave of European integration.

By the mid-1980s, a global context more favourable to Britain's political economy also included a significant European dimension in the shape of the single market project. The eventual outcome of the negotiations over the Single European Act (1986) was viewed as a British victory because of the primary focus on market freedoms with few concessions to those who had a more institutionalist and federalist agenda (Thatcher 1993: 555). This was justified in that it was the drive for the free movement of capital put forward by Sir Geoffrey Howe that formed the basis of the single market project (Gowan 1997:100). The British Government went so far as to trumpet the SEA as 'Thatcherism on a European scale' (Young 1998: 333 Howe 1995: 456). In particular, ministers stressed the benefits that would accrue to the City and Britain's financial service sector in general (Buller 2000: 83-84).

At the time of the single market programme, there appeared to be an apparent convergence of economic policy across Europe with that of the British Conservative Party, establishing the British Government as a leading player in the Community. Wallace and Wallace commented that,

The confidence with which the British Government approached these European conversations reflected not only its lost fears of the monsters of federalism and corporatism, but also its sense that it was

carrying the ideological battle onto the European stage, its policies on privatization and deregulation being gradually emulated by its continental partners in France, in Spain, even in Germany. (1990: 98)

In contrast to Britain's post-war reputation of decline and crisis, the Thatcherite restructuring of the state and society began to see Britain emerge as model political economy in the context of globalisation. However, this was far from straightforward. Despite concerns over the intensified global competition, the states of Western Europe continued to embed market mechanisms within a diversity of national institutional arrangements that can be traced back to earlier phases of political modernisation (Crouch 1993; Hollingsworth and Streeck 1994; Crouch and Streeck 1997; Grote and Schmitter 1999). In particular, there was no drive to dismantle welfare state regimes or the underlying social contracts that underpinned them (Alber 1988: 463; Pierson 1991: 173-176; W. Wallace 1997: 38). In the early 1990s for many British Eurosceptics, this form of regulated capitalism looked like becoming the model for European integration that was being pursued by the Delors' Commission (Ross 1992). In support of their ideological objections to further integration, Eurosceptics began to emphasise the distinctiveness of the British economy from its European counterparts. Out of office, Thatcher articulated this scepticism towards the argument that European integration was central to Britain's long-term economic development:

....the European Community's relative importance as regards both world trade and Britain's global trading opportunities is diminishing and will continue to diminish. (1995: 498)

From the perspective of political economy, the chronic factions and splits in the Conservative Party during the Major premiership can be seen as divisions over the extent to which Britain's globalised political economy could be compatible with the direction of European integration outlined at Maastricht. For British Eurosceptics in the Conservative Party, the emerging

European institutions of economic governance were not just viewed as unnecessary but a serious threat to the British ‘model’ of political economic development. The Major Government claimed that ‘Europe’ could be made compatible with Britain and pursued a policy centred on the negotiation of exits from key areas such as monetary union and the social dimension in a bid to appease hard-line Eurosceptics.

The Major Government further marginalized Britain from the EC/EU mainstream. By the mid 1990s, Britain was less a model for other European member-states to follow than the “‘odd man out” among the major European economies’ (Hirst and Thompon 2000: 354). Britain’s more open and direct relationship to the global market could be contrasted to those other Western European states that accommodated globalisation within existing national and transnational arrangements. This was reflected in policies that involved the re-organisation rather than dismantling of ‘social pacts’ and corporatist institutions (Rhodes 1997). It was also evident in the capacity of the EU to re-regulate as well as to de-regulate (Majone 1996; Walby 1999). European integration involved adjustments to the changing macro-economic environment by extensive political and legal institutionalisation. For many Western European policy makers, globalisation was to be a managed process mediated and shaped by transnational institutions that could represent a variety of agents and organisations (Wallace 2000: 381). As Helen Wallace notes, ‘Europeanisation is sufficiently deeply embedded to act as a *filter* for globalisation’⁶ (ibid: emphasis mine).

If British Conservatives contested the extensive processes of European institutionalisation that followed the Single European Act, the election of the Labour Government in 1997 committed to a constructive European policy implied a new constructive beginning. New Labour committed itself not only to fundamental constitutional change in the UK but also to the institutions of European governance. The policy review after the election of 1987 had committed a future Labour Government to a co-operative European policy. The 1990s witnessed the Europeanisation of the Labour

Party with growing support for the European Union's economic and social agenda (Gamble and Kelly 2000: 3-5). This constructive approach was realised when the Blair Government took office and immediately negotiated Britain's incorporation into the Social Chapter. On a number of areas, the New Labour Government had placed itself in the mainstream of European policy-making and even took on a leadership role in areas such as the environment and defence. The implication was that New Labour was committed to domestic and European institutional pluralism reflecting a shift away from the traditional centralised Westminster system of British government. Nevertheless, from a political economy perspective this more constructive approach on Europe did not represent a fundamental shift away from a liberalisation agenda (see Callaghan 2000: 126-127). It was clear that on entering office New Labour were not about to pursue a more European form of stakeholder capitalism that would have implied bolstering the collective power of the European Union in the face of globalisation. While signing up to the Social Chapter at Amsterdam, the Blair Government rejected French plans for interventionist policies on growth and employment. Moreover, further measures under the Social Chapter were rejected as was any extension of Qualified Majority Voting to social policy. By the Lisbon Summit of March 2000, the Labour Government was leading the agenda for European economic liberalisation in the face of French opposition (Black The Guardian 25th March 2000). The Lisbon agreement signalled the end of any attempt to renew the Delors' vision of a more interventionist European Union in terms of growth and employment. At the summit's conclusion Blair claimed that 'there is now a new direction for Europe, away from the social regulation agenda of the 80s and instead a direction of enterprise, innovation, competition and employment' (ibid). This consolidated a British approach to European integration that had as its main priority the liberalisation of the European single market. This position was restated in British government documents on the IGC discussing the European constitution (Fella 2005: 14).

While there has been convergence towards a more flexible and liberal economic agenda in the European Union, this does not necessarily imply a

common approach or understanding of globalisation (Hay, Watson and Wincott 1999: Hay and Rosamund 2001). The Labour Government has established a distinctive British approach to globalisation in a European context of diverse and competing constructions that reflect different national ideologies and institutions. From the perspective of this paper, this is a re-articulation of the British belief in the desirability of an open global economy and that any European project should be subordinated to this wider goal. A key dimension of this is the emphasis on the inevitable logic of globalisation and the necessity of domestic accommodation (Hay and Rosamund 2001: 7; Watson and Hay 2002: 295-300). Watson and Hay (2002) claim that the adoption by New Labour of a political project that ascribed a logic of necessity to globalisation was primarily motivated by electoral interests. The Labour Party's full-scale adoption of the rhetoric of the business model of globalisation was not, they argue, based on a structural reality but designed to legitimise their increasingly orthodox policies of macroeconomic management. However, this is based on a sceptical view of globalisation which is not borne out by what Hirst and Thompson have identified as the 'peculiarities of the British economy' that relates to the high level of integration of Britain into the global economy (2000: 354). This is particularly evident in the continued centrality of global finance to the British political economy. The overall size of the financial services of the UK means that it is the largest industry in terms of employment and accounted for approximately one-fifth of total employment in 2000 (Centre for Economics and Business Research 2001: 6-14 cited in Luo 2003: 6). It is also distinctively global in character. The penetration of the City by American investment banks after deregulation was announced in 1983 dramatically changed the character of the City which resulted in the 'death of gentlemanly capitalism' (see Ingham 2002: 155-157). This has been referred to as the 'Wimbledonisation' of the City as it increasingly acts as UK host for foreign owned companies (Kynaston 2001). A great bulk of the business that occurs in the City serves non-UK residents, for example seventy per cent of world transactions in secondary bond markets take place in London (International Services London 2001 cited in Luo 2003: 4).

The UK economy is driven by trading and financial activity rather than manufacturing and production and this means domination by business activities whose primary service is to maximise economic flexibility by transferring and selling financial assets across the globe. This has profound implications for Britain's political economy. The revived strength of financial capital in the British economy fostered by the institutionalised subordination of the formal state to these interests implies the continuation of a direct relationship between British governments and global market forces that is not typical of other European countries. The resistance that British governments have shown to embedding themselves within forms of European economic governance follows on from this. A major concern regarding further integration into Europe is that the flexible and globalised British economy would be propelled into a European regulatory regime⁷. In contrast, the decision to give control over interest rates to the Bank of England can be seen as a move in favour of a direct relationship to the institutions of global finance over those of European monetary policy. The ambivalence of the Labour Government towards further integration into Europe reflects an underlying politico-economic consensus in favour of a flexible financially driven global market over a productive regional economy. In this context, while there remains a significant fear of exclusion from further European integration and the current government remains committed to constructive engagement in the European Union, the main strategy is to emphasise Britain's difference from Europe. Consequently, policy reflects the ambition of making the EU more like Britain, as the British Chancellor has made clear:

..a consensus can be built in Britain and Europe for a new vision for Europe: that, as a trading bloc, Europe is superseded by the Europe of the global era, Europe's institutions are having to be reshaped in line with long-held British values – internationalism, enterprise, fairness, political accountability.' (Gordon Brown 2003)

Conclusion

In exploring Britain's relationship to European integration from the viewpoint of its global-national economy, this paper has brought to the surface chronic features and structural conflicts in the political economy of this relationship. The globalisation of Britain cannot be accounted for in terms of external force but is the product of the interplay between an institutional heritage, active policy decisions, and the changing structure of opportunities within the wider global political economy. In the immediate post-imperial period, British European policy was directly affected by the pursuit of an integrated transatlantic political economy and the structural position of global financial interests in the state. More recent developments have re-asserted Britain's global trajectory albeit in new directions, and seen the assertion of the British 'model' within the European Union. However, the globalisation of Britain has to be fully contextualised and cannot be generalised as part of a pattern that has been occurring across the European Union. Sceptics are correct to point to the failure of general narratives of globalisation to explain developments in specific European countries. Interestingly, it is in the new accession countries where there has been an extensive and quite dramatic opening up of economies to global capital that the parallels with the British case are most evident⁸. Nevertheless, these economies are far smaller than Britain's and are not global centres of commercial activity. Other countries have successfully adapted to intensified global competition through a careful liberal re-organisation of their politico-economic settlements. These countries, such as Sweden, remain primarily productivist in outlook and contrast markedly to Britain with its chronically large trade deficits and poor productivity levels. A revived Scandinavian social model may be particularly important for the future of the EU and may provide an important benchmark for those economies in and out of the Eurozone which remain stuck with low growth and high unemployment. In contrast, the success of the British political economy is highly dependent on a level of inter-penetration of the national

and global that is characterised by the dominant role of the City and London within domestic, European and global economies. This re-articulation of aspects of 19th century free trade imperialism is simply not on offer to the political economies of the European Union.

¹ Globalisation is a contested term, however in this paper it refers to the active role played by states in deregulating and extending financial and trade flows across borders in such a way that new economic relationships are formed and relationships between economic and political institutions are transformed.

² See Poulantzas (1975) 'Part One: The Internationalisation of Capitalist Relations and the Nation-State.'

³ This was despite maintaining a system of preferences and discrimination for the Commonwealth.

⁴ The British Cabinet Minister Richard Crossman's diary reflections on the one-sidedness of a meeting in October 1966 to discuss Britain's second application are pertinent in this respect (Crossman 1979: 260-261).

⁵ By 1970 Gamble notes that all 100 of the top British manufacturing companies were multinationals (1994: 110)

⁶ However, we should note that currently there is considerable uncertainty about this 'embedding process' demonstrated by the problems of legitimating the European project amongst national publics, evident in the recent rejections of a European constitution by the French and the Dutch.

⁷ This was demonstrated by Gordon Brown's opposition to a withholding tax on cross-border savings because of its impact on the Eurobond market. One of the British governments' five tests before entry into the Euro is considered is the impact of membership of the single currency on financial services.

⁸ See Gowan (1995) on the 'shock therapy' model of transition to capitalism imposed on post-communist states by American and British governments.

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