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The United Kingdom's Eurosceptic Political Economy

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Abstract

This article explores how a political economy approach can explicate recent events in the United Kingdom's relation to the European Union. The proposition is that neither critical nor comparative approaches do justice to the extent to which British elites have sought to differentiate the UK from the EU. The UK is here understood as a Eurosceptic political economy, constructed in opposition to European integration and, in particular, Economic and Monetary. The article explores how we have witnessed a hardening of this Eurosceptic political economy in the context of the Eurozone crisis. The most distinctive feature of which, as seen in the referendum campaign, is the extent to which the economic case for withdrawal has been established as part of the mainstream of British political debate.

Introduction

The ever more contested nature of European integration has brought Euroscepticism to the forefront of the study of the European Union (EU). Its shift from the margins of political systems to the mainstream of the politics of government, and opposition has reoriented research to its autonomous causal significance (Taggart and Szczerbia,k 2013; Usherwood and Startin, 2013). While research on Euroscepticism now extends beyond the party system to the media, civil society and political culture more widely, the concept has yet to be applied to political economy (Tournier-Sol and Gifford, 2015). This is surprising, as its rise has generally been a direct response to the failings of Economic and Monetary Union (EMU) and the impact of austerity. In the case of the United Kingdom, while not a member of the Eurozone, the Eurozone crisis has undoubtedly impacted on domestic politics and contributed to the resurgence in right wing Euroscepticism. The leave/remain referendum has seen a radical right economic scenario enter mainstream political debate; a scenario in which the United Kingdom has a successful economic future outside of the EU. The idea that the United Kingdom could end its foremost economic relationship, one central to its post-imperial re-orientation and recovery, is quite extraordinary. This paper argues that we have witnessed a persistent differentiation of the United Kingdom's political economy from that of the Eurozone driven by an ideological Euroscepticism, the origins of which can be traced back to the forced withdrawal of the UK from the European Exchange Rate Mechanism (ERM) in 1992.

This article views Euroscepticism as constitutive of contemporary political economic processes and policy agendas. On this understanding, it is not simply an attitude or approach to policies emerging at the European level but contests the legitimacy of integration and a European polity (De Wilde and Trenz, 2012). It is associated with the construction of political identities in opposition to Europeanisation, mainly produced and reproduced by the practices of elites, populist movements and the mass media. We are therefore interested in Euroscepticism as an expression of the symbolic power of elites in producing a distinctive British political economy in opposition to European integration, which continues to naturalise national differentiation despite the realities of global and regional economic integration and interdependence. Hence, while established UK economic stakeholders and institutions may express their commitment to British membership of the EU in the referendum campaign, this does not alter a political economy in which Euroscepticism has become hegemonic.

This article critically engages with political economy approaches to the United Kingdom and European integration, focusing on neo-Gramscian, Open Marxist and comparative approaches. In the case of critical political economy, this article proposes that conceptual frameworks, including depoliticisation, new constitutionalism and embedded neo-liberalism, are overextended. In particular, the United Kingdom's national neo-liberal differentiation from European developments is underexplored. Conversely, comparative approaches overstate and reify institutional differences, ignoring transnational economic integration and the contingent construction of political economic difference. These have failed to explain the continued differentiation between the political economy of the United Kingdom and the EU in a context of global economic integration. Furthermore, it will be argued that the so-called Anglo-model of liberal capitalism should be understood not as a distinct national model, but in terms of its interdependence with global economic integration and change. Its institutions and elites are often reactive, and the United Kingdom's political economy is constructed in relation to these external dynamics. The discussion will focus on how the United Kingdom's recent political economic path has been constituted through its opposition to European integration, particularly in relation to EMU. This trajectory is explored from the Major government up until the 2016 referendum campaign. A populist, Eurosceptic political economic discourse will be shown to have taken hold across the mainstream of British politics. This opens the space for a radical right challenge to the conventional position that the United Kingdom's membership of the EU is in the national economic interest. For the foreseeable future, this represents the 'constraining dissensus', within which governing elites must engage with the EU (Hooghe and Marks, 2009).

European integration and critical political economy

In a pivotal contribution, Stephen Gill (1998: 9) depicts the EU as ‘remaking state apparatuses and governmental practices *and* the institutions of civil society’ in ways compatible with neo-liberalism. European integration is a powerful complex of processes stretching from system to social integration, successfully embedding and extending property rights, commodification and *rentier* interests and attitudes across European societies. Thus, Europe’s ‘new constitutionalism’ is viewed as ‘the political and legal reconstitution of capital through the agency of a neoliberal transnational historic bloc’ (Gill, 1998: 11). In this context, Gill referred to the United Kingdom as evidence of how the neo-liberal perspective is deeply political and engenders new forms of governance (Gill, 1998: 12). It emerges as the ‘exemplar’ of a state that has reconfigured the relationship between the economic and political and acts as a template for new constitutionalism in Europe. Indeed, even though the UK remained outside of EMU, the neo-Gramscian literature on European integration suggests a comprehensive neo-liberal convergence between the United Kingdom and the EU.

The dominance of the competitiveness discourse of transnational elites within the European Commission and key policy-making forums was of particular importance to new constitutionalism. Again the United Kingdom is central to these developments, Van Apeldoorn (2002: 80) noted how a European transnational neo-liberalism drew upon the ‘(post-1979) British model of capitalism, in its ideological discourse, as generally appealing to Anglo-Saxon capitalism (that is including the USA) as the model for Europe’. Hence, whilst concessions to opposing models (neo-mercantalism and transnational social democracy) were evident, these were ‘more of a hegemonic strategy of incorporation that seeks to further the neo-liberal agenda than one that offers genuine prospects for a substantive “embedding” of the new European market’ (Van Apeldoorn, 2000: 176). One striking example of this ‘hegemonic incorporation’ identified in the literature has been the Europeanisation of the ‘Third Way’. Ryner (2010) has argued that European social democracy was powerfully influenced by New Labour and its combining of economic liberalisation with an ‘enabling’ welfare state. The Labour governments proved influential in proposing that the subordination of economic policy to financial imperatives could be made compatible with welfare states. From this view, they were fundamental to locking the EU into the *structural dominance* of US monetary policy, underpinned by an ‘organic alliance’ between US and EU elites (Cafruny and Ryner, 2007). Moreover, the full incorporation of Third Way European social democrats into this system meant that when the financial system went in to crisis in 2008, they were ‘so deeply imbricated with the system’ that they were ‘not in a position to offer an alternative’ (Ryner, 2010: 554). To view the United Kingdom-EU relationship from this perspective is therefore consistent with an understanding of European integration as a transnational re-organisation of class power in line with global restructuring. As such, neo-liberal globalisation is seen to have emanated from its epicentres in the United Kingdom and the United States, and penetrated European institutions.

For many critics of European integration, the most significant expression of this transnational re-organisation of political authority has been the establishment of a legal order that enables a more effective disciplining of national working classes by nation states. In this regard, Open Marxists have argued that the ideological underpinnings of European integration reflected the free market right, in particular Hayek’s conception of supranationalism as an effective framework for de-politicising economic relations at the national level through legally protecting the freedom of capital above the nation-state (Bonefeld ,2002: 130). The deepening and widening of European integration since the 1980s is therefore best understood as consistent with an intensification of the shift from politicised to depoliticised modes of economic management (Burnham, 2006: 99). The nationally institutionalised regulation of the working class is replaced by monetary orthodoxy and fiscal discipline at the European level in order to improve competitiveness at the expense of the jobs, wages and the social rights.

The role of European integration in establishing depoliticised forms of economic governance has been explored in depth in relation to economic governance in the United Kingdom in the 1990s (*inter alia* Bonefeld and Burnham, 1998). For Open Marxists, UK membership of the ERM enabled the Major government to control wage inflation and discipline labour while distancing itself from the political implications. Post-ERM, the United Kingdom mirrored the Eurozone in its rule-based framework for economic management that emphasized price stability, rules on public expenditure and central bank control, albeit allowing for more flexibility than EMU (Burham, 2001, 2006). For Burnham, membership of EMU was the logical next step for deepening the politics of depoliticisation in the United Kingdom. However, he also acknowledged the political constraints in achieving this: 'it is perhaps a step too far for the British electorate' (Burnham, 2001: 146).

Open Marxist and neo-Gramscian approaches point to global capitalist relations, whether processed nationally or transnationally, as the driving force behind the construction of depoliticised neo-liberal arrangements in which the United Kingdom has been fully implicated, if not taken a leadership role within. Nevertheless, the extent to which the United Kingdom has been persistently differentiating itself from the process of integration, promoting a unique political economic project that is essentially non-Europeanised, is therefore theoretically closed off. The United Kingdom, when understood as a highly differentiated Eurosceptic political economy, is not considered but subsumed with the wider structural logic of global capital.

European integration and comparative political economy

Comparative political economy challenges, both theoretically and empirically, the extensiveness of economic globalisation and the dominance of disciplinary neo-liberalism. The overriding concern of these approaches has been to demonstrate the continuities and re-assertions of territorial power to control capital in line with a state's interest (Hirst and Thompson, 1999). New institutionalism, in particular, has focussed upon the ways in which economic processes and pressures are mediated by the comparative specificity of state structures and contextualised political agency (Garrett, 1998; Hall and Soskice 2001; Hay, 2004).

Comparativism opens up a very different understanding of European integration from critical political economy by demonstrating how national models of regulated capitalism are extended and protected by European integration. On this reading, European institutional governance represents a powerful example of how states are able to coordinate action and maintain autonomy in contexts of increased international openness (Hirst and Thompson, 1999). As such, there is clearly a sociological problem with the over extension of the hegemony of transnational neo-liberalism, as extended market instrumentalism generates demands for rules and value systems that can support stable and meaningful action and provide protection from risk within a territory (Hirst and Thompson, 1999, 278; Radice, 2000, 722). It has been argued that there is nothing inherently neo-liberal about the development of the EU as a legal order, and that its constitutional settlement remains profoundly contested (Parker, 2008; Strange, 2006;). EMU, in particular, has been viewed as embodying the EU's neo-liberal trajectory with its emphasis on price stability and public sector borrowing restraint. Yet, viewed largely as a German-dominated initiative, it is consistent with the ordoliberal tradition of monetary stability and low inflation overseen by an independent central bank and a state which does not engage in demand management. A more regulated Europe with a single currency and common monetary policy was seen as essential to protecting the German model, which viewed currency fluctuations and extensive competitive deregulation as a major threat to its economic strength and stability (Fioretes, 2001).

Emphasising that ‘varieties of capitalism’ are reproduced within the process of European integration qualifies its reduction to disciplinary neo-liberalism and empirically demonstrates the contested and changing nature of the EU’s political economy. Moreover, on this view, the United Kingdom’s more extensive form of neo-liberalisation is potentially divergent from the coordinated market approach of core European states, which is reflected in the EU as a regulatory polity. However, the focus on the United Kingdom as a political economic outsider, institutionally divergent and disadvantaged within the EU, is problematic when capitalism is understood as a space of flows that subverts territorial containment. In his critical, but not unsympathetic, reading of the comparativist *oeuvre*, Radice (2000: 736) argues that globalisation does not mean ‘that the nation-state is being undermined….but rather that the transnational dimension of the state has become more salient as a result of wider and deeper cross-border economic activity’. At issue is the extent to which approaches that focus upon the spatial differentiation of political economies can theoretically address common systemic processes, no matter how differently they may be mediated.

Contemporary economic globalisation is here understood as financially engineered fluid and open markets, not seen since the end of the 19th century, and the global intensification of geographical competition to attract and to retain capital (Arrighi, 1994, 1999; Harvey, 2003, 2010). The transformative capacity of global economic process will depend upon how they are mediated by, and grounded within, institutions, alongside how the hegemonic forces of globalisation are manifesting themselves at any particular time. However, whatever way we look at it, the contemporary formation of political economic spaces occurs through interactions and entwinements with the restructurings of the global system. On the one hand it is important not to reduce the EU to neo-liberal globalisation, and on the other, neither should its capacity to act as a regional buffer be overstated. The organisation of the EU as a political economic space has been concomitant with its openness to the global economy and therefore is most accurately defined as *open regionalism* (Baker et al., 2002: 413-415). On this view, while it has certainly mediated globalisation, the intense volatility of global capital accumulation has, at the very least, seriously challenged its institutional competencies, profoundly demonstrated by the impact of the financial crisis on the Eurozone and the divisiveness of the response (Dyson, 2010). If the EU attempts to mediate the relationship of European states to globalisation, then in the case of the UK globalisation mediates its relationship to the EU. It has had a more direct relation to the processes of global restructuring, and has eschewed European territorialism. The United Kingdom should first and foremost be viewed as a global political economic order and its trajectory as a 'European state' can only be understood in relation to this primary materialisation.

The Anglo-model in global perspective

It is important to recognise that the United Kingdom's divergence from the EU reflects a national neo-liberal trajectory that precedes the integrationist dynamic of the 1980s and 1990s. In 1976, the year after the British people had voted in favour of membership of the

European Community, the United Kingdom was co-opted, through International Monetary Fund (IMF) intervention, into the Washington Consensus, and the management of the international accumulation crisis through accelerating financialisation (Panitch, 2000). The domestic consequences were the abandoning of the Labour government's social democratic electoral commitments, the introduction of stringent public sector cuts and the privatisation of British Petroleum. The election of the Thatcher government in 1979 resulted in the immediate removal of capital controls, and in 1986, deregulation opened up the City to foreign banks and securities firms. While European integration enabled member-states to free themselves from domestic political constraints, this was less important for the United Kingdom because of its earlier neo-liberal transformation and an economy that was already highly globalised (Hirst and Thompson, 2000). While the United Kingdom's period as global hegemon had ended during the first half of the 20th century, it retained the institutions that were associated with being a world financier and proved highly significant in continuing the intensity of global economic integration. From the late 1950s onwards, London became the financial gateway to Europe for large quantities of dollars from the profits of US multinationals that headed offshore in order to avoid tax and regulation. There was a sudden growth in these markets between 1968 and 1973, followed by 20 years of further growth, during the period in which the dollar was allowed to float (Hobsbawm, 1995: 278; Arrighi, 1999: 237). Arrighi (1999: 237) points out that by the mid 1970s, 'the volume of purely monetary transactions carried out in offshore money markets already exceeded the value of world trade many times over'. And it was the United Kingdom, more precisely London, that found itself at the centre of this denationalisation of capital. While the United Kingdom entered a post-imperial period characterised by relative economic and absolute geopolitical decline, the City had adapted and was well positioned to benefit from the financialisation of the global economy. By the mid 1990s, the UK banking sector showed a 'remarkable and exceptional degree of exposure to internationalisation’ and UK citizens’ household wealth was twice as likely to be internationalised as most other advanced economies (Hirst and Thompson, 2000: 347-348). Regional integration has been a central feature of this, with the establishment of the City of London as the European financial centre managing billions of Euros for EU public and private sectors.

What characterises the United Kingdom’s financial and business model is its role as an open and fluid site of transnational integration. European business and finance move into and through the United Kingdom precisely because of the opportunities it creates for access to global markets. London’s role as a world financial centre is built upon its capacity, particularly when compared to its European counterparts, to de-territorialise capital. Hence, we are dealing with a distinct multi-level political economic order in which the national, the regional and the global intersect, and dissect, rather than manifest as distinctly ‘European’ or ‘British’.

From this perspective, the idea of a distinct Anglo model of national capitalism is a product of a path dependency combined with global economic change, as much as it is the outcome of the agency of political elites and government strategies. Maximising capital’s global capacity to enter and exit has become a key function of the UK state. In addition, governments have sought to translate private market strategies into public policy. The United Kingdom pioneered supplementing neo-liberalism by privatised Keynesianism, in which the problem of sustaining domestic demand in advanced economies appeared to have been solved by the dramatic expansion of credit markets to those on low and middle incomes and derivatives and futures markets for the wealthy (Crouch, 2009: 390). What initially occurred by chance and market entrepreneurship was translated into public policy, especially seen in the support for rising house prices.

The Anglo model has been constituted through the opportunistic and reactive actions of elites, within a specific experience of global structural conditions. In this context, political coherence has relied upon British governing institutions that include a particularly powerful executive and treasury. In symbolic terms, both Labour and Conservative governments have retained a strong commitment to a traditional British nation-state, of which Euroscepticism has become an established part (Daddow, 2013; Gifford, 2014a).

From the perspective of this article, what is striking is the extent to which the Anglo model of political economy has been ideologically reproduced in opposition to the territorial logic of European integration. It is the form of this opposition that has become ever more domestically contested. In the referendum campaign, the central political divide has not been between Europeanists, proponents of integration, and Eurosceptics, but between those who consider that British power, and its neo-liberal political economy, is augmented by opposition from within the EU or those who advocate complete withdrawal.

Constituting the UK's Eurosceptic political economy

EMU has been fundamental to fashioning the United Kingdom's recent relationship to the EU and its Eurosceptic political economy. Just as British governments in the 1950s were consistently behind the curve when it came to the drive for integration, so recent governments have struggled to adjust to EMU. The failure of the Thatcher and Major governments to undermine or influence the direction of EMU demonstrated the profound limits of British influence. While Major presented Maastricht as a victory, it demonstrated that the United Kingdom was far from being at the 'heart of Europe' and had been marginalised in the face of the drive for further integration. This became evident following the Maastricht Treaty and British withdrawal from the ERM. The belief grew that the United Kingdom had lost out in the Maastricht negotiations to Germany, as it failed to stop or influence the direction of EMU and to win over others to its alternative of a hard European Currency Unit (ECU), a proposal originating in the City for a hard currency dependent on the market rather than institutions for its validity (Dyson, 2000: 903). Conversely, EMU meant a Bundesbank-shaped system that could threaten UK advantage in European financial markets and the City's international competitiveness. Outside of EMU, the fear was that new Euro products and markets would gravitate to Frankfurt, while on the inside, the concern was that the competitive advantage of London in global markets would be undermined by 'continental style' regulation. As City criticisms of EMU mounted, so political support more broadly for ERM membership waned. On this view, the attacks on sterling and its withdrawal from the ERM were not simply a consequence of economic decisions (an over-valued pound, high interest rates in Germany), but arguably reflected a loss of confidence in the government because of its failure to exert influence during the Maastricht negotiations. Following withdrawal from the ERM, the British government claimed that the whole project of EMU was flawed and should be renegotiated (Major, 1993). Moreover, ERM exit was a victory for those who argued that economic stability was best achieved through domestic mechanisms rather than external disciplines. Norman Lamont, as Chancellor, put in place a system of inflation targeting and regular meetings with the Governor of the Bank of England to discuss interest rates, a set of reforms that lay the foundations for Bank independence in 1997.

Maastricht and the ERM crisis was highly significant in establishing the contemporary British governing position towards the EU: that the stakes are high in terms of British economic interests but the direction of integration is profoundly flawed, a potential threat to those interests and British influence is difficult to secure. Underlying the approach of British governments to EMU was a non-Europeanised Whitehall, and, in particular, a Treasury acutely sensitive to the financial markets and to the United States, the leading player in those markets (Dyson, 2000: 902-903). The Treasury viewed EMU with a combination of caution and scepticism and secured a veto over any decision about entry. Nevertheless, the national economic interest case was also hardened by Maastricht: a British government could not risk the possibility that the City and big business would be excluded or discriminated against in European markets. The post-Maastricht dilemma was how to maintain the confidence of core economic stakeholders, secure British influence yet without being drawn into arrangements considered threatening both economically and politically.

New Labour and Anglo-Europe

The solution to the United Kingdom's position outside of the Eurozone was the discursive construction of the 'other' EU, a British vision of an Anglicised Europe. The conceit that through British led reform, the EU would come to its senses and align with the United Kingdom. Hence, the national economic interest became framed within the projection of Anglo-Europe. Not only would UK governments defend economic interests but they would construct an EU that was as neo-liberal as the British model, resisting an overregulated single market and a protectionist Eurozone. Significantly, the value dimensions of the European project did not need to be imported into British politics and society because British values could be successfully exported to the EU. The British position was that the success of EMU depended on the wider reform of the European economy not on more political integration. EMU should be underpinned by competitive deregulation of national economies, creating the flexibility necessary to compete effectively in the global economy. This was the basis on which a policy of constructive engagement with EMU was to be taken forward (Dyson, 2000: 911). This began to take shape as the Major government attempted to craft a European strategy following the Eurosceptic rebellions over Maastricht and ERM withdrawal. Hugo Young (1998: 450-451) recalled interviewing Douglas Hurd between 1992 and 1996, who argued repeatedly that Europe was 'moving our way'. From Hurd's perspective, conservative differences between Eurosceptics and pro-Europeans no longer mattered as the EU converged in favour of market liberalisation and subsidiarity rather than social regulation and centralisation.

There was a justifiable economic basis for this argument in that the United Kingdom was in a strong position to benefit from European financial deregulation. The liberalisation of the banking system undermined an oligopolistic, often state-sponsored, structure and introduced highly competitive credit relations with minimal regulation (Grahl, 1997: 177). Moreover, the restructuring and global integration of European financial markets and institutions was a direct result of a large body of European legislation associated with the completion of the single market. In this context, EMU became less a threat than an opportunity for the United Kingdom's financial sector. By the time of the introduction of the Euro in 1999, the City was well prepared for its introduction (Dyson, 2000: 905). At the turn of the century it was handling more international euro-denominated transactions than Frankfurt and Paris combined (Kynaston, 2002: 785).

The possibility of uniting the Conservative party around a neo-liberal vision of the EU eluded the Major leadership, which was undone by the divisions unleashed by Maastricht. Conversely, the coming to power of New Labour under the Blair/Brown leadership resulted in a more fully articulated Anglo-European vision. The official position of the government was to ‘prepare and decide’ over EMU, without setting a date and subjecting membership to the Treasury’s five economic tests. Nevertheless, rather than aligning the British economy with the Eurozone, there was continued emphasis on structural reforms in other member-states, and that EMU membership could not be separated from a wider programme of EU modernisation. This met with some success. The Lisbon summit in 2000 seemed to confirm the Europeanisation of Labour’s Third Way with its proposals for reforms of the European Social Model in line with the priorities of economic competitiveness, liberalised financial markets and a knowledge-based economy. Notably, the Market in Financial Instruments Directive, which came out of the Financial Services Action Plan agreed at Lisbon, established the principle of maximum harmonisation, limiting the capacity of national governments to augment European legislation with their own rules.

Nevertheless, the Labour government grew increasingly concerned that the Commission wanted to over regulate finance. On countering this, Ed Balls summarised the government’s success in a speech in 2006:

> …our system of light-touch and risk-based regulation is regularly cited…. as one of our chief attractions. It has provided us with a huge competitive advantage and is regarded as the best in the world. Second, we have fought off proposals in Europe which would have undermined London’s standing as the leading global financial centre. (Balls, 2006)

Balls’ trumpeting of the United Kingdom’s financial liberalisation agenda was indicative of the approach to European integration that was emanating from the British Treasury at the time. In this respect, the lead was coming from Gordon Brown who was not focussed on presenting the United Kingdom as a potential partner in EMU, but as a political economic model to be followed. Brown's review of the single currency tests took place at the pinnacle of his chancellorship, having achieved credibility with the markets as well as considerable public trust. His rejection of the Euro was concomitant with his proselytising for the British way and his critique of the EU's response to globalisation. In 2003, he argued that the United Kingdom was outperforming other major economies because of the success of New Labour's uniquely British approach to the economy, providing a model from which other states could learn: 'our British values -what we say and do marrying enterprise and fairness, and about public services and the need to relieve poverty, can and should, in time, make Britain a model, a beacon for Europe, America and the rest of the world' (Brown, 2003c). Indeed he claimed that 'Europe's institutions are having to be reshaped in line with long-held British values – internationalism, enterprise, fairness, political accountability' (Brown, 2003a). Its 'old flawed assumptions' characterised by inexorable moves towards federalism were challenged by the success of the British model (Brown, 2003b). According to Brown (2005: 8), globalisation entirely changed 'the context for European integration. A Europe whose first goals were internal integration and harmonisation, and whose economic focus has long been inward looking, now needs to rise to the challenges of the new global economy'. Evidently it was Britain's mix of flexibility, fairness and macroeconomic stability that provided the blueprint for the EU as a whole.

Central to Brown's model of political economy were London's liberalised financial markets (Lee 2009: 24). Brown (2004) told the City, 'what you have achieved for the financial services sector, we as a country now aspire to achieve for the whole of the British economy'.

Globally, integrated financial markets had provided the basis for the massive extension of private debt that underpinned consumer driven growth. The apotheosis of which were highly securitised mortgage markets that fuelled rapid increases in house prices. Meanwhile, the high tax revenues from financial services were proving essential for increased spending on public services (Darling, 2011: 22)

As the Brown model of economic governance was consolidated, a 'subtle policy of retrenchment' towards the Eurozone and its institutions took hold at the Treasury (Buller and Gamble, 2008: 261). There was particular concern over the amount of power that had been ceded to the European Central Bank in that, in comparison to the Bank of England, it had 'goal' as well as 'operational' independence, meaning it could set its own inflation rate at which interest rate adjustments may be necessary. In comparison, the British government retained control over the target, which was symmetrical so that intervention was required to address deflation as well as inflation. In addition, by setting the parameters of fiscal targets over the full length of the economic cycle, the government retained sufficient autonomy to overshoot when growth was lower than expected and to undershoot during the 'good' times (Strange, 2014). Conversely, EMU was considered to lock governments into annual debt targets that considerably reduced their room to manoeuvre. Strange (2014: 150) concluded that underlying New Labour's decision not join EMU were core macroeconomic policy differences. The government's economic 'rules' offered greater flexibility over monetary and fiscal policy than was possible under EMU, reflecting New Labour's commitment to a Keynesian economic policy and social democratic objectives. As such, EMU was too neo-liberal and overly constrained macroeconomic discretion. New Labour combined a neo-liberal emphasis on the globalisation and financialisation of the UK economy with a mix of private and public Keynesianism in an attempt, ultimately unsuccessful, to stabilise a volatile and crisis prone economic model. Nevertheless, the belief that EMU was dependent on the further liberalisation and global openness of European economies demonstrated continuity with previous governments. In this regard, engagement with EMU was from a position of national autonomy and superiority; if the UK were to countenance joining EMU, the EU would need to undertake the necessary structural reforms to align with the United Kingdom.

From Anglo-Europe to Brexit?

If EMU had been presented by British elites as in need of reform, with the onset of the Eurozone crisis the tone shifted to one that emphasised its failure. By the time the Coalition was in place, the Eurozone was firmly positioned as a threat to British recovery, and a warning of what might happen if public spending was not brought under control. In the run up to the election, David Cameron had pointed out that, 'this year, actually, we are borrowing more as a percentage of GDP than the Greeks are … Greece stands as a warning to what happens if you don't pay back your debts' (Cameron, 2010). During the Coalition negotiations, Sir Gus O'Donnell, the Cabinet Secretary, made it clear that the markets would expect a comprehensive agreement, or contagion could spread from Greece to the United Kingdom (House of Commons Political and Constitutional Reform Committee, 2011: Ev. 4). The Conservative position on the Euro was 'never', and the Liberal Democrats had ruled it out for the duration of the parliament. A new phase in Britain's Eurosceptic political economy had begun.

There were two dimensions to the intensification of political economic Euroscepticism. First, the governing elite began to actively distance itself from the crisis in the Eurozone, and, second, it emphasised the need to protect the national interest from the threat of further

Eurozone integration. The mobilisation of Eurosceptics within the Conservative parliamentary party, and the sudden emergence of UK Independence Party (UKIP) as a serious political contender, meant these developments were now firmly located within the febrile politics of domestic Euroscepticism. In the first year of the Coalition, there was mounting opposition from Eurosceptic Conservative Members of the Parliament (MPs) to bailouts of the Eurozone under the European Financial Stabilisation Mechanism (EFSM). George Osborne resisted being drawn into any further British contributions, opting for a bilateral loan in the case of Ireland, and blaming the previous Labour government for existing commitments. On the possibility of a banking union, Osborne (2012) invoked the British people, stating that, '..we are clear that Britain will not take part. British taxpayers will not stand behind Eurozone banks, and British voters want their government to be in charge of supervising our own banks, especially in a crisis'. Cameron and Osborne's narrative combined an emphasis on the necessity of much greater Eurozone integration for the stability of the UK economy, with the potential threat that this could pose. The fear was that integration driven forward by the Eurozone countries would overwhelm the interests of the non-Eurozone countries. In particular, Qualified Majority Voting would allow the Eurozone countries to 'bloc vote' and operate as a protectionist grouping inside the EU.

The following were the main concerns of the UK government during the negotiations on a fiscal pact in the December 2011 meeting of the European Council: British demands centered on unanimity on any transfer of powers from the national to the European level over financial supervision; any proposals that would require maximum harmonisation and prevent member states from imposing additional requirements such as higher capital requirements on banks; the fiscal interests of member-states over the imposition of taxes levies such as a European tax on financial transactions; and the provision that any European Supervisory Authority should not replace national authorities. That the concerns of the financial sector were therefore at the heart of the United Kingdom's agenda demonstrated the key role of the Treasury in formulating the negotiating position. The government did not look to secure opt outs as there was no agreement on the table to opt out of, but sought to future protect the national interest against what it perceived to be the risk from Eurozone integration. In this, there was an implicit repatriation agenda, as in attempting to establish a principle of unanimity over financial services, it fundamentally challenged the use of Qualified Majority Voting in areas to do with the single market. Unsurprisingly, therefore, Manuel Barroso, the then President of the European Commission, described the British demands as a 'risk to the integrity of the internal market' (*The Guardian,* 2011).

In the context of the drive for further integration, it is possible to argue that the veto of the fiscal pact was an example of a pragmatic Euro-realism, an emerging consensus summed up by Angela Merkel in terms of: 'we don't have to do everything in Brussels' (Kirkup, 2013). Nevertheless, in vetoing the final agreement, the United Kingdom was clearly out of step with its European partners. Moreover, it was a significant change in policy on the part of the government from its predecessors. Rather than staying at the negotiating table and securing British opt outs, the United Kingdom had not prevented the treaty going ahead, and allowed itself to be excluded from future negotiations, although it should be noted that the Coalition government continued to be engaged in successive agreements on banking supervision and secured several UK objectives including limiting Eurozone dominance of the new European Banking Authority. Pragmatics aside, the extent to which Cameron was lauded by the Conservative party on his return, followed by a noticeable improvement in the party's poll rating, demonstrated the symbolic importance of the veto in domestic politics. It was recognised for what it was, an overt expression of national sovereignty. The popularity of the veto paved the way for Cameron and Osborne to blame the Eurozone for the United Kingdom's continued recession in 2012. In sum, the Eurozone was a failure and a threat to the British recovery, Conservative scepticism towards EMU had been right all along and, while it must now resolve its problems by following the 'remorseless logic' of full EMU, it could not be trusted to do so in ways that would not threaten the United Kingdom's national interests. For hard Eurosceptics, continued British membership meant being 'shackled to a corpse' (Mason, 2012).

In his Bloomberg Speech in January 2013, Cameron attempted to locate this policy shift within a wider narrative of Britain's relationship with European integration. He presented a British vision of 'a flexible union of free member states', counter-posed to those states that wanted 'closer economic and political integration', which Britain would 'never embrace' (Cameron, 2013). Nevertheless, he emphasised that his vision was pan-European, concerned with creating a 'new' EU fit for the '21st century'. In so doing, he rehearsed traditional British themes: an intergovernmental, variable EU principally concerned with further liberalisation and globalisation of the single market. However, he raised the stakes in promising a referendum on membership, implying that 'the people' would only want to stay in a EU reformed along British lines. In so doing, Cameron embraced Euroscepticism's populist turn (Gifford, 2014b). The threat of Eurozone integration was not simply to be addressed through the normal institutional mechanisms, but was to be countered by the invocation of sovereignty and 'the people'. Coming centre stage were categories that governing elites had mostly attempted to avoid in the politics of European integration because of their exclusive connotations, preferring the more flexible notion of the national interest.

This increasingly hard Eurosceptic discourse positioned EMU as antithetical to the UK's future. Moreover, EMU's integrationist dynamic was more dangerous than ever. Yet, this was not presented as a UK-centric problem, as the collective interests of the non-Eurozone members were at stake. Nevertheless, from the British perspective it had a specific meaning which was preventing the Eurogroup from caucusing 'together to impose financial services legislation on the United Kingdom' (Osborne, 2014).

One consequence of Cameron and Osborne's thorough discrediting of the Eurozone, and its representation as a significant threat to the UK's economy, was to expose a key tenet of the governing position towards European integration -; the naturalisation of the economic case for UK's membership. Exit became a legitimate political economic position. In a live television debate between UKIP leader, Nigel Farage, and the then Deputy Prime Minister, Nick Clegg, Farage challenged Clegg's claim that leaving the EU would be economically disastrous, arguing that the United Kingdom would be in a position to make its own trade agreements with emerging economies. A customs union he claimed was a 19th-century concept, in the context of globalization, 'let's open ourselves up for a bigger 21st century world' (*The BBC,* 2014). In arguing that there was a serious economic alternative to the EU, Farage cited Nigel Lawson, Chancellor under Margaret Thatcher. Lawson was one of a number of heavyweight Conservative politicians, including Michael Portillo and Boris Johnson, who challenged the established view that exit would be an economic disaster for the United Kingdom. The most telling argument made by Lawson was his reversal of the arguments of the 1960s and 1970s that were made for entry of Britain into the Community:

> Today too much of British business and industry feels…secure in the warm embrace of the European single market and is failing to recognise that today's great export opportunities lie in the developing world, particularly in Asia. Just as entry

> into the Common Market half a century ago provided a much needed change of focus, so might leaving the EU, an institution that has achieved its historic purpose and is now past its sell-by date, provide a much needed change of focus today. (Lawson, 2013)

Ian Mansfield (2014), Director of Trade and Investment at the British embassy in the Philippines, fleshed out this agenda on British exit. In his view, Britain would leave the EU and rejoin European Free Trade Association (EFTA), in turn, it would negotiate a series of free trade agreements with emerging economic powers and the United States. The overall vision, both politically and economically, was one of global openness against European narrowness. While at that point still backing the Cameron position, on the back of a report published by Gerard Lyons, the Mayor's Chief Economic Advisor, Johnson (2014) made a similar case for exit: 'that combination of a lower regulatory burden and undiminished trade access would cause exports to boom, and the whole thing would be turbo-charged by new trading agreements with major partners such as China, Brazil, Russia, Australia and India'. By 2014, the economic arguments for UK exit had sharpened considerably, coalescing around the possibility of bilateral free trade agreements extending and intensifying the United Kingdom's global reach. However, the main economic stakeholders, such as the Confederation of British Industry (CBI) and the financial lobby group, TheCityUK, remained strongly opposed. In the case of the City, the difficulty for the exiters was that it was more Europeanised than any other sector of the British economy, having successfully established itself as the financial centre of the Eurozone, a position that was built on EU internal market legislation. Neither was this in tension with its capacity to attract new business from outside of Europe, evidenced by the increased role in the Chinese offshore currency market. Business and finance have articulated a quite traditional British position that combined scepticism towards the EU's regulatory ambitions with a strong commitment to membership and to the importance of securing British influence.

The referendum campaign has seen a nexus of establishment economic interests and institutions lining up in support of continued membership with strong support for the Cameron reform agenda, which aims to protect British interests outside of the Eurozone and promotes a flexible, globalised EU. The difficulty is that the Conservative leadership has augmented an established governing position, the United Kingdom as neo-liberal policy pioneer supporting the extension of the single market and resisting European regulation, by a populist Eurosceptic agenda. In the context of a critical and discredited Eurozone, Cameron raised expectations that integration could be unravelled and power returned to the British people. Political economic differentiation is firmly locked into a more fundamental opposition to core aspects of the integration process and the national economic interest has become interconnected with a populist Euroscepticism. As such the Cameron reform agenda had to deliver a blow to the core values of integration for domestic Eurosceptic audiences, whilst dependent on EU supranational institutions and the member-states being complicit in this. The awkwardness of the compromise was most clearly evident in the emergency break on benefits for EU migrants in the United Kingdom, which challenged but ultimately left intact the fundamental principle of free movement. The reform deal was predictably dismissed as a sham by Eurosceptics and virulently attacked across the press.

The Cameron reform process illustrated the limitations of the EU in addressing powerful nationalist agendas driven by Euroscepticism within domestic politics. European elite compromises will always look weak when judged against essentialist and populist political criteria and constructs. However, while notions of indivisible sovereignty and traditional ideas of nationhood have proved ideologically potent in the post-imperial context, they have seemed incompatible with the realities of governing in a context of regional and global integration. The possibility of a viable political economic project that at the same time can ‘reclaim’ sovereignty for the British people is undoubtedly compelling for many in UK politics, both left and right. Significantly, many of those who favour exit have framed their arguments in terms of the long-term interests of the British economy, often against what are considered to be the short-term concerns of ‘big business’. Europe is presented as in crisis and decline, and the progressive case for withdrawal is made on the basis of the opportunities it provides for the United Kingdom to negotiate new trading arrangements and partnerships across the world (Gove, 2016; Johnson, 2016). The United Kingdom is repackaged as a flexible and autonomous nation-state open to the world, while, conversely, the EU ‘is an analogue union in a digital age’ (Gove, 2016). The attempt to position exit as on the extremes of British politics, as blinkered, reactionary and inward-looking nationalism, a strategy which had proved successful in past, no longer looks feasible. The referendum campaign has seen positions once on the margins firmly enter the mainstream of British political debate and, in so doing, a core governing tenet of post-imperial Britain, that membership of Europe is fundamental to the national economic interest, has faced its most significant challenge to date.

Conclusion

The article began by arguing that the dominant political economic approaches do not explain the relationship of the UK to the EU. Neither neo-liberal convergence nor institutional divergence sufficiently captures the extent to which the United Kingdom is differentiated as a political economy within a context of global and regional integration. The article has proposed that this is in part reproduced by the persistent differentiation of the United

Kingdom from the Eurozone by British elites. Since the project of EMU was launched, elites have constructed the United Kingdom as a distinctive Eurosceptic political economy. This has only been possible because it has been considered to be in line with core economic interests in the United Kingdom. Positioning themselves as outsiders, as neo-liberal pioneers, British governments have endeavored to be seen as the most business friendly member-state. However, it has been argued that the construction of a Eurosceptic political economy has now taken a populist turn, with those favouring exit claiming that the EU is no longer in the longer term economic interests of the British people and incompatible with notions of sovereignty and autonomous nationhood. The future lies in flexible sovereign states, responsive to the challenges and opportunities of the global economy and solely accountable to national citizenries. The viability of such a project may be questionable, but for it to enter the realms of political possibility is testament to its success.

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