Mixed Signals: Britain and the Franco-German Relationship

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Introduction

John Major's elevation to prime minister in 1990, and the surprise victory of his Conservative party in the 1992 general election, promised to put Britain's relationship with the Franco-German partnership on a much more solid footing. The final months of Margaret Thatcher's government was dominated by division over the question of Europe, in particular the Franco-German plan to move towards monetary union. Major came to office promising a new relationship with Europe. His gave his first overseas speech as prime minister at the Konrad Adenauer Stiftung in Bonn, where he concluded that "My aims for Britain in the [European] Community can be simple stated. I want us to be where we belong. At the very heart of Europe. Working with our partners in building the future."[1] Things did not work out this way; Major spent most of his time in office fending off challenges from members of his own party who wanted to pull Britain farther away from Europe.

Six years later another newly-installed prime minister, Tony Blair, would echo these comments. The “New Labour” government's foreign secretary, Robin Cook, declared shortly after the 1997 election that "Britain wants to be one of the three major players in Europe" and that "I want today to be the start of a new era between Britain and the leading states of Europe. It is our intention that Britain should now be one of those leading members, not a country on the sidelines seeking to be obstructive."[2]

French and German governments eagerly awaited Blair’s election in 1997 in the expectation that New Labour would take a much more conciliatory position on their priorities; few could imagine a government as unwilling to compromise as the Major administration. New Labour’s election manifesto called for Britain to play a “leading role” in Europe and pledged to sign the European Union’s Social Chapter that Major had rejected; to consider extending qualified majority voting in the Council of Ministers; to press forward with enlargement and the completion of the single market; and to take a more positive attitude towards the Franco-German project of monetary union.

In fact Britain’s relationship with the Franco-German partnership have been marked by continuity. Britain under Blair has remained outside the consensus between France and Germany on the importance of monetary union and in developing responses to the problems posed by globalization, social policy reform, and especially high levels of unemployment. It is only in the area of foreign and security policy that the Blair government’s position has shifted towards the continental center of gravity. While policy did not change much after the 1997 election, the government’s rhetoric has shifted. Blair has been careful not to allow New Labour to be torn apart by the question of relations with Europe. But as I discuss in the conclusion, this shift in rhetoric likely will be an insufficient basis for Britain to play the leading role in Europe that New Labour espouses.

Major's Troubles on Europe

Domestic politics created most of the Major government's difficulty in living up to its promise to be at the very heart of Europe. Major began his term as an elected prime minister in 1992 with a House of Commons majority of only twenty-one seats. This narrow majority made Major captive to two threats. The first was the relatively small number of committed "euroskeptics" among Tory members of Parliament (MPs) who threatened to bring down the government at various points during the 1990s. The second threat was the much larger number of MPs whose positions on Europe were less important than was their interest in having a party leader capable of re-election. At difficult moments there was always the possibility that the later group might join the former and topple Major.

Britain's withdrawal from the exchange-rate mechanism (ERM) of the European Monetary System (EMS) in September 1992 was the event that mobilized and legitimized the eurosceptics in the Conservative party. Reversing its long-standing policy of allowing sterling to float, the Thatcher government had tied sterling’s value to other European currencies by joining the ERM in October 1990. Many interpreted this as evidence of a new-found willingness to take seriously the Franco-German project of monetary union. But Thatcher and her chancellor and successor as prime minister, John Major, remained opposed to monetary union and joined the ERM principally as a mechanism to reduce domestic inflation. ERM entry stabilized sterling’s nominal exchange rate which, with inflation at 10 percent, led the currency to appreciate in real terms. This reduced import prices and placed downward pressure on the high inflation rate. The ERM also provided a more credible framework in the eyes of international investors, attracting short-term financial investment into sterling. Currency appreciation and greater credibility allowed Thatcher and Major to reduce interest rates before the next general election; between joining the ERM in October 1990 and the election of May 1992, the Bank of England cut interest rates nine times from 15 percent to 10 percent, and inflation fell from 10 percent to 4 percent.[3]

While inflation had been conquered by mid-1992, economic growth remained sluggish and created political pressure for interest rates to go even lower. But further interest rate reductions were inconsistent with maintaining sterling's ERM parity, especially after the German central bank, the Bundesbank, raised its interest rates in mid-July. Recognizing the dilemma facing the government, in the summer of 1992 investors began betting on the possibility of a sterling devaluation and drove the exchange rate towards its floor in the ERM. The Major government's first response was to re-affirm—indeed, to strengthen—its rhetorical commitment to the ERM. Chancellor Norman Lamont made a widely publicized speech in early July rejecting devaluation or withdraw from the ERM on the grounds that either move would reduce the credibility of the authorities and require higher interest rates; Major also reiterated the government's commitment to its ERM parity, arguing just days before sterling's exit from the mechanism that a devaluation would be "a betrayal of our future" (quoted Stephens and Tucker, 1992). In early September the Treasury arranged a 10 billion ECU loan from international banks to augment the Bank of England's reserves and to demonstrate the government's commitment to sterling's current exchange rate in the ERM (Walsh, 2000).

Continued speculation against sterling led Lamont to unsuccessfully press the Germans to reduce interest rates. At a meeting of the European Community's finance ministers and central bankers in Bath in early September, Lamont exploited his position as chair to prevent formal discussion of a devaluation and to harangue Bundesbank president Helmut Schelesinger to lower German interest rates. Schlesinger refused and almost walked out of the meeting rather than face of Lamont's badgering and, given the very different priorities on the part of the British and the Germans, the meeting broke up without a plan of action to address the problem of currency speculation. The development that precipitated sterling's exit from the ERM was a wire service report on 15 September in which Schlesinger was said to have implied that sterling and other ERM currencies needed to devalue to end the ERM crisis. When the foreign exchange markets in Europe opened the next day the Bank of England had to intervene on the foreign exchange markets with about 15 billion pounds, or roughly half its reserves (in accordance with the rules of the ERM, the Banque de France and Bundesbank also intervened heavily by buying sterling). The Bank raised interest rates to 12 percent at 11 a.m. with little effect; a further increase to 15 percent that afternoon also did not stop sales of sterling. Unwilling to raise interest rates further or to devalue, the government indefinitely "suspended" sterling's participation in the ERM and allow the currency to float.

At an emergency meeting of the European Community’s Monetary Committee that evening, the British tried to persuade other governments to suspend the entire ERM until after the French referendum the following Sunday, but the latter refused and in the communiqué simply "took note" of the British decision. Major and Lamont laid the blame for sterling’s exit squarely on the Bundesbank, especially Schlesinger’s interview as well as other, often off the record, comments by officials of the German government and Bundesbank, that suggested a sterling devaluation (Dawnay and Fisher, 1992). Major even went so far as to have the Foreign Office call in the German ambassador to London for a formal dressing down (good overviews of the ERM crisis include Cameron, 1993; Eichengreen and Wyplosz, 1993; Stephens, 1996; Sandholtz, 1996).

In retrospect it is clear that Major and Lamont must share much of the blame for the events leading up to “Black Wednesday,” since they placed all of their credibility on membership in the ERM at an unsustainable exchange rate and refused to compromise with France and Germany on a solution to the crisis that would have preserved the mechanism. Black Wednesday also greatly weakened Major's recently-won mandate to lead his party. Major had staked his reputation on his ability to pilot the British economy from high inflation and unemployment upon taking office, and the ERM was the centerpiece of his economic policy. After "Black Wednesday", Major's premiership was dominated by struggles to maintain support in the parliamentary party and the Cabinet. This robbed him of any authority to negotiate seriously with France and Germany regarding pressing issues such as institutional reform of the European Union, the development of a European security identity, and joint responses to the challenges of globalization. A few examples bear this out.

The first sign of difficulty came with the ratification of the Maastricht treaty. Major won a very narrow victory early in the ratification process when eurosceptic Conservative MPs joined with the opposition Labour party to vote against the treaty on 4 November 1993. Fearing that his thin majority might temporarily collapse and halt the treaty’s progress through the legislature, Major delayed its consideration by Parliament until after the Danish referendum scheduled for May 1993. Labour exploited Major’s weak position by threatening to vote against the treaty unless the government signed on to the social charter agreed in Maastricht, while perhaps two dozen eurosceptic Conservative MPs seemed likely to vote against the treaty as well. Labour and the eurosceptics used every trick in the parliamentary rulebook to embarrass Major, who managed to have the Commons ratify the treaty in August 1993 only after a vote of confidence in his government.

Eurosceptic criticism of Major led him to adopt unreasonable positions on other issues during the 1990s. The first was the planned enlargement of the European Union to Austria, Finland, Sweden, and Norway. The Major government long supported this step towards “widening” the European Union with an eye towards restricting its future supranational development. Prior to this enlargement, a group of member-states needed to assemble twenty-three weighted votes to block the adoption of new legislation under the system of qualified majority voting (QMV) used in the European Union's Council of Ministers. Enlargement meant granting additional votes to the new member-states and, logically, raising the "blocking minority" needed to stop the passage of legislation. All of the member-states except Britain and Spain agreed to accommodate enlargement by increasing the blocking minority to twenty-seven votes without changing the allocation of weighted votes among current member-states. Major chose this somewhat obscure issue to cast himself as the defender of British "sovereignty," threatening to veto enlargement unless the existing minority of twenty-three votes was retained. He was under pressure from both ends of his party. The euroskeptics were adamant that enlargement not reduce Britain's weight in the European Union and had Michael Portillo hovering in the wings as a potential challenger in case Major failed to win agreement from other governments. At the same time prominent pro-European Tories agitated for a more conciliatory position and circulated rumors that Chancellor Kenneth Clarke and Minister of Trade and Industry Michael Heseltine also might challenge Major's position as prime minister. Major sent Foreign Secretary Douglas Hurd—himself a committed European—to negotiate a fudge in which the Council of Ministers would do "all in its power" to reach a compromise when faced with a minority of between twenty-three and twenty-six votes (Young, 1998, 453-455).

The nomination of the successor to Jacques Delors as president of the European Commission also became mired in domestic British politics. Before Delors' term expired at the end of 1994, the French and German governments selected Belgian

Prime Minister Jean-Luc Dehaene as their candidate for the job. Every member-state except Britain accepted the Franco-German candidate, albeit reluctantly in some cases. Major vetoed the deal in an attempt to “score political points by caricaturing Dehaene as a rabid Eurofederalist” (Dinan, 1999, 208). Two weeks later Major agreed to select Jacques Santer as the Commission’s new president despite the fact that that his political views differed very little from those of Dehaene.

British beef proved to be another distraction from the business of being at the very heart of Europe. The European Union imposed a worldwide ban on British beef exports shortly after a government scientific panel announced in March 1996 that there might be a link between a disease common among British cattle, Bovine Spongiform Encephalopathy, and Creutzfeldt-Jacob disease in humans. Major objected to the ban and implemented a policy of "non-cooperation" in which Britain would veto all measures in the Council of Ministers that required unanimous support (including many proposals that the government had long favored). When other member-states objected to these tactics and refused to drop the export ban, Major was forced to relent and the others agreed to gradually lift the ban as part of a large-scale cattle slaughter program.

What Revolution? Blair and the Franco-German Partnership

By the time the government began preparing for the general election that would be held in 1997, the Conservative party was at war with itself over Europe. Sir James Goldsmith’s organized the anti-Europe Referendum Party that threatened to steal votes from the Conservatives, and there were rumors that, to the delight of Labour’s election organizers, up to two hundred Conservative candidates would contradict the

Major government's "wait and see" attitude and openly oppose British entry into economic and monetary union (Gould, 1998, 371).

Combined with the recent history of British obstinacy, these divisions made Chirac in France and Kohl in Germany reluctant to engage Major on important issues, and they ensured that the intergovernmental conference aimed at reforming the European Union's institutions would not be completed until after the 1997 general election. Both leaders expected that the Labour party would win this election and take a much more conciliatory view of their priorities. The reality has been quite different. While one of the architect of Labour's electoral revival promised that the Blair government would begin a "revolution" in British politics and policy (Mandelson and Liddle, 1996), in practice its positions on many European questions have been quite similar to those of Major. This is particularly clear for two of France and Germany's top priorities in the 1990s, the successful move to full monetary union and coordinated efforts to combat unemployment. The Blair government's relationship with the Franco-German partnership has changed only in the area of foreign and security policy.

Monetary Union

"Black Wednesday" had a powerful influence on subsequent economic policy and the attitudes of the Conservative and Labour parties towards the project of monetary union. Sterling's ejection from the ERM led Major and Lamont to abandon any effort at monetary policy coordination in Europe and instead to reduce interest rates aggressively to promote economic growth (and the government's popularity).[4] By January 1993 interest rates had been cut from 10 percent to 6 percent. Despite comments from Major that there were "fault lines" in the ERM that needed to be corrected, the British did not present any detailed plans to reform the mechanism and evinced little enthusiasm for rejoining.[5]

Other European countries maintained their commitment to monetary union by reducing fiscal deficits and establishing the predecessor of the European Central Bank during the mid-1990s. The Major government observed these steps from the sidelines in the conviction that monetary union would not start on time or that it would collapse quickly. The British developed a new paradigm for monetary policy that gave little attention to the relationship between sterling and Europe's other important currencies, the franc and the mark. The government announced that it would target the inflation rate with the intention of keeping the rate of increases in consumer prices (excluding mortgage interest rates) below 2.5 percent by the end of the sitting Parliament in 1997. The Blair government strengthened this orientation towards domestic stabilization on taking office. One of the first actions of Prime Minister Tony Blair and Chancellor Gordon Brown was to grant full independence to the Bank of England. On May 6, Brown announced the creation of an Monetary Policy Committee made up of Bank of England officials and outside experts that would have authority to control interest rate policy in order to achieve the new government's inflation target of 2.5 percent. This shift had little to do with the development of monetary union, although it occurred less than a year before most other member-states agreed to create an independent but supranational European Central Bank managing the single currency. While the Labour government was now convinced of the merits of central bank independence, it was unwilling to achieve this goal through international cooperation. Instead, ministers preferred to give up control over interest rate policy to the domestic central bank that would be responsible for meeting a domestic inflation target rather than exchange-rate stability.[6]

From Maastricht onwards, Major made it clear that his government likely would exercise the opt out clause in the treaty that allowed Britain not to participate in monetary union even if the country met the convergence criteria. Yet Major was reluctant to commit to never joining the euro at any time in the future, instead arguing for a "wait and see" policy that involved tracking the development of the single currency and its influence upon Britain's place in Europe. This was insufficient for the euroskeptics, who first by calling on Major to declare in mid 1996 that, if re-elected in 1997, he would call a referendum before joining. Major duly acquiesced. The next year the euroskeptics escalate their demands and to call for a commitment from Major not to join monetary union; as Hugo Young puts it, during this period "[t]here was no week when this question failed to intrude upon the life, and dominate the manoeuvres, of the grimly tormented figure in 10 Downing Street."[7]

The Labour government elected in May 1997 portrayed itself as more pragmatic on the issue of participation in monetary union, holding that it would base a decision on a "hard-headed assessment of Britain's economic interests" rather than ideological opposition to further European integration. But recognizing that the issue was not popular among the public and some rank-and-file and senior members of the Labour party, the Blair government moved very cautiously on the issue and never made a straightforward argument for British participation in the single currency. Instead it laid out a series of challenging political and economic hurdles that would have to be cleared first. Labour would consider joining monetary union only after it passed five economic tests: the British and European business cycles would have to be synchronized, monetary union would need to have a positive influence on employment, international investment, and British financial firms, and there would have to exist sufficient labor market flexibility for member-states to respond to unforeseen economic shocks. In addition to these economic tests, a decision to move to monetary union would have to receive political approval from the Cabinet, Parliament, and the electorate in a referendum. After taking office the Blair government stated that it favored joining the single currency "in principle," but probably would not seek to do so until after the next general election in 2002.

By late 1999 the Labour party had united around the idea of holding a referendum on monetary union early in the next parliament if the government's five economic tests were met. Blair also agreed to sponsor, along with pro-European Conservative politicians Michael Heseltine and Kenneth Clarke and the leader of the Liberal Democrats, Charles Kennedy, the launch of the business lobbying group Britain in Europe, although only after the it promised not to campaign openly for participation in monetary union and instead to stress the benefits to Britain of membership in the European Union.[8] This formula has created a number of ways for Labour to avoid serious consideration of monetary union well into the future. None of the five economic "tests" is stated very precisely; it is not clear, for example, how one would know that monetary union would have a "positive" effect on employment or investment, or how to measure labor market flexibility and short-term economic cycles with any degree of precision. Requiring the electorate to approve monetary union in a referendum also makes it possible for the government to delay a decision on the grounds that it did not want to risk an electoral failure.

Some of the potential political effects of staying out of monetary union were evident even before the euro was introduced in January 1999. In the mid-1990s French politicians began calling for the creation of a Euro Council consisting of finance ministers only from member-states adopting the single currency. The Euro Council would oversee implementation of the Stability Pact governing fiscal policy and be responsible for formulating external exchange-rate policy, coordinating fiscal policy, and serving as a political counterweight to the European Central Bank by advising it on monetary policy. To the Germans this looked like a revival of French demands during the negotiation of the Maastricht treaty for an "economic government" that might threaten price stability and central bank independence. Bundesbank and German government officials refused to endorse the French ideas until March 1997, when they won a series of important concessions, including that the Euro Council would be an informal, consultative body not subject to the European Union's regular decision-making procedures, that it would not discuss monetary policy or impinge on the independence of the European Central Bank, and that political responsibility for exchange-rate policy would remain with the full Ecofin Council.

But after reaching agreement among themselves, the French and Germans had difficulty securing formal European Union approval for the informal Euro Council. The four member-states unlikely to participate in full monetary union from the beginning—Britain, Denmark, Greece, and Sweden—opposed creating a Euro Council limited only to countries adopting the single currency, fearing that it might in effect take over from the full Ecofin group. The compromise reached at the Luxembourg summit in late 1997 held that Ecofin would remain the sole formal decision-making body, but that the Euro Council could invite other member-states to its discussions that concerned “matters of common interest.” While German demands have made the Euro Council much weaker and more informal than the French would have liked, it is still possible that the body could become the nucleus of closer economic policy coordination and, by facilitating negotiations among members of the euro zone, allow them to present a united front when meeting with Britain and the other three “outs” in the full Ecofin council.

Fearing that these “outs” might devalue unilaterally and undercut the competitiveness of firms in the euro zone, the French and German governments began negotiations in 1996 over a new exchange rate mechanism intended to link these currencies to the euro.[9] The British objected to this presumption that the monetary union "outs" would be expected to synchronize their economic policies with those of the euro zone. They also feared that the creation of a new ERM would require them to abide by the Maastricht treaty's convergence criterion that member-states participate in the ERM for two years before adopting the single currency. The first concern was met when the other member-states agreed that participation in the new ERM would be voluntary, but the second remains unresolved. The British argue that the widening of the ERM fluctuation bands in August 1993 from 2.25 to 15 percent essentially did away with the ERM and that the criterion therefore would not apply should Britain apply to join monetary union. Most other member-states, as well as the European Commission, hold that the treaty provision applies to the new ERM, therefore requiring British participation for two years before joining monetary union.

European Security

The Major government’s perspective on questions of European security differed in important ways from those of French and German governments. The Germans and especially the French felt that the threats to European security after the cold war required stronger European security institutions and the transfer of some authority from the North Atlantic Treaty Organization (NATO) to the European Union. France favored a greater role for strictly European security institutions to forestall unilateral foreign policy choices in Bonn and to enhance French influence by excluding the Americans.[10] The Kohl government in Germany had a different set of interests that complimented the French program for European security. Germany's principal security concerns lay in eastern Europe, where ethnic conflict and economic difficulties threatened Germany with economic migrants, refugees, and demands for political and military intervention in local conflicts. A European security identity would provide a multilateral forum through which Germany and other states could intervene to prevent or manage such conflicts. Stronger European security institutions consistent with continued membership in NATO also would reassure other states that Germany would not pursue a unilateral foreign policy.

While British officials initially reacted with concern to the prospect of German reunification in 1990, they soon concluded that the end of the cold war greatly reduced the threats to British security. This made them reluctant to cede freedom of maneuver over security and especially military policy to European institutions. Instead, the Major government stressed the importance of maintaining and revitalizing the NATO alliance. A stronger NATO with a new, post-cold war mission would help keep the United

States involved in European security and could prevent a erosion of Britain's "special relationship" with America.[11]

Major did acknowledge that limited and carefully constructed European institutions could supplement the Atlantic alliance. The unwillingness of the Clinton administration to resolve the war in Bosnia until 1995, and the willingness of congressional leaders to contemplate lifting the arms embargo on states in the former Yugoslavia and thereby endanger British peacekeeping troops, led the British to conclude that the United States might be unwilling or unable to involve itself in future European conflicts. In such circumstances, European countries should be prepared to cooperate among themselves through a strengthened Western European Union (WEU). Nonetheless Major (supported by the Danish and neutral member-states) opposed the French desire to incorporate the WEU into the European Union, preferring to preserve the former institution's strictly intergovernmental character. The Amsterdam treaty signed in mid-1997 did not decide this issues and spoke only of "the possibility of the integration of the WEU into the EU."

Their general unwillingness to strengthen European security institutions also made the British reluctant to adopt the French and German preferences for making the European Union's common foreign and security policy (CFSP) more effective. During the intergovernmental conference of 1996-97, the British argued for retaining unanimity when making major CFSP decisions. Kohl held that qualified majority voting should become the norm for decisions on implementing CFSP decisions, while consensus should be the normal decision rule when the European Council dealt with more important issues. The Germans felt that unanimity would render CFSP useless since there likely would always be one state that opposed a particular action, and that this problem would become more pressing with the enlargement of the EU in 1995 to include the neutral countries Sweden, Finland, and Austria. The Major government held that further modifications to the CFSP decision-making procedures agreed in the Maastricht treaty were unnecessary, since existing procedures urged (but did not require) states not to block a policy that had a support from a majority of member-states. The British instead advocated that member-states decide on participation in military tasks other than collective defense (handled, of course, through NATO) on a "case-by-case basis."[12] The final compromise struck at Amsterdam institutionalized the principle of “constructive abstention,” according to which a member-state unwilling to support a CFSP action would allow others to do so.

The Blair government abandoned this caution, at least at the level of principle. Initially the new government’s attitude was similar to that of the Conservatives; the party’s 1997 election manifesto promised that “[o]ur security will continue to be based on NATO.” New Labour was interested in greater European security cooperation with France and Germany for at least three reasons. First, the government realized that the United States might not be willing to use force to counter security threats that the European states considered dangerous. Second, Europe was over-reliant on American aircraft and sophisticated weaponry, military transport, and intelligence capabilities to be able to respond to even minor crises effectively. This became clear as early as the fall of 1998, when NATO threatened to bomb Yugoslavia for its crackdown on Kosovar Abanians. British officials estimated that the United States would have provided two-thirds of the aircraft even though the European members of NATO collectively accounted for sixty percent of the alliance’s population and uniformed personnel.[13] These predictions were borne out in the NATO-led bombing campaign that began in early 1999. Third, security and defense policy was an area where the British could take the lead, given their relatively large and mobile forces. This allowed the Blair government to successfully maintain Major's policy that the development of a European security and defense capability would not come at the expense of participation in NATO.

All of these developments led the government to play a leading role in the debate over Europe's defense capability. The first step was an agreement with France at the bilateral summit meeting in Saint-Malo in December 1998. The two governments agreed that "the European Union needs to be in a position to play its full role on the international stage. . . [and] decide on the progressive framing of a common defence policy. . . the Union must have the capacity for autonomous action, backed up by credible military forces. . . in order to respond to international crises." This forthright statement in favor of a European defense identity was hedged with qualifications about the relationship to NATO, however. At the insistence of the British, future institutional developments would have to be "in conformity with our respective obligations in NATO," while the French demanded that "the different situations of countries in relation to NATO must be respected.[14]

The resolution also left a number of questions unanswered. For example, Chirac continued to advocate incorporating the WEU into the European Union while Blair was only willing to discuss this step and emphasized that any future developments must not weaken NATO.[15] No doubt these and other topics will be widely debated and subject to bargaining in the near future. Nonetheless the Saint-Malo declaration likely will form the basis of such discussions, particularly because Chirac and Blair stressed the importance of incorporating other states, especially

Germany, into the arrangements. And by mid-1999 there did seem to be some progress on the question of European security cooperation. The Cologne summit of the European Council in June affirmed many of the goals laid out at Saint-Malo and stressed the need to develop new consultative bodies within the European Union to handle defense questions and to work to strengthen the member-states ability to coordinate the development of forces that could be deployed quickly to crises.[16]

Globalization, Unemployment, and Social Policy

New Labour's approach to social and economic policies differs quite dramatically from that of earlier Labour governments. As Colin Hay and Matthew Watson demonstrate, New Labour justifies these differences in the language of globalization. The globalization of economic activity is said to place strong constraints on the success of "Old Labour" priorities of active macroeconomic policies, state intervention and ownership, and supporting trade union demands. New Labour holds that a reputation for keeping inflation low is a prerequisite for economic stability and attracting investment to Britain and therefore granted the Bank of England operational independence when implementing monetary policy. The government sees its role as to ensure that markets function efficiently rather than to intervene in the decision-making processes of firms. This means that public policy needs to focus on promoting competition and upgrading the country's physical and human resources through spending on education, training, and public investment. New Labour also emphasizes its conception of the role of the government in the labor market. Here the key is "flexibility"—which in practice involves forging a much closer relationship with business, keeping the trade unions at a distance by reducing their influence within the party, and retaining most of the anti-union labor market laws passed during the Thatcher and Major governments.[17]

The Blair government emphasizes not only its break with past Labour priorities in Britain but also stresses to its European partners of the superiority of such “Third Way” thinking. Germany has been the focus of this proselytizing; the French Socialist government has been seen as hopelessly interventionist. Shortly after the 1997 general election Blair criticized Prime Minister Lionel Jospin’s plea for centralized European policies on unemployment as hopelessly out of date with the realities of the new, globalized economy. Blair then went on to declare after the Amsterdam summit of June 1997 that his Third Way program was a viable solution to the continent’s problems of persistently high unemployment: “We have shown that alongside low inflation and sound public finances, Europe needs a new approach to employment and growth, based on British ideas for competitiveness, including more flexible labour markets.”

Particularly since the election of Germany under Chancellor Gerhard Schroeder has seemed a much more promising partner than France for developing a pan-European solution to the problems of globalization. Before his election in 1998, Schroeder created a public image and platform for the Social Democratic Party similar to that of Blair and New Labour, emphasizing the importance of “die neue Mitte” and policies that included cuts to corporate tax rates and welfare state reform. A close aide to Schroder, Bodo Hombach, published a book shortly after the 1998 election that called for tax cuts, reducing the role of the state in the economy, and substantial changes to Germany’s system of extensive social welfare payments.[18]

The rhetorical similarity between Schroeder and Blair culminated in a joint manifesto, "Europe: The Third Way/Die Neue Mitte," issued in June 1999. The manifesto closely followed the New Labour program in stressing the constraints that globalization imposed on national economic and social policies and the importance of promoting labor market flexibility and of encouraging enterprise. Schroeder and Blair emphasized that European economies would be able to address the problems of unemployment and expensive welfare states only by the tax burden, redirecting public spending towards training and education, introducing structural reforms to social security systems, and lifting costly regulations that inhibit innovation, growth, and trade.

Two things are interesting to note about the consensus captured in this manifesto. First, New Labour's policy actions bear a remarkable similarity to those of its Conservative predecessors; it was the Thatcher and Major governments that started focusing on low inflation, reducing subsidies, deregulation, privatizing state-owned firms, and granting some independence to the Bank of England. The Major government stressed the importance of labor market flexibility as far back as the 1990 and successfully insisted that the Maastricht treaty at least mention its importance for a successful monetary union. Second, Hay and Watson demonstrate that the influence of globalization on the British economy is more rhetoric than reality.[19] This skepticism about the impact of globalization is reinforced by a number of recent academic studies which conclude that national patterns of production are quite resistant to pressures for change from globalization.[20]

Both of these factors make it difficult for the Blair government to forge a consensus with its European partners over how to manage their economic and social policies. Despite rhetoric about the importance of social inclusion, the economic policies that New Labour has implemented to date remain almost as far from the center of continental practices and concerns as were those of Thatcher and Major. For example, while Schroeder stresses that his government marks a break with past Social Democratic policies, even before election in 1998 some major policy pronouncements were diametrically opposed to New Labour's ideas. Schroeder stressed the creation of a "alliance of jobs" between the government, labor unions, and employers, which sounds suspiciously like tripartism and corporatism to British ears. This language also found its way into the joint manifesto, where it sits uncomfortably alongside calls for greater flexibility and social security reform. Assuming that he is committed to the ideas expressed in the manifesto, Schroeder will have a much more difficult time that Blair in turning them into reality. Tony Blair commands an overwhelming majority in the House of Commons and has proven quite ruthless in stifling dissent within the Labour party. Schroeder, in contrast, must share power in coalition with the Greens and depends on lander governments—some controlled by the Christian Democrats—to approve and implement many policies. His principles also have attracted strong opposition from within the Social Democratic party and its allies. Schroeder's first finance minister, Oskar Lafontaine, resigned in part to protest his the Chancellor's conversion to neoliberal orthodoxy. More problematic is the fact that the labor movement treats such the call for "die neue mitte" with suspicion. Dieter Schulte, head of the DGB, was quick to point out that the British and German economies differed in important ways and that one economic ideology might not work in both countries. Unlike Britain, Germany has a productive and export-oriented manufacturing sector that could afford higher wages and social charges as long as government and employers promote productivity and investment. Poor showings in the European Parliament elections and a string of state contests in 1999 did nothing to increase confidence in Schroeder’s ability to engineer dramatic policy changes. By October Schroeder admitted that his failure to debate these issues within the Social Democratic party before issuing the joint manifesto was a mistake, while Franz Muntefering, recently appointed as general secretary of the party, announced that the paper had no “direct concrete consequences” for government policy.[21]

Conclusions and Prospects

Britain has not shared many of the concerns of France and Germany despite the change of government in 1997. Both the Major and Blair governments remained on the sidelines as France, Germany, and nine other European Union member-states adopted the single currency and European Central Bank in 1999. The Blair government has pledged not to consider joining monetary union until after the next election, and even then may fail to do so if the move is opposed by British voters. Failure to join soon may have a damaging effect on Britain’s influence and reputation in Europe in a number of ways. First, it is possible that the monetary union “ins”—France and Germany in particular—will see each other as natural partners for further integrative steps in related areas such as fiscal policy. Of course it has always been the case that France and Germany have turned first to each other and then to Britain, and the possibility of a British opt out of on monetary union has been a possibility since the finalization of the Maastricht treaty in 1991. But now that the possibility of self-exclusion from monetary union has become a reality, British leaders may have an even harder time trying to convince their French and German counterparts that their desire to play a leading role in Europe is more than rhetoric.

Britain also remained out of step with its European partners regarding the appropriate responses to unemployment and globalization. British governments of left and right emphasized eliminating budget deficits, keeping inflation low, and promoting flexible labor markets. German and especially French governments adhere more closely to the traditional social policy priorities of Socialist and Christian Democratic parties. To date these differences have not had much practical effect since most social policies remain the responsibility of national governments rather than the European Union, and European pronouncements in this policy area often have remained earnest but unfulfilled avowals to take action. Differences in national welfare states will not disappear anytime soon, but if the French and Germans were to agree on a common continental model for tackling unemployment they likely would provoke a hostile reaction from Britain regardless of which party is in power.

The one important exception concerns security policy coordination in Europe. Here New Labour has taken a much more positive attitude than its predecessor by showing a willingness to discuss creating a genuine European component of the NATO alliance that could operate independently of the United States. This has created a great deal of excitement on the continent, where it is recognized that Britain's military posture, along with that of France, could play a leading role in giving substance to a European security and defense identity.

Yet even here the Blair government moves cautiously and is not willing to commit itself to discussing a wholesale revamping of Europe's security institutions. The common factor that ties together Blair's attitude toward the single currency, social policy, and security cooperation is the hysterical attitude towards Europe demonstrated by the British press and a small fraction of the political class. Blair knows that British voters, trade unions, and firms do not share these extreme positions such as withdrawing from the European Union, although they may have doubts about the desirability of a single currency. But Blair moves very cautiously on European questions out of fear of repeating Major's experience, where these issues split and paralyzed the governing party for five years. The irony is that the Blair government, with an overwhelming majority in the Commons and broad popular support from voters, has few of the characteristics of that weakened its predecessor.

Notes

1. Speech to the Konrad Adenauer Stiftung, Bonn, 11 March 1991.

2. Quoted in Paul Anderson and Nyta Mann, Safety First: The Making of New Labour (London: Granta, 1997), p. 133.

3. Philip Stephens, Politics and the Pound (London: Picador, 1996), and James I. Walsh, European Monetary Integration and Domestic Politics (Boulder: Lynne Rienner, 2000), pp. 120-4.

4. The government continued to support observing the Maastricht treaty's convergence criteria for fiscal policy, arguing that they were consistent with its goals of reducing public spending and debt in Britain and Europe. Interview with senior Treasury official, London, March 1995.

5. Conseil des Communautes Europeenes, "1604ème session du Conseil Economie/Finances," 8854/92, Brussels, 28 September 1992.

6. Walsh, European Monetary Integration and Domestic Politics, pp. 163

7. Hugo Young, This Blessed Plot: Britain and Europe from Chruchill to Blair (London: Macmillan, 1998), p. 465.

8. "Joining Euro is 'Patriotic,' Insists Blair," Independent 15 October 1999, and Robert Peston, "Labour Leaders Unite Over Euro Entry," Financial Times, 27 September 1999.

9. Financial Times, 29 March 1996, p. 8.

10. Livre blanc sur la défense (Paris: Union Générale d'Éditions, 1994), and David Yost, "France and West European Defence Identity," Survival 33 (1991), pp. 327-51.

11. A Partnership of Nations: The British Approach to the European Union Intergovernmental Conference 1996 (London: Foreign and Commonwealth Office, 1996), and Louise Richardson, "British State Strategies after the Cold War,' in After the Cold War: International Institutions and State Strategies in Europe, 1989-1991, ed. Robert O. Keohane, Joseph S. Nye, and Stanley Hoffmann (Cambridge: Harvard University Press, 1993), pp. 148-69.

12. Foreign and Commonwealth Office, A Partnership of Nations, p. 36.

13. Richard Norton-Taylor, "Anglo-French Defence Links," Guardian, 3 Decmeber 1998.

14. Foreign and Commonwealth Office, "Joint Declaration Issued at the British-French Summit, Saint-Malo, France," (London: Foreign and Commonwealth Office, 4 December 1998).

15. Norton-Taylor, "Anglo-French Defense Links," and Jill Sherman, "Britain Tries to Strengthen Relationship with France," The Times, 4 December 1998.

16. European Council. "Presidency Conclusions, Cologne European Summit, Annex III: Presidency Report on Strengthening of the Common European Policy on Security and Defence," (Brussels: European Council, 4 June 1999).

17. Colin Hay and Matthew Watson, "Rendering the Contingent Necessary: New Labour's Neo-Liberal Conversion and the Discourse of Globalisation," paper prepared for the Annual Meeting of the American Political Science Association, Boston, September 1998; see also Joel Kreiger, British Politics in the Global Age: Can Social Democracy Survive? (New York: Oxford University Press), pp. 20-23.

18. Leon Mangasarian, "Is This the Real Schroeder?" Deutsche Presse-Agentur, 8 October 1998.

19. Hay and Watson, "Rendering the Contingent Necessary."

20. Suzanne Berger and Robert Dore (eds.), National Diversity and Global Capitalism (Ithaca, NY: Cornell University Press. 1996), Geoffrey Garrett, Partisan Politics and the Global Economy (New York: Cambridge University Press, 1998), and J. Rogers Hollingsworth and Robert Boyer (eds.), Contemporary Capitalism: The Embeddedness of Institutions (New York: Cambridge University Press, 1997).

21. Robert Taylor and Ralph Atkins. "Schroder Attached by Union Chief," Financial Times, 1 July 1999.