From Atlee to Thatcher

The Development of UK Attitudes toward the European Project

(1945-1979)

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Introduction

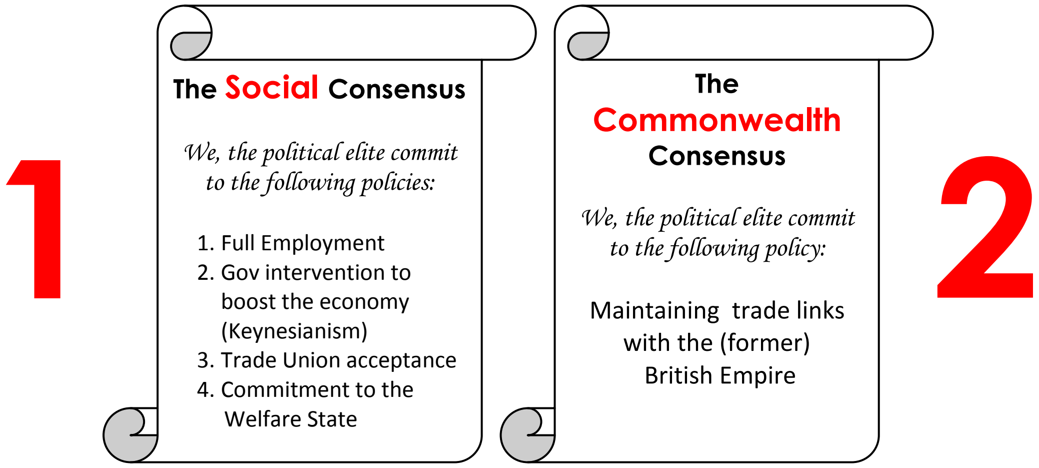
It is safe to say that the United Kingdom has a temperamental and tumultuous relationship with Europe. Strained by decades of tough economic realities in an increasingly globalised marketplace as well as a perception of dwindling diplomatic influence in a post-imperial world, the UK has undergone a difficult readjustment process, with mixed results. British antipathy toward the European project is not new. The evolution from 'workshop of the world' to the home of the worlds greatest (and far flung) empire to 21st century Britain was a difficult process incorporating political, economic and social change over two centuries. This era has been marked with regular reversions to isolationism, as Britain retreated back within the borders of the British Isles to satisfy its domestic priorities.

The ongoing European debt crisis has challenged all developed economies, including Britain and her vital trading partners. However, to the puzzlement of some commentators, Britain continues to take an a predominately negative view of today's 'Europe' led by the Franco-German alliance. To comprehensively understand the evolution of the EU also requires an understanding as to why Britain has generally not marched in step with Europe from the early days of a community for coal and steel to modern day monetary union.

Drawing on empirical evidence, academic research and trade statistics, this study will provide a common sense, jargon free account of the evolution of post-war British attitudes toward Europe from the 1945 Labour landslide under leader Clement Atlee to the Tory resurgence under Margaret Thatcher in 1979.

The Post-war Double Consensus

For Britain, the end of WWII brought to a close a significant chapter in British economic history. In 1945, in a direct rejection on an unprecedented scale by the British public of deepening class division and widening inequality, Clement Atlee's Labour Party swept to power, ousting the war weary Winston Churchill's Tory government in an overwhelming landslide election victory. This marked a huge political shift and the beginning of the 'social democratic consensus'[1] between the political parties which incorporated **direct state intervention in the economy (Keynesianism)**, **trade union acceptance** and **pro-welfare policies** which themselves aligned perfectly with the spirit of social harmony and national unity in Britain after a traumatic half century. As one commentator put it "having defeated fascism and the enemy without, an attack could be mounted on the enemies within – want, disease, idleness, ignorance and squalor."[2] And so the modern welfare state was born. Historically, this was nothing particularly revolutionary. Britain had long been a shining example of mercantilism in practice – where the state, businesses and banking work together to promote industry. However, the social consensus was to prove a deeper commitment for successive British governments (regardless of ideology) than anything that preceded it.



However, the domestic revolution only extended so far. While the **social** consensus over domestic policies was new, a second parallel political consensus had always existed around the issue of the **Commonwealth** and maintaining preferential trade links with the Empire. As Ernest Bevin, Foreign Secretary in the Atlee government insisted, Britain was not "just another European country" and could not be lumped in with… "Continental nations which had very different histories and were grappling with very different problems."[3]

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[1] Hudson, Ray and Williams, Allan (1986) *The United Kingdom*. Western Europe Economic and Social Studies. London. Harper and Row Publishers. p. xii (preface)

[2] Ibid p. 1.

[3] Owen, Geoffrey (2002) "*Britain and the European Coal and Steel Community"* Paper presented at Terni Conference on the European Coal and Steel Community, May 16-17, 2002.

Undeniably, the British focus was on what historians now see as a backward-looking, Empire-orientated trade policy. This was to prove extremely costly.

The UK and Early European Integration

Domestic Britain, the land of Adam Smith and neoliberal economic policies had long held and deep rooted free trade traditions since the mid 1800s. Following this trend, Britain would continue to sacrifice national employment in primary activities such as food and dairy production, accepting the 'international division of labour' relying solely on the market and the 'invisible hand' to guide resources into their most productive and competitive uses.[4] Commitment to the 'invisible hand' faced an onslaught after 1945. Post-war Britain was fiscally exhausted by the costly war and resulting damage (and complete destruction in some cases) of British export markets in Europe.

Ominously, the newly penned social consensus ensured that the welfare state would be reinforced by a deep and broad majority coalition of interests. Desperate for social reform, this proved to be an electorate which political parties were weary to challenge and eager to please. But it wasn't going to come cheap. Other than the direct cost of dramatically expanding public expenditure i.e. the size of the state (from that point on), the effectiveness of domestic economic policies as a tool for engineering economic growth would be effectively neutered as governments were forced to placate key interests and appease the masses. To grow the economy, they had to look elsewhere. The other option was to look **externally.**

With Atlee's government busily constructing the welfare state and its component parts, there was little left to spare – in both government attention and money. As a result, Britain could not hope to size up diplomatically alongside the Americans or lever its historical economic relevance to muster any great influence during the reconstruction of Continental Europe. Indeed, British financial and economic independence was significantly curtailed after Britain's near loss to Nazi Germany, the subsequent entry of America into WWII and the rising power of the Soviet Union. For Britain, it was undeniable that the determining factor for victory was American equipment and manpower. After fighting and winning a war on two fronts - in Europe and Asia – an American superpower had risen where Britain had fallen and usurped its position on the world stage.

The remaining counterweight to this was the option to exploit existing arrangements **internally–** to attempt a reassertion of British dominance through existing (and profitable) preferential trade networks in the British Commonwealth. The motivation behind the external focus ironically lay also in domestic politics and a deep reverence for Britain's cherished (and increasingly myopic) outward looking position as

[4] Gourevitch, Peter (1988*) Politics in Hard Times: Comparative Responses to International Economic Crises*. London. Cornel University Press.

a powerful world player. Externally, British would achieve this aim by leveraging existing economic and diplomatic policy.

- **Economic** Successive governments sought to re-establish the former glory of sterling as the world's reserve currency to combat the post-war economic superiority of the US…"The pound, once good as gold, would now be as good as dollars."[5] The best way to achieve this was to exploit preferential trade networks which existed in former British Empire, the developing British Commonwealth.
- **Diplomatic** Fixated on the Commonwealth and maintaining the UK-US 'special relationship', successive governments sought to carve out a 'third way' position to halt Britain's decline as a world power by creating a new 'overseer' honest broker position for herself in a bipolar US-Soviet dominated global order. This would incorporate acting as a neutral overseer of European unity, 'free of European entanglements'.

Why the antipathy toward involvement in 'European entanglements?' Simple. Britain had other external interests which it had direct control over meaning any investment it made in those would reinforce Britain's position and self correct Britain's immediate post-war domestic deficit. Any other action would reinforce the position of France or Germany who in any case, as recipients of tranches of US/foreign aid, would ultimately return to their natural position as Britain's competitors. Let us now have a look at the economic and diplomatic sides of British external relations.

The British Commonwealth

Britain's economic relationship with its Commonwealth extends back to the Ottawa accords (1932) wherein a system of imperial preference was installed and a patchwork imperial trade network was formalised.[6] One particular value of this was to ensure position of sterling as the world's reserve currency through pure geographical scope. By 1945, this position was in rapid decline as a dominant post-war dollar eclipsed sterling. There was good cause for the temporary post-war dependency on Commonwealth trade. Britain had come perilously close to complete subordination, if not complete destruction, in two successive world wars, barely 30 years apart. WWII had proved to be a desperate clamour for survival, which had seen Britain reduce the size of its Empire to compensate for the massive outlay spent on preparations for and the execution of the war against Nazi Germany. The cost of maintaining imperial defence was an enormous drain on domestic resources and has arguably put the British Isles in greater jeopardy rather than protected them.

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[5] Ellison, James R V (1995). '*Explaining British Policy Towards European Integration in the 1950s*.' Paper presented to the European integration and Domestic Policy-Making Research Group, Charleston, South Carolina. Centre for European Studies. Harvard University.

[6] Fram, Nicholas (2006) *Decolonisation, the Commonwealth and British Trade 1945-2004*. Stanford University

Britain had also achieved very little from the war. The United States under Roosevelt, in terms of power (economically and politically) and status gained was the real victor, adjusting to its newfound position as reluctant leader of the new international order. Britain, by contrast, was in deep economic trouble, as the most indebted country in the world with a burgeoning balance of payments deficit. Ironically, the British colonies were doing well, lapping up British exports but still holding balance of payments surpluses heading toward £1bn.[7] Despite these changes, the post-war economic structure would continue as before. Britain would import food, export manufactured products and manage the international financial trading system. This system was, however, not in good condition with severe deep rooted problems including the new inconvertibility of sterling (due to the dwindling international confidence in Britain's position), lack of new exports markets after the destruction of existing German and Japanese markets and unilateral actions by colonies such as Canada and Australia to open their own markets to neighbouring countries.[8] The focus on trade with her Empire of 53 colonies and 5 independent dominions formally moved Britain away from her European counterparts to focus on temporarily fruitful economic ties with the Commonwealth. These, policymakers surmised, were of greater value than the ties with Europe.[9]

In hindsight, it is clear that the value of the Commonwealth was overstated. Britain had by wars end, already liquidated (or began to liquidate) most of its major assets abroad which, while promoting the status of the City of London to world apex of financial management, had meant British manufacturing was forgotten, becoming uncompetitive, unproductive and poorly responsive to foreign competition. The one thing going for British industry was that It was mostly intact, unlike its French and German counterparts. Early post-war results were encouraging Britain's orientation. By 1950, Commonwealth markets took nearly 60% of Britain's steel imports, an even higher proportion than in the 1930s.[10] By 1954, Commonwealth countries provided 48% of British imports and took 49% of British exports. This reality reinforced British economic relations with its former empire giving post-war Britain no impetus to join in a European supranational endeavour. Somewhat short-sightedly, the perception was that the component economies of the Commonwealth countries were complementary to that of mainland Britain to a degree which it was believed, those of Western Europe could never equal.[11] Europe meanwhile got about busily rebuilding itself and reconstructing the lost markets to their former glory.

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[7] Fram, Nicholas (2006) '*Decolonisation, the Commonwealth and British Trade*, 1945-2004'. Stanford University.May 17, 2006

[8] Powell, R.R. (1965). "Britain's Trade with the Commonwealth." in S.R. Ashton and Wm Roger Lewis eds. *East of Suez and the Commonwealth, 1964-1971, Series A,Volume 5, Part III: Dependent Territories, Africa, Economics, Race.* London: The Stationary Office.

[9] Robertson, Paul L. and John Singleton (2002) *Economic Relations Between Britain and Australasia 1945-1970.* New York: Palgrave.

[10] Owen (2002)

[11] Labour Party document, "European Unity", quoted in Edmund Dell, The Schuman Plan and the British abdication of leadership in Europe, Oxford, 1995, p199

One area where consideration for the Commonwealth affected domestic economic policy was in relation to the steel industry. Churchill's Tory government, (re)elected in 1951, sought to roll back Atlee's state control of the steel industry, while maintaining state commitment to the Commonwealth. Whereas one of the economic catalysts for unity of the coal and steel industries (ECSC) on the Continent was, in part, French desire to drive efficiency in the steel industry, the British were focused more on artificially controlling the price of raw materials and thus the finished product of steel. For Britain, their domestic reserves of coal and iron ore reduced their impetus to gain access to the continental Ruhr and Lorraine regions. At the same time the Coal and Steel 'birth cert' Schuman Plan (1951) was signed, in a marked retreat from Adam Smith's principles[12], the state owned Iron and Steel Corporation of Great Britain was founded. As one industry analyst observed, "the overwhelming importance of Commonwealth markets to British steel exporters weighs heavily in favour of extreme caution when considering changes in British steel tariffs.[13]

Britain and the Special Atlantic Relationship

Although Britain didn't hinder Franco-German integration, its focus on improving economic relations with the Commonwealth was not its only strategic concern. Another was an an intense desire to protect and develop the 'special relationship' with the United States "…not in the true interests of the continent that we should sacrifice our present unattached position which enables us, together with the US, to give a lead to the free world." European integration, insofar as it meant Franco-German integration above all else, was an American concern. Though the United States remained directly influential in the integration process, it also actively encouraged British accession in order to counterbalance the influence of Gaullist France and prevent the Community from drifting towards collective protectionism.[14] The major concern, in the bipolar Cold War reality in 1945, was security, something an economically, socially and politically exhausted Britain could not afford. The policy direction of the British Foreign Office was one of support of the wider Atlantic Community and, in particular, the American dominated European security blanket in the form of the North Atlantic Treaty Organisation (NATO). As Churchill put it in a memorandum to the Cabinet in 1951, "our attitude towards further economic developments on Schuman lines resembles that which we adopt about the European army. We help, we dedicate, we play a part, but we are not merged and do not forfeit our insular or Commonwealth character. I should resist any American pressure to treat Britain on the same footing as the European states."[15]However reconciling the increasingly diverging policy direction of Franco-German Europe and the US meant the British effectively could not ride both horses.

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[12] Owen (2002)
[13] *Ibid*, p. 2
[14] European Navigator (2009) '*The end of a great power*'. Étienne Deschamps. Translated by the CVCE. Centre Virtuel de la Connaissance sur l'Europe. www.ena.lu
[15] Quoted in Bullock, Alan (1983) *Ernest Bevin, Foreign Secretary, 1945-1951*. Oxford, 1983, p787

Using hindsight, regardless of the prevailing realities in Britain's post-war economic external relations, Britain's failure to accept the Schuman Plan and join the European Coal and Steel Community (ECSC) in 1951 is considered a missed opportunity with deeply damaging economic and political consequences. The ECSC was, upon its formation, viewed in most circles as "a combination of centralised regulation, traditional business practices and elements of genuine liberalisation"[16] – a distinct form of liberalisation the British had championed for centuries.

However, British opinion toward Europe at the time was surmised in a communiqué from the British Foreign Office dated December 1951[17] which outlined in a definitive way "The UK cannot seriously contemplate joining in European integration…." Undeniably, there was high level of uncertainty over the workability of the entire project. For Britain, Churchill and Foreign Minister Anthony Eden maintained their unease about the federal character of the High Authority (the supranational 'government' of the ECSC), and about the loss of sovereignty which membership would entail but did admit that the ECSC was an important counterweight to Soviet ambitions in Europe.[18] Despite this, the UK rejected membership of the European integration project twice in the 1950s.[19] A curious element to British attitudes toward European integration is that why, if all European states commonly dealt with the establishment of a Keynesian welfare state system did Britain behave differently to France, West Germany, Belgium, Luxembourg, the Netherlands and Italy by being perceived to engage with Europe from a distance.[20]

On top of all this, two events in the 1950s vindicated the British position of assertive national asovereignty and non European involvement. The Pleven Plan, the proposal for a collective European Defence Community (EDC) failed in a vote in the French Parliament in 1954.[21] In the same year, the Fouchet Plans for wider political union, championed by Belgium and the Netherlands, collided with the prevailing French desire for a reassertion of French national sovereignty supported by the fledgling Gaullist movement. The federalist ambitions of early Europe had, after a promising start, came to a shuddering halt by the French parliament, a death knell rejection from a principle founding member of the ECSC.[22]

Despite this, the success of European Coal and Steel led to a pan-European mood of positive change, notably after a 'Golden Age' of economic growth for the ECSC countries fuelled by post-war reconstruction. This inevitably had hugely positive consequences for members but strong negative consequences on non-members, such as Britain and its trade dependents; Ireland, Norway and

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[16] Ranieri, Ruggero (1993)'*Inside or outside the magic circle: the Italian and British steel industries face to face with the Schuman Plan'*, in A.S.Milward et al, The Frontier of National Sovereignty, Routledge.
[17] Hanhimäki and Arne Westad (2004) p. 321
[18] Owen (2002)
[19] The first time was 1950-51 when Monnet extended an invitation at the ECSC formative stages and the second in 1953-54, when negotiations on an association agreement between Britain and the ECSC could have led to full membership
[20] Milward, Alan (1992) *The European Rescue of the Nation-State.* London. Routledge.
[21] Eichengreen (2007)
[22] Hill, Christopher and Smith, Karen (2000). *European Foreign Policy: Key Documents*. Routledge Publishers

Denmark.[23] As a result, the Treaty of Rome followed soon (1958) as the next step in deepening European integration where it had been successful – economically – by establishing the European Economic Community (EEC). This would include free labour mobility, free capital mobility, free trade in services, common external tariff on imports and the removal of all trade barriers on a discriminatory basis. Britain, in the meantime, stood on the sidelines as its empire began to further dwindle as a rapid process of decolonisation took place.

Decolonisation

While the Commonwealth may have been a relative success, the post-war British Empire was dramatically crumbling. Nationalist movements, encouraged by Britain's domestic problems, sought to quickly take advantage of a once in a lifetime chance. Together with an anti-imperialist and anti-dictatorial fervour hangover from WWII, Britain's empire was ripe for the picking. Quickly, Greater India dissolved into religious blocs (Muslim Pakistan and Hindu India), the situation in the British Mandate in Palestine became a Jewish-Arab war over respective statehoods. In Europe, Ireland passed the Republic of Ireland Act in 1948 declaring the state a formal republic, later ceasing to be a member of the Commonwealth. In Asia, once strong states became quagmires of insurgency. In Africa, demands for decolonisation began to trickle (Sudan and the Gold Coast) and pressure began to mount on the Foreign Office. This dwindling influence was compact by diplomatic and political disasters such as that of the Suez Crisis in 1956, which severely damaged British prestige and laid bare British inabilities to protect its interests on the world stage without American assistance, 10 years after the end of WWII. To most, decolonisation was yet another symptom of Britain's rapidly falling star – a process which they had themselves placed most of their bets on in the immediate post-war environment. Britain could no longer double down on their bets. The money had run out and now their bluff was being called. Panic began to set in and the floodgates were starting to pry open.

[23] Derado, Dražen (2008) 'Effects of the Eastern EU-Enlargement on Croatia – a Trade Analysis'. Management, Vol. 13, 2008, 1, pp. 37-58

The 1960s

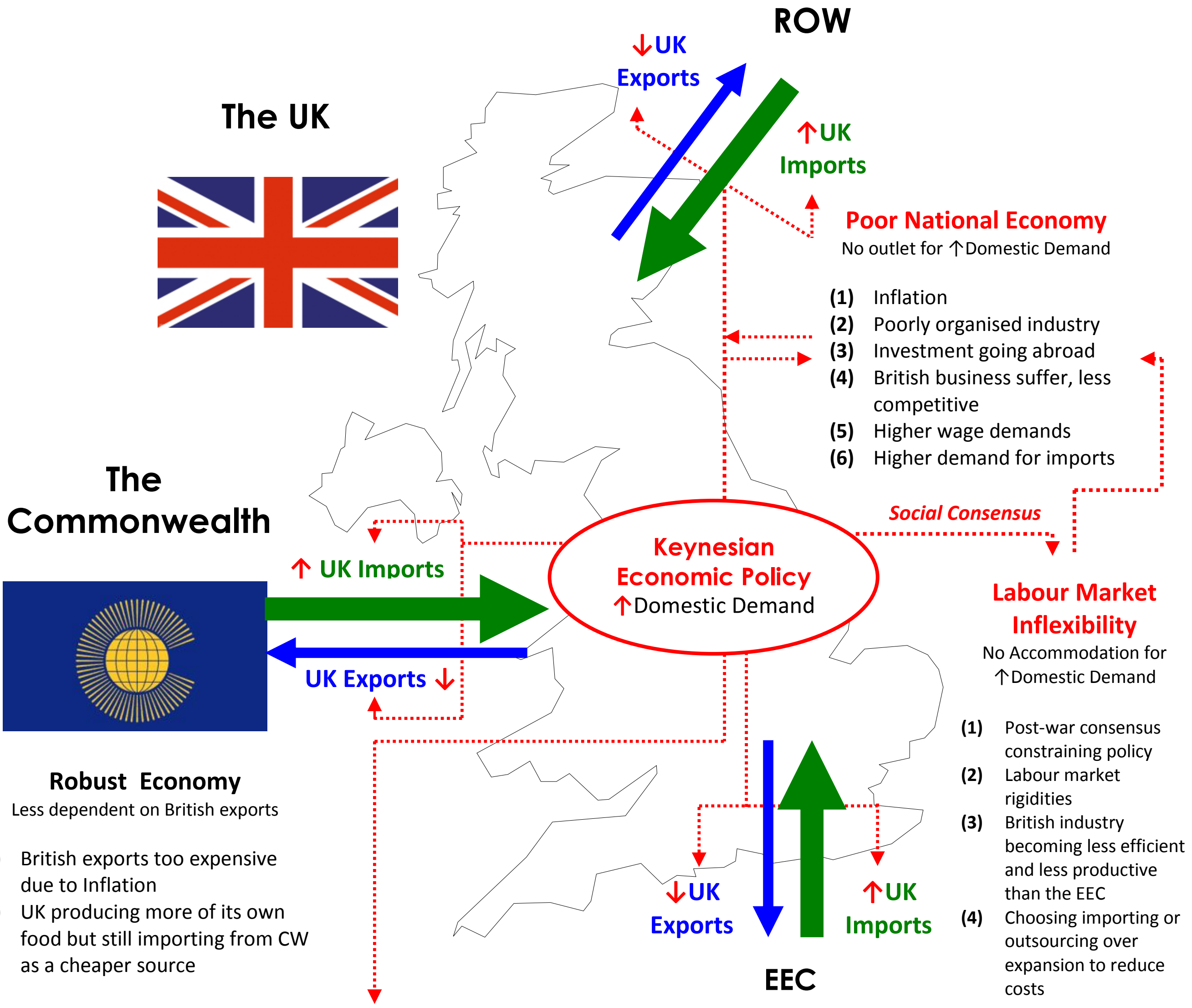
By the late 1950s, the policy foundations of the post-war social consensus began to buckle under the weight of economic reality and forced a re-evaluation of British national and international interests. The dawning wisdom was that Britain's semidetached relationship with Europe was against her economic interests and efforts should be directed toward a new economic policy engineered to achieve maximum economic growth while delicately keeping divergent British interests content. Three key strands to post-war political British thinking were beginning to change due to economic realities.

Table A: *The Evolving British View*

Original View (1940s-1950s)	1960s Viewpoint
Politically Influenced	**Economically Influenced**
The economic and political interests of Britain as a 'third' world power were worldwide and EEC membership would encroach on the British Commonwealth and further undermine the international status of sterling	▪ Trade was becoming increasingly orientated toward the EEC as the Empire fragmented and increasingly self sufficient. It represented an unstable and far flung costly trade network which was no longer a benefit ▪ Sterling was already undermined heavily by the US$ (hoping to return to £ dominance as the worlds reserve currency were now hopeless)
It was against British public opinion to join Europe which has shown tendencies toward federalism (despite failures in the 1950s)	The failure of EDC and European political unity in 1954 by the French Parliament illustrated that the path toward federalism was not assured.
Membership of the EEC would threaten protected British heavy industry if opened to free European competition	Industry was being stifled by the lack of export markets despite proximity to the EEC trading bloc

Despite these long held post-war views, the bases of British economic policy were severely undermined and were becoming increasingly overshadowed by strong EEC growth. The combination of Keynesian policies and disorganised industry combined to cause the national finances to spiral further out of control. One fact was clear. Britain would continue to lose status and investment from home and foreign sources if swift actions were not taken to recalibrate and reorientate Britain's position in the world economy. Chart A gives an overview of Britain's trade relations in the post-war environment.

Chart A: *Britain's Trade Relationship and its effect on UK Imports and Exports*



UK Balance of Payments Crisis

- Cost of welfare state and Keynesian demand management buckling the public purse
- Loss of investor confidence in UK economy (flight of capital abroad)
- Declining productivity and competitiveness of UK industry (especially vis a vis the EEC)
- Loss of confidence in £ (value of sterling falling, making UK exporters dearer)
- Booming national debt (Interest payments worth >10% of public expenditure)
- IMF help sought
- **Devaluation of £ inevitable**

- **Reappraisal** of British trade policy
- **Modernisation** of British industry (return to competitiveness and a drastic reduction in government protection)
- **Orientate** the UK as gateway for international capital (focus on services over industry)

Membership

HOW?

Domestic Economic Difficulties and the Path to EEC

The formative period of British ambitions to join the EEC was a period punctuated with a continuous balance of payments crisis as a result of Britain's trade orientation and other factors (*See* **Chart A**). Sterling had come under pressure four times in the 1950s, causing the government to implement rescue operations to supplement declining gold and foreign currency reserves which were rapidly exhausting.[24] The 1960s were no less difficult, with deteriorating conditions forcing the British exchequer to borrow twice from the IMF. In a further blow to British pride, the likelihood of realistically re-establishing sterling as the world's reserve currency evaporated. The social consensus had cemented a belief in Keynesian economics and the inversed logic of Says Law, meaning demand creates its own supply if supply creates its own demand. The main British problem was on the supply side.[25] Britain was far from a coordinated economy and suffered from rampant inflation. Contentious relations with unions made government policy extremely confrontational, making it difficult to coordinate wages, investment and spending, factors which served to erode Britain's competitive position and narrow the trade value of the Commonwealth.

Changing economic circumstances were rapidly reducing the physical structure and size of that market for British exports with the viability of the Commonwealth as an economic unit in terminal decline. Where it had represented a loyal, sterling using, export hungry and import plentiful source in the 1950s, this proved to be a temporary anomaly of the immediate post-war environment. The 1960s witnessed accelerating demands for independence from African and Asian colonies with the Commonwealth increasingly viewed as an unstable external distraction from problems at 'home'. Import substitution policies in Britain for agricultural produce, and in the rest of the Commonwealth for manufacturing, undercut the benefits of the traditional patterns of economic interchange.

***Table B**: Pace of Decolonisation in the British Empire*[26]

Era	# of Decolonised Nations
1920s	2
1930s	2
1940s	6
1950s	3
1960s	27
1970s	16
1980s	5
1990s	1

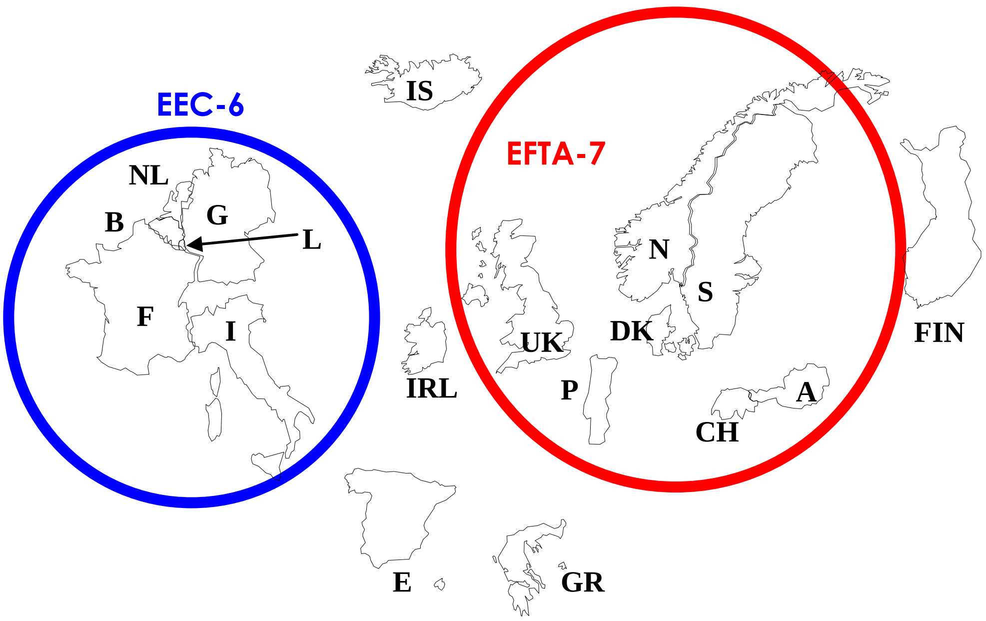
Britain's competitive advantage in shipping and manufacturing became increasingly irrelevant in the world economy of the 1960s. A compromise between pressing economic interests and long held political

[24] Eichengreen (2007) p. 230
[25] *Ibid* p. 231
[26] CIA World Factbook (2006)

interests was found. Britain's initial reaction was a fudge – a halfway house solution aimed at appeasing industrial interests at home and protecting the Ottawa trade arrangement with the Commonwealth. This solution would give Britain a prized leadership role in Europe again while saving face on its European U-turn. Britain, after all, wanted to lead not to follow the increasingly successful EEC. Britain therefore, ignored the EEC and proposed a much looser collective arrangement, the intergovernmental EFTA.

The European Free Trade Association (EFTA)

The creation of the EEC in 1958 and EFTA in 1960 signalled the division of the post-war OEEC community of nations in that it firmly divided the 17 members into two camps by utilising discriminatory trade barriers. EFTA and the EEC were fundamentally different creations. The EEC, by means of being a deeper, broader and more committed animal than its EFTA counterpart maintained a significant advantage in terms of economic size and scope.



EEC	EFTA
6 members (the former ECSC '6')	7 members (not previously aligned)[27]
Federal	Intergovernmental
Customs Union	Purely a free trade area
Goal of economic unity	*Neither a customs or economic union*
Common external tariff	No common external tariff
Included trade in all goods	Included trade in all goods except agriculture
Contiguous	Dispersed
168 million inhabitants	90 million inhabitants

The duality issue of two coexisting free trade blocs vehemently opposed to each other in a geographically small area proved difficult to maintain. The reasoning was straightforward. Trade creation, by nature of

[27] The EFTA founding nations were the UK, Norway, Sweden, Portugal, Austria, Denmark and Switzerland.

allocative efficiency, utilises the efficiency in a given good, in whatever country which maximises that efficiency[28]. The EEC, through a full customs union, disciplines the member states and drives them to efficiency to reap the gains from trade. Effectively, EFTA would not actively fix any competitive problems in its member states because there are no incentive to do so with the EEC so geographically close and the interdependent nature of the European marketplace. It was, for all intents and purposes, a stop-gap solution for Britain to provide a limited market for British manufacturing, a domestic appeasement 'pressure valve' of sorts. The EFTA was however viewed favourably by the Commonwealth as most of the goods covered under EFTA did not compete with goods from empire sources and therefore it would strengthen the UK as a market for Commonwealth exports.[29] Despite this, in a quantitative sense, Britain's exports to the EEC-6 grew faster than its exports to the EFTA in the early 1960s.[30] The progress from disunity, acrimony, resource competition and tensions over border sovereignty to a unified, cohesive supranational economic powerhouse at Britain's doorstep was an enormous change and placed incredible pressure on UK policymakers. Britain's half hearted attempt at leading a new 'loose' union was brought to a shuddering halt by events far closer to home.

The 1961 Application to the European Economic Community (EEC)

With Britain's domestic economy continuing its decline, and Imperial Britain disintegrating (and with it the post-war external consensus over the importance of the Commonwealth), only the social consensus remained. However, even there the intellectual debate was changing and gravitating toward one which focused on supporting Britain's domestic interests by boosting Britain's economic growth first and foremost.[31] "[it] seemed to imply a fundamental and permanent reorientation of the British conception of' 'community,' away from the former imperial conception of Britain's world role and toward a new basis for great power status as a leading player in an economically dynamic and politically united Europe."[32] The failure to renew the Ottawa agreements meant specific tariffs were seldom revised meaning political and strategic links between Britain and the Commonwealth, despite a traditional sentimental attachment, continued to decline during the 1960s[33]. Rising trade among the 'EEC-6' and the continuing break up of the sterling area of the empire belatedly brought pressure to bare on the British government to align itself with more wealthy European markets that had the resources required to purchase Britain's increasingly expensive exports.[34] Britain, finally, would apply to join the EEC. In effect, the formal EEC application was

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[28] Viner, J (1950) *The customs union issue*, Carnegie Endowment for International Peace, New York, London
[29] Attwood, E.A (1961).*The Agricultural Policies of Britain and Denmark.* London: Land.
[30] Eichengreen (2007) p. 177
[31] Pemberston. Hugh (2001) '*A Taxing Task: Combating Britain's Relative Decline in the 1960s*.' London School of Economics, Department of Economic History. Twentieth century British History, Vol 12, no.3.
[32] Ward, Stuart (2001) "The Erosion of the Old Commonwealth Relationship," in Alex May ed. *Britain, the Commonwealth and Europe.* New York: Palgrave Publishers.
[33] Fram (2006) p.25
[34] *Ibid*

the signal that successive British governments had relented on their commitment to their once grand empire because it made no rational economic sense.[35]

By comparison with the EEC, foreign multinationals found their UK facilities were significantly less productive and profitable than their German or French counterparts. [36] The creation of the National Economic Development Council (NEDC) and the later National Economic Development Office to coordinate the economic policy at a regional level was fractious due to the lack of large domestic firms and any degree of cohesive coordination. Britain's problems were compacted further by its reluctance to devalue sterling to improve competitiveness, a course of action viewed as almost certainly destined to create tensions between the EEC partners with whom Britain was negotiating with (and, as some historians suggest, this action would cause the Americans to worry about the stability of their own the currency, the dollar).[37] British unions were buckling under the pressure of the accommodation policies devised by Tory governments to correct these problems. Any advances made by the Tories aimed at breaking the inflexibility in the labour force and taming union power to restore British competitiveness was swiftly rolled backed by an incoming Labour administration as particularly evident in 1964 with Wilson's Labour government. 'Reform' was a common buzzword but lacked any comprehensive political will to achieve it. If the *internal* situation could not be rectified without incurring the wrath of the electorate or your core supporters, successive governments preferred to try their hand at achieving success *externally,* in Europe. The only thing stopping Britain's inevitable waltz into Europe was now Europe itself. And some weren't eager to forgive and forget. Antipathy toward Britain and suspicion over their sudden about-face on membership of the European project, saw a resurgent French President Charles de Gaulle say an unequivocal 'non.'

The 1964 Application and the Domestic Crisis

The second attempt at joining the EEC, under new Labour Prime Minister Harold Wilson was less cohesive as a slim government majority and memories of earlier failure plagued negotiations. These took place amid growing concern over the trade imbalance and changing public attitudes toward the British application. The effort to sell the application to the governing Labour MPs and the public at large proved far more difficult, as compromise between the EEC members seemed slim, notably after De Gaulle's provoked 'Crise de la Chaise Vide' (empty chair crisis) where the EEC evolution to a federal structure seemed enshrined.

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[35] Alexander, Philip (2003) Alexander, Philip. "From Imperial Power to Regional Powers: Commonwealth Crises and the Second Application" in Oliver J. Daddow ed. Harold Wilson and European Integration: Britain's Second Attempt to join the EEC. London: Frank Cash Publishers

[36] Pratten. C.F (1976) '*Labour Productivity Differentials within International Companies*.'. Occasional Paper no. 50, Department of Applied Economies. University of Cambridge.

[37] Eichengreen (2007) p. 234

The Labour government appeared increasingly reactive, administering a 15% surtax on imports in an attempt to control the deepening crisis in the national accounts, which inevitably caused tensions between Britain's trading partners and breached Britain's GATT and EFTA agreements. A third request to the IMF was rejected, with the conclusion that the exchange rate was unsustainable with the resulting run on sterling forcing devaluation.[38] Britain's economic policy was in disarray. Chancellor James Callaghan asserted that domestically, the devaluation mechanism would have a minimal effect anyway, likely to be dissipated by a predicted wage-price spiral. The 1967 currency devaluation, something successive governments had tried their best to avoid, represented the formal end of sterling as the major world reserve currency. With the subsequent collapse of the Bretton Woods fixed exchange framework, Britain firmly played its hand, and firmly chose Europe as where its future lay.[39] Despite British determination, reflected in their acquiescence to French demands toward commercial and agricultural adjustments, the newfound strength and dominance of the EEC (and by extension the French) was not something French wanted to surrender. British assurances were not enough and the French under Charles De Gaulle, sceptical of British intentions, vetoed the application for a second time.

Third Time Lucky – The Final British Application

Upon the retirement of Charles de Gaulle in 1969, Britain submitted a third EEC application. By then, world events had provided food for thought to British policymakers, including the Cuban missile crisis, the rise of the Berlin Wall, the Vietnam War and the stagnation of European integration. These were compounded by the French departure from NATO command and a certain European drift from adherence and acceptance with US foreign policy. Economically Britain's EFTA had witnessed significant but far less impressive growth than its Franco-German companion (See Chart B).

This provided a renewed impetus to reengage and provide a fresh spark to the process of European integration to include to the British. With new German Chancellor Willy Brandt and new French President Georges Pompidou, these negotiations would take place with far different, more realistic and less rhetorical considerations in mind. Britain committed to a 'reengagement' Hague Summit that the EEC adjusted to the new political realities, adopting new 'revival' priorities of 'completion, deepening, enlargement.' The resumption of negotiations took place in Luxembourg on 30 June 1970, alongside negotiations with Ireland, Denmark and Norway.

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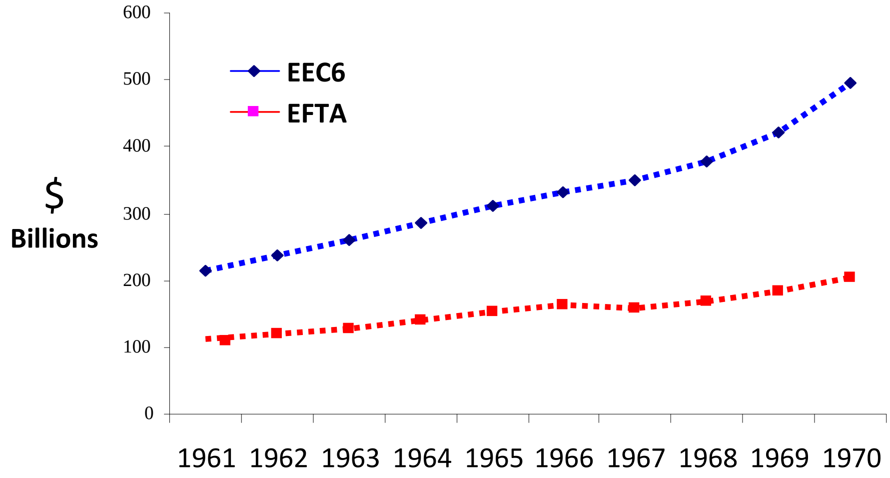
[38] *Ibid* p. 238
[39] Butler, Lawrence J (2002) *Britain and Empire: Adjusting to a Post-Imperial World.* London: I.B. Taurus

***Chart B**: Collective GDP (1960-70)*



With accession, any hope of reviving the Ottawa preferential system was firmly ended as Tory Prime Minister Edward Heath agreed formally to a four year phase out of imperial preferences.[40] By this stage, the success of the Treaty of Rome was empirically obvious as trade and GDP growth has been phenomenal in the EEC-6 leaving the Community itself far more consolidated.

The State of Trade

The success of the two trade blocs varied greatly but early findings were far from encouraging. The EEC-6 share of exports rose from around 30% in 1958 to 45% a decade later while imports to the EEC-6 from outside the bloc declined[41]. The EFTA bloc lagged behind that of the EEC with the UK as a whole becoming less dependent on *both* blocs. Despite the wrangling in the British Cabinet over Britain's European policy, the 11 year period between 1959 and 1970 saw a huge reorientation in British trade regardless. Imports from the European continent would jump 35% and exports to the continent rose 42%.[42] Prior to ascension by 1972, Britain was importing a mere 19% of its goods from the Commonwealth, which in turn was demanding no more than 20% of British exports, a far cry from the 50% level in 1958. Almost inevitably, the economic reality meant Britain would drift toward the open, abundant and rapidly growing markets of the EEC. Slowly but surely, this economic reality would have to align with a political force to take advantage of this inevitable economic change in British politics (that force, it would turn out, was Thatcherism). Let us turn to some 1970s statistics.

[40] Fram (2006) p.26-7
[41] Baldwin and Wyplosz (2005) p. 122
[42] Newman, Michael (1989) *Britain and the EEC: Effects of Membership*. London: PNL Press

Economic Development by Accession

Regardless of Britain's changing focus, the economic position by the early 1970s had slipped considerably since 1950. Growth up to EEC assession in 1972/3 was less than half that of West Germany and Italy and just over half that of France. Britain had slipped from 2nd in GDP per capita in the world, to 7th with the EFTA bloc overall performing markedly less well then the EEC bloc.

***Table C**: GDP Per Capita and Rankings (in 1990$)*[43]

	GDP Growth (1950-73)	Rank in 1950	Rank in 1973	Change
West Germany	5%	9th	4th	+5
France	4%	7th	5th	+2
Italy	4.9%	13th	11th	+2
UK	**2.4%**	**2nd**	**7th**	**-5**
EEC Average	4.2%	8.0	6.8	+1.2
EFTA Average	**3%**	**3.6**	**5**	**-1.4**

By the mid 1970s, Britain had done comparatively poorly in income growth (Y), performed well on capital/investment growth (K), performed lukewarmly on human capital growth (H) and performed very poorly on technological growth (Total Factor Productivity, TFP).

***Table D:** Growth Variables (1960-1975)*

Country	Y	K	H	TFP
UK	1.96	5.14	0.58	-0.13
Ireland	3.68	3.30	0.54	2.23
Denmark	2.07	3.21	0.36	0.77
West Germany	**3.43**	**6.19**	**1.06**	**0.69**

There are certain relative things to be learned from this. The British economy grew poorly over the course of the 1960s especially compared with European growth leader Germany. By contrast, tellingly, the economy had performed very well in relation to investment and capital growth, just slightly under that of Germany itself. This suggests that while the British economy was productive, or at least had productive capacity, capital/investment generated in Britain was flowing to where the return was greatest i.e. away from Britain to Germany. Why? The fact that TFP is negative shows that British industry had achieved no technological spill over growth in the greater economy and was not attractive to private investment.

[43] Baldwin and Wyplosz (2006) p. 161

Domestic Turmoil and the Roots of Thatcherism

By the early 1970s, it was painfully obvious that the lack of a comprehensive solution by successive governments had caused deep social division and polarisation. The consensus had set certain economic 'realities' in stone, left wing Labour governments had differentiated their policies through acquiescing with the demands of blue collar, unionised workers. Both Labour and Tory governments had to deal with the same labour pressures and wage demands which were virtually insurmountable from within the constraints of keeping the tripartite of the social consensus together. In the end, unions and industrial unrest directed the popular support for successive governments. British industry was already uncompetitive and increasing organisationally divided as rampant inflation saw low level workers demand higher wages in direct contrast to the needs of owners, investors and managers. Union power went against the needs of better health of the economy. The economy needs wage moderation, higher productivity or lower costs more generally as each nation opens up to foreign competition. Regardless, the increasingly reactive public policy measures had failed to increase industrial productivity much to the detriment of once strong areas. An extreme case was the motor industry, which, from a position of apparent dominance in Europe in the early 1950s, declined to a point where, by the mid-1970s, it was barely half the size of the German and French industries. The international world economy was also becoming less certain and increasingly shaky. Certainties, such as the US role in the international economy (in terms of financial control under Bretton Woods) declined as American policy became increasingly protectionist during the Nixon era.

The only politically and socially viable method to assure a return to British economic health would therefore come from changing external policies, far removed from domestic tinkering constrained by the chains of the social consensus. The first step was a radical approach to external economic policy.

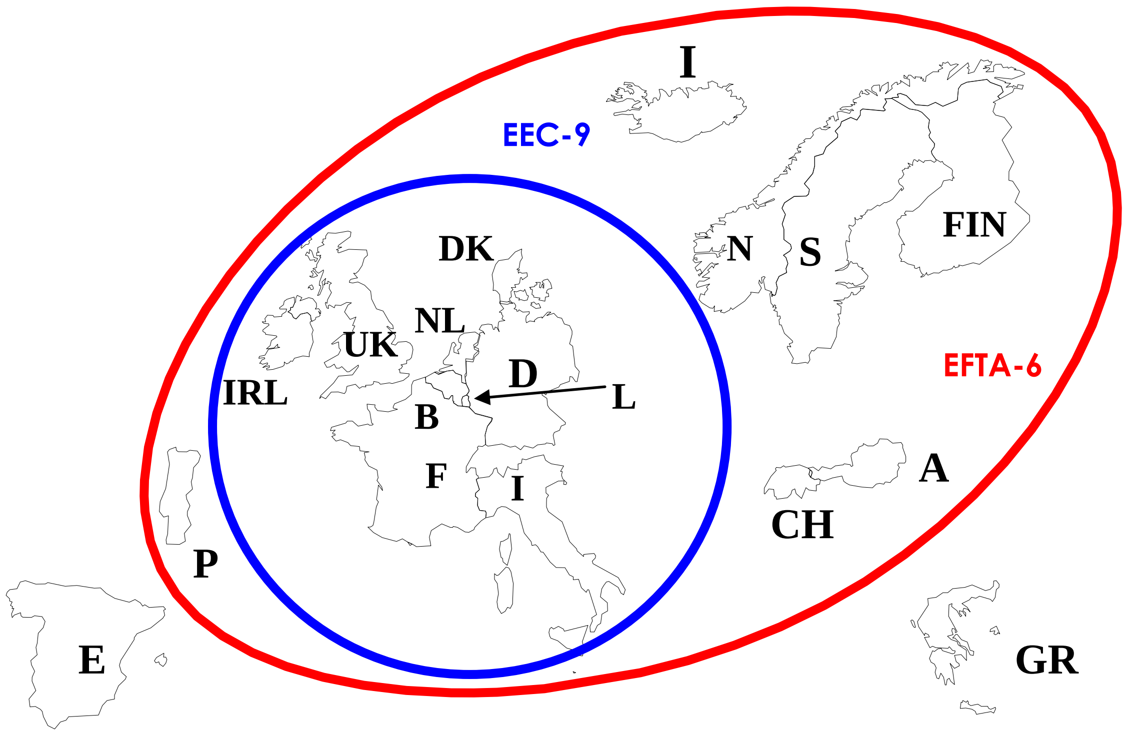
Britain therefore had two key considerations:

1. A need to modernise British industry through exposure to their competitive counterparts in Europe.
2. A need to cement the UK's role in the international economy

Exasperated and increasingly sidelined by events, the road to a reassertion of the UK role in the international economy was laid through the EEC. With events conspiring in Britain's favour, the stage was set.

Changing European Attitudes and the British Ascension to the EEC

In 1970, a Tory government under avowed Pro-European Edward Heath came to power with a new domestic agenda. Rather than seeing Europe as a competitor, domestic unrest had encouraged the view the EEC membership might be a very useful pressure valve. Through it, Britain would use the European structure as an engine for economic renewal, increasing the exposure of British industry to European competitors, streamlining domestic efficiency. This conveniently would place the onus on industry itself and its component workforce, rather than government industrial policy– shifting responsibility from *government* to the '*invisible hand'* of market forces. The collapse of Bretton Woods and the self withdrawal of the US from its effective position as financier of the world economy, expedited this process. The only way to ensure a UK role in the international economy was through a market led strategy of economic modernisation through EEC membership. Britain was finally formally admitted to the EEC in 1973 with Ireland and Denmark, two major trading partners.



However the need to modernise British industry would not be so easy a task. It began to dawn on policymakers that dropping protectionist barriers through the EEC would discipline British industry into accepting competitiveness measures which would otherwise be politically unpalatable (*or* suicidal). That's not to say such domestic actions weren't attempted. Britain's economic ills were after all systemic and directly related to the *internal* economic situation. The pound as the symbol of British political economy was weakly viewed on world markets for this purpose. Another element was the increasing fragmentation of the Trade Union Congress and the consequences for this on it's politically ally, the Labour Party. Social pressures began to swing Labour leftward, amid demands to grow the role of the state rather than challenge the obvious cost of the current set up. The Conservatives on the other hand were swinging to the right aiming adopt a small government approach. The first test industry for the new approach which would be adopted by the newly elected Tory government under Edward Heath government was mining, with disastrous consequences. The 'great miners strikes' of 1972 and 1974 would go down in history as a huge political mistake despite its strong economic rational. A hardliner approach on rationalising miners pay (and thus, rebalance the external competitiveness in favour of British mines) resulted in a state of emergency being declared and the Tories losing the 1974 snap election. The incoming Labour government, in the spirit of the social consensus see saw, proceeded to do a U turn and *raise* miners pay and benefits. The see-saw continued. The only bright spot in this period was Britain's ascension to the EEC.

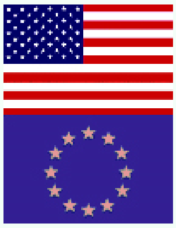
In a nutshell, the common denominator of British national policy in the 1970s was finding the best way to maintain industrial peace with each party successively arguing its own approach and returning to power on the back of a 'I can do better' competition of ideas. Inevitably, the crisis bubbling away became what all parties had to feed off of. With Labour back in power In 1974, a new emphasis would belatedly placed on restoring competitiveness in the domestic economy by restraining wages (except miners), public expenditure and tackling inflation with union agreement. Originally a success, by 1978 relations between the unions and Labour broke down as a series of public service strikes plagued Britain in the fabled 'Winter of Discontent' of 1978-79. The split ran deep. Managers, business owners and investors could not reconcile their collective (and increasingly desperate) need to modernise and compete internationally with employee desires to maintain wages at all costs, frozen in place by union power. Industrial Britain was in a complete stalemate. Both parties were being consumed by their fringes as frustration at the ineptitude of moderation politics and the social consensus reached breaking point. From the morass, came a skilled political operator from the neoliberal right of the Tory Party, Margaret Thatcher (see **Chart D** for a full explanation).

Chart D: *Influences on British Economic Policy in the 1970s*

External

New International Economy

- Rise of the EEC
- US retreat from international financial management



The Social Consensus

- Full Employment
- Keynesianism
- Welfare State

Internal

Labour Force Inflexibility

- Rising trade union membership (11.2m by 1970)
- Centralised union fragmentation
- Union power = Lack of industry accommodation of wage restraint
- Lack of worker flexibility re: modernisation and productivity changes. British industry far less productive than EEC.
- Labour highly inflexible, immobile and protectionist
- Labour Party mediating relations to keep industrial peace

Pressure

DOMESTIC ECONOMIC CRISIS

Pressure

Split

Labour

Left Wing Fringe

Leader: Tony Benn

- National planning
- Nationalisation of industry
- Protectionism
- Industrial democracy
- Firm level planning

- Labour-Union consensus fragments 1978-9
- Public service strikes in the 'Winter of Discontent'
- Public support evaporates

Split in Labour Party

Foundation of the Social Democratic Party (SPD) in 1981

SUPPORTING COALITION

Rank and file Labour members

Trade Unionists

Support of the electorate (1974-1979)

Tory

Right Wing Fringe

Leader: Margaret Thatcher

- Reduced role for the state
- Privatisation of industry
- Return to neoliberal free trade principles
- Reduce role for unions
- No overt industrial policy

Thatcher Wins 1979 General Election

Unpopular monetarist economic policy (control inflation by cutting spending)

SUPPORTING COALITION

Business/Industry Managers/Owners

Investors

Support of the electorate (1970-1974, 1979-)

The Thatcher Era Begins

At the 1979 election, Margaret Thatcher's Tories swept to power on a radical policy platform of drastically reducing the state's role in the economy and reinstating Britain's competitiveness through bolstering the private sector. A dramatic solution was needed to address the constant crisis in the national accounts by installing an entirely new economic order. Whereas previous Tory leader and PM Edward Heath had tinkered around the edges, altering British *external* economic policies avoiding provoking further social divisiveness, Thatcher sought to tackle the *internal* issues directly. Her approach was 'radical' as for the first time, the destruction of the post-war social consensus would form part of government policy. A return to economic prosperity would come from unceremoniously polarising the British electorate unlike any other time in British history. Britain's relationship with Europe was now inextricably and forever linked to its own domestic situation as a reassertion of the British economy would reduce British dependence to 'piggyback' on Europe to keep itself afloat.

Conveniently for Thatcher was that despite the immediate collapse in support for the party in opinion polls when it come time to actually implement its election manifesto, the left had no cohesive coalition capable of winning a general election and protecting its own interests. Its links with trade unions and their associated dogmatic and hardline approaches created a convenient scapegoat for Britain's economic ills. Within the left, it was itself politically fractured between moderates and Trotskyites (essentially) with huge disparities between competing groups. In any case, popular support wouldn't exist if its failed policies were based on the retrenchment of the state the hallmark Labour policies of the late 1970s. A third option was devised, a neutral buffer between the two poles of political opinion – one which would accept certain reductions in the size of government, embracing and incentivising the private sector but also adopting a more cautious and humanist approach to cuts in the welfare state (This was the platform presented by the Social Democratic Party - SDP founded in 1981).

Conclusion

To sum it all up, Britain's relationship with Europe up to British EEC accession and the rise of Margaret Thatcher was heavily linked with its own domestic situation. The long term economic decline forced successive governments to gradually alter their perspective on Europe (**See** Chart E). True, Britain attempted a delicate balancing act from 1945 onward to achieve multiple goals, none of which bore any particular relationship with reality. After the war, Britain undeniably faced into another war which it *would* lose – a far more costly, economic war both from within and between it and the fast growing EEC. Britain's fiscal situation effectively neutralised its monetary policy (and destroyed sterling's reputation in the process) and ultimately allowed the British focus to drift away from her colonies whose demands for autonomy were a precursor for violent uprising and lasting political upheavals on the world stage (Arab-Israeli conflict, Pakistan-India conflict etc). Far from reinstating its proud Victorian position on the world stage, Britain began to sink beneath a mountain of debt. The domestic problems were inflexible, enshrined thanks to the post-war social consensus, allowing only for a 'tinkering around the edges' political debate which never addressed the fundamental competitiveness problem key exporting industries faced. The strenuous effort to maintain these dual consensuses proved to be a myopic battle. With the Americans increasingly supportive of a strong Europe to deter Soviet ambitions in the bipolar world, Britain's 'special relationship' became a point of isolation rather than inclusion. Ultimately, it was an honest appraisal of its international position, the pressing need for modernisation of British industry and the rapidly deteriorating domestic economy which would force Britain into Europe.

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