***Commercial Preferences***

**Economics and Britain’s European Choices, 1945-2016**

This chapter has one central question: how important a factor have economics – and economic assumptions – been in Britain’s problematic relationship with the European integration process since 1945? In order to arrive at an answer to this, the chapter will outline the manner in which economic calculations by British policy makers have helped shape the country’s European ‘choices’, both negative and positive. It will do so, however, in a deliberately comparative fashion. Because while Britain’s trajectory towards participation in the integration process was highly distinctive, its choices can best be understood when explicitly compared with those made by the six European countries – France, Germany, Italy, the Netherlands, Belgium and Luxembourg - that started the integration process in 1950. How Britain diverged and then converged with its European neighbours will hence be an important sub-theme running throughout this chapter.

Also important to point out from the outset is that the chapter’s focus on economic calculations is not meant to imply that Britain’s European decision-making – or indeed that of any other European country – was shaped purely by economic factors. On the contrary, questions of identity, status and about the country’s role, place and standing in the world, formed a vital part of the British debate.[[1]](#footnote-1) The historiography of European integration was at one stage bitterly divided between those who sought to explain the movement towards European unity exclusively in economic terms, and those, by contrast who attributed it all to political and geo-political calculation.[[2]](#footnote-2) This chapter though places itself firmly within a more recent historiographical tradition that has rejected this binary choice, and instead suggested that it is much more plausible to acknowledge the co-existence and interplay of *both* political and economic factors when explaining so broad a process as European integration rather than seeking to identify any single, one size fits all explanation.[[3]](#footnote-3) That economics factors alone will be covered in the pages that follow, is thus purely a reflection of the theme of the volume and not an attempt to advance a single, dominant explanation of why Britain initially chose to stand aside from the integration process and then, gradually and painfully, changed its mind.

What this chapter will do is to look at economic factors at three different periods: first, economics as a determinant in Britain’s initial ‘no’ to integration – i.e. during the 1945-55 period; then, economics as a determinant of Britain’s hesitant volte-face on this issue from 1956 to 1973. And finally it will briefly discuss economics as a causal factor in Britain’s problematic early experiences of membership – i.e. 1973 up into the mid-1980s, with the occasional reflection beyond.

**The Economic determinants of the initial British ‘no’ to Europe.**

There are at least four important connections between economic factors and calculations, and Britain’s decision in the immediate postwar period to eschew the integration path chosen by several of its European neighbours. The first of these, is the way in which Britain’s wealth and prosperity, relative to its continental neighbours, reinforced its initial tendency to view itself as a power in a totally different league from France, Germany or Italy. In 1949, regardless of its own serious economic woes, the British economy was much larger than any of its continental rivals.

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| 1990 GKUS$ | GNP | GNP per capita |
| UK | 349,955 | 6,956 |
| France | 205,174 | 4,946 |
| West Germany | 223,178 | 3,282 |
| Italy | 152,563 | 3,265 |

**Comparative GDP figures for 1949[[4]](#footnote-4)**

This had two crucial results: first it bolstered considerably Britain’s sense of superiority, which was likely to have occurred any way given the UK’s more comfortable *political* position as a war time victor – despite the fact that on any rational economic forecast, Britain’s lead over France and Germany in particular was likely to diminish over time, if not disappear altogether (the emergence of a strong Italian economic surge was perhaps rather harder to predict). Such confident superiority was well illustrated by Foreign Secretary Ernest Bevin’s complaint to US Under Secretary of State, Will Clayton upon hearing that the US intended to treat the UK in exactly the same way as the rest of Western Europe in the allocation and distribution of Marshall Aid. Britain, Bevin protested, could not be considered ‘just another European country’.[[5]](#footnote-5) It instead it clearly regarded itself, economically as well as a politically, as on a par with the two emerging superpowers, rather than its closest geographical neighbours. And secondly Britain’s recovery strategy was more directed towards those countries that in the short-term represented the better market for British exports, and better sources for UK imports. In practice this meant, the United States and the Commonwealth not Western Europe were seen as the key trading partners as far as Britain’s immediate commercial interests were concerned.[[6]](#footnote-6)

Once this initial choice had been made – or to put it more accurately once Britain’s interwar trade preferences had been confirmed in the postwar period since the initial postwar pattern of trade prioritising Commonwealth trade over that with Europe was remarkably similar to the post-1932 character of Britain’s external trade policy – it was always likely that change would be both slow and painful. The onus of proof was definitely on those who favoured closer economic ties with Europe rather than those who remained sceptical.

The second argument, following on logically from the first, was that these initial economic choices kept Britain partially detached from the economic forces which swept the Six forward into far-reaching economic integration. To fully appreciate this argument it is necessary to take a brief detour into the debate about European integration amongst the Six. In simplified form, the economic explanation of continental integration (an argument most closely related with the name of Alan Milward) runs as follows: in the postwar period, the national economic recovery of most Western European countries was founded on booming trade with each other. Of particular importance was the role of the West German economy which not only acted as Europe’s greatest industrial producer, and hence source of imports for most West European countries, but also as one of Europe’s principal markets, sucking in vast quantities of imports from its continental neighbours. As a result, European economies became caught up in a virtuous economic cycle, pulled along by the dynamic German economy, and largely shielded from the rather less reliable growth rates and import levels of the US.[[7]](#footnote-7)

This boom, and therefore also the political fortunes of European governments which had staked their credibility on economic modernization and the delivery of welfare benefits to their citizens which only continued economic growth could pay for, was however largely dependent upon access to each other’s markets, and in particular access to the German market, remaining relatively unimpeded by protectionist barriers. This was in no way guaranteed. The postwar Federal Republic had initially chosen to practice a fairly liberal trade policy, and it had been encouraged to do so, by the US directly, and by multilateral economic entities such as the General Agreement on Tariffs and Trade (GATT) and the Organisation for European Economic Cooperation (OEEC). But neither US pressure, nor the injunctions of relatively toothless international bodies like GATT and the OEEC, offered an absolute guarantee against a relapse into protectionism. It was hence in the interest of Europe’s political leaders to secure some sort of legal mechanism which would ensure that relatively free trade across Europe would at very least continue, if not become still less impeded. It was to this end that a European common market was proposed (by the Dutch initially) and it was for this reason that the EEC project was largely accepted. It was a means, in other words, of making certain that the economic access to the German market upon which the whole of Europe’s trade boom depended (and hence upon which the fortunes of many of Europe’s governments would stand or fall) would be made totally *irreversible*, with no chance of relapse into economic nationalism if and when the economic cycle took a turn for the worse. Dependence on trade with Germany was thus central to the economic case for integration.[[8]](#footnote-8)

Britain, however, was not caught up in this virtuous cycle of European trade to nearly the same extent as its neighbours. It was not totally uninvolved, of course: between 1951 and 1959 British exports to West Germany nearly tripled in value, moving from £50.24 million to £137.8 million – a significant increase by any standards.[[9]](#footnote-9) There were, however, two crucial differences between the British experience and that of most continental economies. First the British rate of increase was less quick than that experienced by, say, Italy, whose exports rose from LIT 80246 million in 1951 to LIT 293868 million in 1959 – an increase of more than 260%.[[10]](#footnote-10) And second the importance of this increase in the total volume of British trade was much less great than was the case for a country like Italy. For the British £137.8 million constituted just over 4% of Britain’s total exports – a useful figure certainly but not one which was likely to determine Britain’s commercial policy. It was dwarfed for instance by the £363 million of exports which went to the US; the £223 million bound for Australia; the £207 million sales to Canada; the £171 million which went to India; or even the £150 million which went to South Africa. For the Italians by contrast, West Germany had overtaken France in 1952 to become consistently their number one export market taking 16% of their total exports by 1959.[[11]](#footnote-11) The United Kingdom, while far from totally insensitive to the attractions of greater trade in Europe during the 1950s, was thus not in a position where its external commercial policy could be determined by the needs of Western European trade – especially when the structures being considered for European trade were likely seriously to harm Britain’s trade with Commonwealth.

This introduces neatly the third economic argument used to explain Britain’s detachment from Europe, namely the incompatibility of European integration and close Commonwealth co-operation. A great deal could be said on this subject, but clearly there is no need for significant amounts of detail here. To summarise briefly, Britain’s overseas Empire/Commonwealth was more incompatible with European integration than was the empire of France which did after all decide to involve itself in European co-operation because, while the French empire produced mainly tropical agricultural products and raw materials which could not be produced in Europe such as cocoa, bananas or rubber, the British Commonwealth produced a wide-range of products, particularly agricultural products, which were directly analogous to European output. Commonwealth exports to Britain included wheat, cheese, lamb or beef – all products which European exporters, particularly the French and the Dutch, would want to sell to the UK also. Whereas French colonial production was thus complementary to European production, a substantial portion of that of the Commonwealth was in direct competition with European output. Any move to increase British trade with the one was thus likely to be directly harmful to the other. This was all the more true, as it was clear from the 1950s onwards that the schemes for European integration under consideration by the Six, all included some type of agricultural policy, designed to protect European farmers and provide them with a market advantage over exports from beyond Europe.[[12]](#footnote-12)

This fundamental clash of interests between Europe and Commonwealth lead some, notably again Alan Milward, to argue that it was totally impossible for the British to involve themselves in the process of economic integration underway on the continent unless and until they had rid themselves of the economic ties which bound them to what he calls neo-Europe, in other words those countries of the Commonwealth which specialised in the production and export of European type products. The 1961 application was thus, according to Milward, foredoomed since the UK had not yet gone far enough down the road of dismantling its economic ties to the Commonwealth; the success of the membership negotiations conducted under Edward Heath as Prime Minister, by contrast, reflects the fact that by the early 1970s this process of economically de-coupling from the former Empire was all but complete.[[13]](#footnote-13)

Regardless of whether or not one goes quite this far – and I have strong misgivings about the Milward argument in its entirety – it is certainly the case that the difficulties of reconciling Europe and Empire was a major factor in British decision-making. In the 1940s it partially explains the rejection by the economic ministries – the Treasury and the Board of Trade - of any talk of a European customs union.[[14]](#footnote-14) Their views on the subject were bolstered by the academic studies which they commissioned that purported to show that a customs union between countries that produced similar products to one another – as would be the case with any European scheme – would be much less economically advantageous than one between countries producing complementary outputs.[[15]](#footnote-15) The perceived incompatibility between preferential ties with its former Empire and with its European neighbours was even more vital in 1955 in explaining Britain’s decision to leave the deliberations of the Spaak committee – the meetings that would eventually lead to the signing of the Treaty of Rome in 1957 and establishment of the EEC.[[16]](#footnote-16) Commonwealth considerations also loomed large in the ill-fated free trade area proposal of 1956-8, the conditions posed by Harold Macmillan for the first membership bid, and in the initial rejection of the European option by Labour after the party’s 1964 general election victory.[[17]](#footnote-17) The Commonwealth factor was thus clearly a major contributory factor to British hesitation about closer involvement with Europe.

The fourth and final way in which economic considerations contributed towards Britain’s initial decision to remain uninvolved with European economic integration centres not so much on Britain’s *actual* economic state as in the way in which its economic aspirations diverged from those of the continent. The best example of this was in the late 1940s and 1950s when the Treasury in particular became strong advocates of sweeping global liberalisation – of both monetary flows and trade – and strong critics of any form of regionalisation which was perceived as running contrary to their global approach. Schemes for European co-operation were thus rejected on the grounds that they would impede world-wide co-operation. In the monetary sphere, for instance, the British made no secret of their impatience to see the disappearance of the European Payments Union (EPU) despite the centrality which this had assumed in Europe’s economic recovery, and at one point the Treasury even hatched a plan – dubbed operation ROBOT - which if implemented would have unilaterally destroyed the EPU thereby seriously endangering the European trade boom.[[18]](#footnote-18) And in the trade policy sphere regional customs unions were frowned upon as being but a poor substitute for global liberalisation through GATT. Important elements within the British political and administrative elite thus did not just reject European integration as a policy option for the UK itself; they also disapproved of the very notion of a push for regional integration within Western Europe. For most of the early 1950s, admittedly, such negative sentiments were kept in check by a strong awareness by the British government of the political consequences of any attempt to disrupt the Six. To impede the integration process would be counterproductive in Cold War terms, fostering Western disharmony rather than unity, and would likely earn a stinging rebuke from the United States, Britain’s closest ally but also a strong external sponsor of the integration process.[[19]](#footnote-19) This explains why British policy during this period is often dubbed that of ‘benevolent neutrality’ or ‘benevolent detachment’ towards the efforts of the Six.[[20]](#footnote-20) But London’s brief flirtation with actual attempted sabotage in late 1955 – to say nothing of plans like operation ROBOT or later the Free Trade Area which could have ‘unintentionally’ killed the integration process in the name of progress towards other objectives – make much more sense when the existence of a strong doctrinal dislike of integration within Whitehall especially is acknowledged.[[21]](#footnote-21)

All of this means that there was a substantial economic component in Britain’s initial rejection of integration, even if any complete explanation would also have to accord equal space to a series of more geo-political factors. The two dovetailed neatly, however, which means that like most recent integration historians I have no difficulty in highlighting *both* an economic and a political case for why Britain and the Six initially diverged.[[22]](#footnote-22) Economic and political calculations reinforced each other; indeed when explaining a consensus as widespread as Britain’s early ‘no’ to European integration it is a major positive rather than a negative to have complementary economic and political explanations.

**Economic factors and Britain’s European volte-face**

It should perhaps not come as a surprise that most of the economic factors which help explain Britain’s move towards Europe from 1956 onwards are the mirror images of those already touched upon. For it was as Britain and Europe’s respective economic positions altered, as trade flows evolved, and as ideas of economic doctrine developed over time that a European choice which had once been deemed impossible by most British observers, came to be regarded, with comparable consensus, as largely inescapable. Here too, though, there was a parallel set of political and geo-political factors that also pushed Britain in a similar direction.

The first big alteration in the economic pressures affecting British calculations was the shift in the relative levels of prosperity between the UK and the continent. In the 1940s and early 1950s awareness of what was happening economically on the other side of the Channel seemed only to reinforce Britain’s sense of superiority and aloofness. By the later 1950s and 1960s, by contrast, the comparison added to Britain’s sense that it had to come to terms with Europe. For whatever measure one used, whether absolute GNP levels, growth rates, total industrial output, investment rates, or the output of individual industrial sectors, the conclusion was painfully similar, namely that the UK was being outperformed by most of its continental neighbours. Between 1950 and 1973, the West German economy grew at an average of 5% a year, as did that of Italy. France during the same period grew at 4% per annum. The British figure by contrast was 2.5%.[[23]](#footnote-23) As a result, that clear British lead in terms of the total size of its economy and in the wealth of its individual citizens that had been evident from the 1949 GDP figures cited above had disappeared by the end of the 1960s.

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| 1990 GK US$ | GDP | GDP per capita |
| UK | 585,207 | 10,552 |
| France | 560,280 | 10,886 |
| West Germany | 805,410 | 10,440 |
| Italy | 510,051 | 9,566 |

**Comparative GDP figures for 1969.[[24]](#footnote-24)**

That this was the case with the Germans was perhaps more or less easy to accept. There was something phenomenal about the German economic miracle, the *Wirtschaftswunder* – something almost freakish which would be extremely hard for a normal economy to emulate.[[25]](#footnote-25) Furthermore Germany’s impressive growth did little more than restore Germany to that position of European economic pre-eminence which it had all but obtained by 1914. In a sense therefore one could explain away the post-1949 economic rise of West Germany as no more than the realisation of a latent potential kept from earlier realisation by the foreign policy errors of Germany’s political masters.

What made matters particularly galling for the British, however, was that it was not just Germany that was outperforming the UK, but also some of Europe’s other powers, notably the French and perhaps still more alarming the Italians. This hurt much more – to be overtaken by the Germans was hard to swallow; to see one’s lead over Italy fast eroding was all but impossible to ignore. That British sense of arrogance which underpinned the initial aloofness faded as a result, while the sense grew that European integration might just be that magic recipe which would enable the UK too to enjoy the levels of growth attained by its continental neighbours. By 1960, the civil service committee chaired by Sir Frank Lee and commissioned by Harold Macmillan to assess the pros and cons of Community membership was blunt about the economic merits of joining (and hence also the economic disadvantages of staying out):

In joining the Six we should be participating in a vigorous and rapidly expanding market, and there would be good grounds for hoping that our commerce and industry would benefit. We should gain a great deal from larger scale production, specialisation, higher efficiency resulting from keener competition and the more rapid spread of technical skills and new developments. All this we should miss – to the detriment of our industry – if we remained outside. If we joined the inflow of new investment to the United Kingdom would be greater, and the outflow of capital to the Six might be less than if we remained outside.[[26]](#footnote-26)

Equally significant in terms of Britain’s long-term movement towards involvement in European integration was the way in which the British economy – despite its institutional exclusion from the EEC – did find itself, to a limited extent, getting involved in the Western European virtuous economic cycle referred to earlier. Admittedly it was still the case that trade with Western Europe remained much less important for Britain that it did for countries such as Italy, Belgium or even France. In 1959 Italy and France both sold over 27% of their exports to their partners amongst the Six, Belgium a staggering 46%.[[27]](#footnote-27) But equally, by the late 1950s British trade with the fledgling EEC was beginning to reach levels where it could not very easily be ignored by government policy makers. By 1959 £462 million worth of British exports were sold to the Six – i.e. a far from negligible 13.8% of the total. This was still much less than the £1.4 billion – i.e. 42% of British exports - which went to the Commonwealth, but it was already substantially higher than sales to the United States. And even this underestimated Western Europe’s commercial importance to Britain, since the British exported as much to Scandinavia, Ireland and Switzerland, as it did to the Six.[[28]](#footnote-28) Once trade with the non-EEC members was added in, Western Europe was clearly Britain’s second most important market.

By the early 1960s the position was even clearer. In 1962 £828 million (20% of the total) went to the Six and a further £534 million (13%) went to Britain’s partners in the newly formed European Free Trade Association (EFTA), the collective grouping bringing together those Western European countries that had stayed outside of the EEC. This compared with £1.2 billion which went to the Commonwealth (29%).[[29]](#footnote-29) Exports to an enlarged European Community – for it was assumed that if Britain entered the EEC, Ireland and several of its EFTA parties would follow suit - could thus be expected to exceed that with the Commonwealth for the first time. And as the 1960s progressed, this trend grew still stronger. To make matters still more alluring for the British, their trade with Europe was concentrated in the most dynamic and vibrant sectors of the economy – and hence constituted a spur to Britain’s technological development – while a stubbornly high percentage of Imperial trade was centred on rather out-dated and uncompetitive products; Commonwealth trade was thus less likely to act as a spur to further innovation or investment, and might indeed function as a brake. (Although of course the political fuss that weak and declining industries could still make about the prospect of losing markets which had become central to their survival was in no way diminished.)

This evolution might still not have been enough to tilt the balance had the picture been a static one, in which tariff levels were likely to remain unchanged allowing the British to go on getting the best of both worlds, selling to both Commonwealth and Europe. But the British could not afford to be complacent and sit back and enjoy the status quo because their trade levels with Europe could not be taken for granted. Instead the 1960s were a period during which the Six were under treaty obligation to construct amongst themselves a Common External Tariff, in other words a unified tariff wall towards all countries that did not belong to the EEC. This tariff wall was likely, admittedly, to be rather lower than traditional French or Italian tariff levels – and hence the British could hope to make some gains in those markets. But it was also likely to be substantially higher than the existing German, Belgian and Dutch tariff levels. Access to these markets – from Britain’s point of view the more important markets amongst the Six – would hence become more difficult than was currently the case. And to make matters worse, these tariffs would not affect Britain’s competitors amongst the Six. A German firm competing for a contract with a British one in Italy, for instance, would have a distinct competitive edge through not being subject to the same tariff barriers as that from Britain. As Duncan Sandys, the Commonwealth Secretary explained when wrapping up the August 1961 debate about the Macmillan government’s decision to apply for EEC membership:

Our exports are already meeting keen competition from Europe, not only on the Continent but in third markets all over the world, including the Commonwealth. This will become more intense when the Common Market develops its potential. If by staying out of the Common Market we deny ourselves the advantages which our rivals will enjoy we shall merely be putting British industry in the position of having to compete with them on unequal terms.[[30]](#footnote-30)

Again the incentive to do something was strongly increased as a result.

A third economic force for policy change was the way in which the more that British ministers and officials thought about the problems posed by European integration and the more that they came to the conclusion that they had to do something about the issue, the more they also realised that it might be possible to square some of Britain’s Commonwealth and European goals. The Free Trade Area scheme of 1956-8 indeed marks an important step along this road, not because it represented a successful ploy – it would ultimately prove a failure - but because it showed for the first time Whitehall trying to devise ideas which would reconcile Europe and the Commonwealth rather than simply assuming that the two were totally incompatible. Had the scheme worked out Britain would have kept the Imperial Preference system going, but at the same time become a member of an industrial free trade area spanning virtually all of Western Europe.[[31]](#footnote-31)

The 1961-3 membership bid took this effort to reconcile the two that much further – the whole notion of conditionality indeed reflected Britain’s conviction that some sort of deal which would satisfy both the Six and the Commonwealth could be struck.[[32]](#footnote-32) Neither British politicians nor British civil servants, in other words, accepted the iron logic of economic incompatibility as set out by Milward. As Edward Heath, Lord Privy Seal and Britain’s lead negotiator during the 1961-3 membership talks, put it when opening Britain’s membership bid in Paris in October 1961:

Some people in the United Kingdom have been inclined to wonder whether membership of the Community could in fact be reconciled with membership of the Commonwealth. The task of reconciliation is complex, but we are confident that solutions can be found to Commonwealth problems fully compatible with the substance and the spirit of the Treaty of Rome.[[33]](#footnote-33)

The evidence of the negotiations, moreover, would also suggest that while finding an adequate solution was indeed hard it was not impossible. By 1962 a deal on most of the Commonwealth issues had after all been done.[[34]](#footnote-34) It was over arrangements for Britain’s domestic agriculture, not the fate of Commonwealth exporters, that Britain and the Six were arguing when General de Gaulle issued his veto and the talks ground to a halt.[[35]](#footnote-35)

Clearly the fact that in between 1961 and 1970 – in other words between the Macmillan and Heath negotiations – the Commonwealth dream faded still further did of course make things considerably easier than they had been.[[36]](#footnote-36) In the course of the 1960s, all of the major Commonwealth countries took advantage of the stay of execution provided by General de Gaulle’s veto to diversify their exports and scale down their dependency on exports to Britain. As a result, by the second round of membership negotiations in 1970-71, of the huge array of Commonwealth issues aired during the 1961-3 membership bid only the difficulties of New Zealand and the West Indian producers of sugar remained as serious obstacles to be overcome.[[37]](#footnote-37) But even before the virtual evaporation of the Commonwealth problem, the conviction was widespread in London, in Brussels, and resignedly in Canberra, Ottawa and Wellington that some sort of accommodation could be and had to be reached. It is thus economic determinism of an unduly rigid type to assert that no solution to this problem could have been found in 1963.

Finally the period between 1947 and 1973 period also saw a degree of what might to borrow a later term be described as ‘convergence’ between Britain and the Six, at least in terms of economic doctrine. Part of the change was that the Treasury’s doctrinaire rejection of regionalism faded – at least in part because of the Six’s all too evident success. Another factor may have been the way in which the Treasury became progressively marginalised in the making of British European policy.[[38]](#footnote-38) The somewhat jaundiced Treasury attitudes towards European co-operation – to the extent that they persisted - thus mattered less in the 1960s than they had in the previous decade.

Still more important than either of these two changes, however, was the way in which those charting Britain’s economic course in Whitehall came to realise that the crucial division about the future evolution of global economic policy was not between, on one side the US and Britain, and on the other the continental Europeans, but instead between some in Europe, America and Britain ranged against other Europeans, other Americans and other Britons. As a result if the views of the British government were to have an effect on the way in which the world economy was organised, they would stand a far greater chance if the UK was within the European Community and able to make common cause with liberal Germany and against more protectionist France, than if the British remained outside. Quite how much this was so, was brought home to London by the climatic phase of the Kennedy Round of GATT negotiations in 1966 and 1967, where London had found itself marginalised in a negotiation dominated by a Brussels-Washington debate.[[39]](#footnote-39)

Furthermore the greater prosperity of Western Europe contributed to the sense in London that Britain was no longer unique in its concerns about welfare and the planning of a mixed economy but instead very much part of the Western European mainstream. Indeed strong pro-Europeans like Roy Jenkins were already noting as early as 1961 that Britain was providing less for its population than were its closest neighbours:

We have the most rapid rise in national incomes shown by France, Germany and Italy; the fullest of full employment shown by France and Germany; a model system of economic planning in France; highly successful nationalised industries in France; a very developed system of retirement benefits, which makes anything that we have in this country look a disgrace, in Germany, and excellent family allowances in France. In many respects the Europe of the Six has far more to offer the people, and has shown a greater achievement in the last ten years, than anything we have been able to get in this country.[[40]](#footnote-40)

As the decade wore on, this conviction that European involvement would help rather than hinder UK prosperity and welfare had become almost axiomatic amongst those in favour of EEC membership. By 1971 when the final Parliamentary ‘Great Debate’ was held on the principle of joining the EEC, the claims by the ‘anti-Marketeers’ that being part of ‘Europe’ would push up the cost of living in general and food prices in particular, were countered by a succession of rose-tinted visions of future economic prosperity, and by a strong emphasis on the communality of purpose between Britain and its future European partners. Only the most committed of Tory anti-Marketeers and the left of the Labour Party, with its very different vision of what economic policy should involve, any longer seemed to doubt that cooperation in Europe would entail working with like-minded politicians and officials, committed to promoting both prosperity and welfare.[[41]](#footnote-41)

By the end of the 1960s the economic pressures on Britain had thus come full circle, pushing the UK towards greater European commitment rather than away from it. Joining Europe was portrayed by its advocates as a step that would help the British economy, bring to the UK some of that dynamism demonstrated over the previous decades by Britain’s European neighbours, and increase the capacity of the British government to respond to the needs and hopes of their electorate. In economic terms as well as in geo-political ones, the British government now seemed to share the belief that EEC membership would ‘rescue’ their nation state, in much the same way that the original six founder members had done two decades earlier.[[42]](#footnote-42) Britain had in other words joined the European mainstream in the manner in which it discussed European integration well before 1973 when the country actually entered the EEC.

**Economics and the discomforts of early British membership**

It is also important to highlight the way in which economic factors helped colour (in a largely negative fashion) Britain’s early experiences of European integration. This is a topic about which a huge amount could be written – indeed the author is in the process of planning an overview of Britain’s whole trajectory as a European Community/European Union member state, within which an assessment of the economic costs and benefits will be a central component. But this chapter will limit itself to three points.

The first is that 1973 turned out to be an unfortunate year to join the EEC, since it marked the decisive end of the postwar boom. Britain’s economic trials and tribulations during the 1970s were not primarily because the UK had joined the EEC; indeed direct causal links are few and far between.[[43]](#footnote-43) But what matters is that Britain’s early years coincided with a prolonged period of economic underperformance thereby shaping UK opinion about European integration in a way which contrasted strongly with what had happened for the founding Six whose own first fifteen years of integration had coincided with near constant economic boom.[[44]](#footnote-44) The British were thus affected by a negative correlation between integration and economic performance, just as the Six had been helped by a positive correlation. The impact on public and political attitudes would continue to be felt for decades to come. The damaging belief, for instance, that there was a strong link between EEC membership and inflation was an almost purely British phenomenon, reflecting the way in which entry had been followed by the inflationary surge of the 1970s. The latter would almost certainly have happened irrespective of Community membership – inflation was after all a global scourge in the aftermath of the first oil shock. But because opponents of EEC membership had used the threat of higher food prices as one of their prime weapons during the debates of the preceding decade, the fact that food (and other) prices did rise sharply came to be seen as a vindication of their warnings and an easily discernable effect of joining ‘Europe’.[[45]](#footnote-45) None of the Six were to experience a comparable phenomenon or association until the much more recent suggestion that prices rose sharply following the introduction of the Single Currency at the very start of the Twenty First century.

Even more fundamentally, European Community membership which had been largely sold to the British public during the 1960s and early 1970s as the cure to Britain’s relative underperformance since the Second World War, did not produce the hoped for acceleration of the UK’s growth rate. Instead the opposite occurred and growth stagnated for nearly a decade. Public faith in the integration process – and in their political leaders’ predictions about what it could do for the country – was seriously damaged as a result.

Second, Britain failed quickly to secure that leadership position within the EEC that all advocates of British membership – both in the UK and on the Continent - had taken for granted.[[46]](#footnote-46) Why this did not happen is too complex an issue to explore here. The spectacularly bad economic performance mentioned above was certainly one factor, as were the ongoing doubts about the integration process afflicting both the British public and the British political elite. The manner in which Britain’s newly acquired status as a EEC member was almost immediately subjected to renegotiation and then a referendum did not help either, despite the seemingly conclusive outcome of this last.[[47]](#footnote-47) And it is probably also of importance that neither Harold Wilson nor James Callaghan seem to have aspired to become significant figures on the European Community stage in the manner that Heath had done.[[48]](#footnote-48) Wilson, for instance, never seemed at home in the new collective forum of European leaders, the European Council, with the result that the impetus for progress and development came primarily from Helmut Schmidt, the German Chancellor, and Valery Giscard d’Estaing, the President of France, not the British Prime Minister.[[49]](#footnote-49) What it meant though was that as Europe went on evolving it did not automatically move in the direction of Britain’s economic aspirations in the way, again, that most British pro-Europeans and continental Anglophiles had assumed. The British did not turn out to be able to do much about the Common Agricultural Policy or the Common Fisheries Policy despite constant grumbling.[[50]](#footnote-50) They were left bystanders by the big advance of the 1970s, namely the start, at the end of the decade of monetary integration with the launch of the European Monetary System (EMS).[[51]](#footnote-51) They were very slow to secure a better budgetary deal despite the fact that their basic case for one was exceedingly strong – and acknowledged to be so by many of their partners.[[52]](#footnote-52) The long battle over the British Budgetary Question (the acronym BBQ was also regarded in Brussels as standing for the Bloody British Question) further soured British public opinion and dented the reputation of the British amongst the Nine or Ten. It would thus only be with the launch of the Single Market in the mid-1980s that ‘Europe’ would adopt an economic agenda with which Britain was fully comfortable, and even then Thatcher would soon find that whereas for her the Single Market was an important end in itself, for many of her continental counterparts, including crucially Helmut Kohl, the German Chancellor, François Mitterrand, the French President, and Jacques Delors, the Commission President, it was instead a means to further integration – including yet more monetary integration and greater political unity.[[53]](#footnote-53)

The end result was that integration went on feeling like someone else’s story. This meant that when it went well the British could take comparatively little pleasure from someone else’s achievements, whereas when it went less well, the British were all too quick to complain loudly about how others were all to blame. Needless to say this in turn neither endeared Britain’s leaders to their continental counterparts, nor integration to the British public.[[54]](#footnote-54)

Finally, Britain’s economic recovery when it at length arrived in the mid-1980s was not the type of recovery to which British leaders, from Macmillan onwards had looked – i.e. a recovery based on what had been Britain’s traditional economic strength namely manufacturing industry, allowing the UK to rival the Germans as the main supplier of the emerging European single market. That this had been the starting assumption is perhaps best illustrated by Harold Wilson’s colourful denunciation of the consequences for the Commonwealth of Macmillan’s application, telling the Commons on August 3, 1961 that ‘we are not entitled to sell our friends and kinsmen down the river for a problematical and marginal advantage in selling washing machines in Dusseldorf.’[[55]](#footnote-55) From a 21st century perspective, though, the mere thought that Britain should be seeking to sell washing machines to the country that supplies us with Miele or Bosch electrical appliances sounds mildly quaint.

Instead what Britain’s Thatcherite boom was built upon was the City of London and the financial sector – and their horizons were global much more than they were European. They were not necessarily Eurosceptic; indeed many remained interested in consolidating London’s place as Europe’s premier financial centre – or now, in the aftermath of the 2016 referendum, clinging onto some at least of this leading role. But they did not look at Europe in the same way that British manufacturers might once have done as their key market access to which was of vital importance.

Furthermore their new pre-eminence gave Britain a rather different viewpoint on the big move towards greater monetary integration that characterised the integration process in the later 1980s and 1990s.[[56]](#footnote-56) Again the City was not necessarily uniformly hostile. But their views coloured British attitudes towards European ‘regulation’ – viewing it as something that threatened to erode the global competitiveness of British financial service providers, rather than something that opened up a European Single Market previously semi-protected by the proliferation of non-tariff barriers - and lessened the resonance of the orthodox view elsewhere in Europe which regarded exchange rate fluctuation as a major impediment to both trade and the easy movement of European citizens across borders. This in turn helped produce the increasing divergence between Britain and its EC/EU partners during the 1990s and early years of this century over the push for a single currency, the steady proliferation of British opt-outs that had turned the UK into a semi-detached member state long before the Brexit vote, and, perhaps most important of all, the constant stream of denigration about the Euro which formed an inescapable backdrop to the fateful decision to hold a second in/out referendum and to the outcome of this vote.[[57]](#footnote-57) Economics alone do not explain either the uncomfortable nature of Britain’s forty plus years as an EC/EU member states, any more than they determined by themselves Britain’s earlier trajectory towards EEC membership. A whole range of political and geo-strategic factors also played a crucial role. But there was a substantial economic component to Britain’s early woes as an EC member, to some of the longer term trends that have complicated its life within the Community/Union, and to its recent decision to turn its back on the integration process.

All told therefore, I think a good case can be made that economic factors have played an important role in shaping Britain’s initial abstention from the integration process, the reversal of that decision in the 1960s and early 1970s, and play their part in the rather troubled marriage that has followed the wedding bells of 1973. What part they will play in the next few twists and turns of the Britain and Europe soap opera is something that is probably unwise to speculate about here. But such has been the degree of economic interaction between Britain and its closest geographical neighbours, that I find it difficult to believe that our national future lies purely in selling to and buying from countries far removed from the European sphere. The gravitational pull of our nearest neighbours is thus likely to continue to influence British economic choices in the decades after Brexit, as much as it has throughout the post-Second World War period. How this can be reconciled with the preferences of the British people and the beliefs of a large number of their political leaders will be fascinating to behold.

1. For an attempt to explore some of the less tangible aspects of the British debate, see N. Piers Ludlow, ‘Us or Them? The meanings of ‘Europe’ in British political discourse’, in Mikael af Malmborg & Bo Strath (eds), *The Meaning of Europe: Variety and Contention Within and Among Nations* (Oxford: Berg, 2002), 101-124 [↑](#footnote-ref-1)
2. Typical of the tone of the debate was Milward’s provocative claim that ‘the true origins of the European Economic Community are economic and social’, Alan S Milward and George Brennan, *The European Rescue of the Nation State* (London: Routledge, 1994), xi. [↑](#footnote-ref-2)
3. For the wider historiographical context, see Wolfram Kaiser and Antonio Varsori, eds., *European Union History: Themes and Debates* (Basingstoke: Palgrave Macmillan, 2010). [↑](#footnote-ref-3)
4. <http://www.worldeconomics.com/Data/MadisonHistoricalGDP/Madison%20Historical%20GDP%20Data.efp> [↑](#footnote-ref-4)
5. *Foreign Relations of the United States* *1947*, vol. 3, p.271 [↑](#footnote-ref-5)
6. Alan S Milward, *The Rise and Fall of a National Strategy, 1945-1963*, The UK and the European Community, v. 1 (London: Whitehall History Pub. in association with Frank Cass, 2002), 40–41. [↑](#footnote-ref-6)
7. Milward and Brennan, *The European Rescue of the Nation State*. [↑](#footnote-ref-7)
8. Ibid. [↑](#footnote-ref-8)
9. *UN Yearbook of International Trade* (New York: Various years) [↑](#footnote-ref-9)
10. Author’s calculations on the basis of *UN Yearbook of International Trade Statistics*, various years. [↑](#footnote-ref-10)
11. Ibid. [↑](#footnote-ref-11)
12. Gilbert Noël, *France, Allemagne et “Europe Verte,”* Euroclio (Berne: Peter Lang, 1995); Ann-Christina L. Knudsen, *Farmers on Welfare: The Making of Europe’s Common Agricultural Policy* (Cornell University Press, 2009). [↑](#footnote-ref-12)
13. This thesis is still present in Milward, *The Rise and Fall of a National Strategy, 1945-1963*. It was though expressed even more trenchantly in lectures and talks that Milward gave prior to the publication of the volume – and it was in one of these (delivered in Oxford in 1997 or 1998) that the term ‘neo-Europe’ was used. [↑](#footnote-ref-13)
14. John W. Young, *Britain, France, and the Unity of Europe, 1945-1951* (Leicester University Press, 1984), 67–69. [↑](#footnote-ref-14)
15. Milward, *The Rise and Fall of a National Strategy, 1945-1963*, 25–26. [↑](#footnote-ref-15)
16. Simon Burgess and Geoffrey Edwards, “The Six Plus One: British Policy-Making and the Question of European Economic Integration, 1955”, *International Affairs* 64, no. 3 (1988): 393–413. [↑](#footnote-ref-16)
17. For the first James Ellison, *Threatening Europe: Britain and the Creation of the European Community, 1955-58* (St. Martin’s Press, 2000); for the second, N. Piers Ludlow, *Dealing with Britain: The Six and the First UK Application to the EEC*, Cambridge Studies in International Relations 56 (Cambridge: Cambridge University Press, 1997), esp. 80-99; and for the third, Helen Parr, *Britain’s Policy Towards the European Community: Harold Wilson and Britain’s World Role, 1964-1967* (London: Routledge, 2006). [↑](#footnote-ref-17)
18. For operation ROBOT see John Fforde, *The Bank of England and Public Policy, 1941-1958* (Cambridge England; New York: Cambridge University Press, 2012), 452–473. For the wider context, see Catherine R Schenk, *The Decline of Sterling: Managing the Retreat of an International Currency, 1945-1992* (Cambridge & New York: Cambridge University Press, 2013). [↑](#footnote-ref-18)
19. The Cold War argument is clear from Eden’s remarks in Roger Bullen and M. E Pelly, *The Schuman Plan, the Council of Europe and Western European Integration May 1950-December 1952* (London: H.M.S.O., 1986), 846–847. [↑](#footnote-ref-19)
20. Wolfram Kaiser, *Using Europe, Abusing the Europeans: Britain and European Integration, 1945-63* (Palgrave Macmillan, 1996), 53. [↑](#footnote-ref-20)
21. John W. Young, *Britain and European Unity, 1945-1999* (Basingstoke: Macmillan, 2000), 43–45. [↑](#footnote-ref-21)
22. For a much more political explanation, see Kaiser, *Using Europe, Abusing the Europeans*. [↑](#footnote-ref-22)
23. Barry Eichengreen, *The European Economy since 1945: Coordinated Capitalism and Beyond.* (Princeton: Princeton University Press, 2009), 17. [↑](#footnote-ref-23)
24. <http://www.worldeconomics.com/Data/MadisonHistoricalGDP/Madison%20Historical%20GDP%20Data.efp> [↑](#footnote-ref-24)
25. James C. Van Hook, *Rebuilding Germany: The Creation of the Social Market Economy, 1945–1957* (Cambridge & New York: Cambridge University Press, 2004). [↑](#footnote-ref-25)
26. UK National Archives, CAB 134/1853, Economic Steering (Europe) Committee, ES(E) (60) 17, 6.7.1960, Covering note to the answers to the Prime Minister’s list of questions. [↑](#footnote-ref-26)
27. Author’s calculations on the basis of *UN Yearbook of International Trade Statistics*, various years. [↑](#footnote-ref-27)
28. Ibid. [↑](#footnote-ref-28)
29. Ibid. [↑](#footnote-ref-29)
30. *Hansard*, House of Commons Debate 3 August 1961, vol 645, column 1771, available at <http://hansard.millbanksystems.com/commons/1961/aug/03/european-economic-community-1> [↑](#footnote-ref-30)
31. Ellison, *Threatening Europe*. [↑](#footnote-ref-31)
32. N. Piers Ludlow, “A Mismanaged Application: Britain and the EEC, 1961-1963,” in *Widening, Deepening and Acceleration: The European Economic Community 1957-1963*, ed. Anne Deighton and Alan S Milward (Baden-Baden: Nomos, 1999), 271–85. [↑](#footnote-ref-32)
33. *The United Kingdom and the European Economic Community*, White Paper, Command 1565 (London: Her Majesty’s Stationary Office, November 1961), 4 [↑](#footnote-ref-33)
34. Ludlow, *Dealing with Britain*, 138–168. Milward’s official history makes great play of the fact that the agreement on ‘comparable outlets’ had not been officially accepted by the British, Milward, *The Rise and Fall of a National Strategy, 1945-1963*, 415–420. [↑](#footnote-ref-34)
35. Ludlow, *Dealing with Britain*, 200–230. [↑](#footnote-ref-35)
36. Alex May, “The Commonwealth and Britain’s Turn to Europe, 1945–73”, *The Round Table* 102, no. 1 (February 1, 2013): 29–39. [↑](#footnote-ref-36)
37. Stephen Wall, *The Official History of Britain and the European Community. Volume II: From Rejection to Referendum, 1963-1975* (Abingdon: Routledge, 2012), 332–404. [↑](#footnote-ref-37)
38. N. Piers Ludlow, “A Waning Force: The Treasury and British European Policy, 1955–63,” *Contemporary British History* 17, no. 4 (November 1, 2003): 87–104. [↑](#footnote-ref-38)
39. Lucia Coppolaro, *The Making of a World Trading Power: The European Economic Community (EEC) in the GATT Kennedy Round Negotiations (1963-67)* (Farnham: Ashgate, 2013), 177 ff. [↑](#footnote-ref-39)
40. House of Commons debates, 2 August 1961, vol. 645, cc. 1480-606, available at

    <http://hansard.millbanksystems.com/commons/1961/aug/02/european-economic-community> [↑](#footnote-ref-40)
41. N. Piers Ludlow, “Safeguarding British Identity or Betraying It? The Role of British ‘Tradition’ in the Parliamentary Great Debate on EC Membership, October 1971,” *JCMS: Journal of Common Market Studies* 53, no. 1 (January 1, 2015): 18–34. [↑](#footnote-ref-41)
42. Milward and Brennan, *The European Rescue of the Nation State*, 42–45. [↑](#footnote-ref-42)
43. Dominic. Sandbrook, *Seasons in the Sun: The Battle for Britain, 1974-1979* (London: Allen Lane, 2012); Kathleen. Burk, *“Goodbye, Great Britain”: The 1976 IMF Crisis* (New Haven, London: Yale University Press, 1992). [↑](#footnote-ref-43)
44. A. J. Nicholls, “Britain and the EC: The Historical Background,” in *The United Kingdom and EC Membership Evaluated*, ed. Simon Bulmer, Stephen George, and Andrew Scott (London: Pinter Publishers, 1992), 3–9. [↑](#footnote-ref-44)
45. For the way in which food prices had become a central concern of those opposed to British EEC membership from 1961 onwards, see Robert Frank Dewey, *British National Identity and Opposition to Membership of Europe, 1961-63: The Anti-Marketeers* (Manchester University Press, 2009), 74–77. [↑](#footnote-ref-45)
46. This sentiment was epitomised by George Brown’s reputed comment to Brandt in 1967, ‘Willy, you must get us in, so we can take the lead’. Cited in Spencer Mawby, *Containing Germany: Britain and the Arming of the Federal Republic*, Contemporary History in Context Series (Basingstoke: Macmillan, 1999), 188. [↑](#footnote-ref-46)
47. Wall, *The Official History of Britain and the European Community. Volume II: From Rejection to Referendum, 1963-1975*, 511–590. [↑](#footnote-ref-47)
48. For Heath’s ambitions, see Daniel Möckli, *European Foreign Policy during the Cold War: Heath, Brandt, Pompidou and the Dream of Political Unity* (London: I. B. Tauris, 2008), 47–55. [↑](#footnote-ref-48)
49. Michèle Weinachter, *Valéry Giscard d’Estaing et l’Allemagne: Le Double Rêve Inachevé* (Paris: L’Harmattan, 2004). [↑](#footnote-ref-49)
50. Edmund Neville-Rolfe, *The Politics of Agriculture in the European Community* (London: European Centre for Political Studies, 1984). [↑](#footnote-ref-50)
51. Emmanuel Mourlon-Druol, *A Europe Made of Money: The Emergence of the European Monetary System* (Ithaca, N.Y.: Cornell University Press, 2012). [↑](#footnote-ref-51)
52. N. Piers Ludlow, *Roy Jenkins and the European Commission Presidency 1976-1980: At the Heart of Europe.* (Basingstoke: Palgrave Macmillan, 2016), 207–216. [↑](#footnote-ref-52)
53. For the British role in the Single Market’s genesis, see Stephen Wall, *A Stranger in Europe: Britain and the EU from Thatcher to Blair* (Oxford: Oxford University Press, 2008), 41–61.W [↑](#footnote-ref-53)
54. Stephen George, *An Awkward Partner: Britain in the European Community* (Oxford: Oxford University Press, 1990), 71 ff. [↑](#footnote-ref-54)
55. Hansard, House of Commons Debates, 3 August 1961, column 1665, available at <http://hansard.millbanksystems.com/commons/1961/aug/03/european-economic-community> [↑](#footnote-ref-55)
56. For the wider European context, see Kenneth H. F Dyson and Kevin Featherstone, *The Road to Maastricht: Negotiating Economic and Monetary Union* (Oxford; New York: Oxford University Press, 1999); Harold James, *Making the European Monetary Union: The Role of the Committee of Central Bank Governors and the Origins of the European Central Bank* (Cambridge, Mass.: Harvard University Press, 2012). [↑](#footnote-ref-56)
57. The earlier phases of this sorry tale are covered by Wall, *A Stranger in Europe*, 87 ff. The later period will be central to the author’s planned book. [↑](#footnote-ref-57)