

Britain and the Crisis of the European Union

David Baker

Pauline Schnapper



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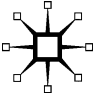
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*To Dr Philippa Sherrington (1968–2011), a wonderful
educator and committed European*

*To Dr Julie Boch (1969–2011), a brilliant academic
and dear friend*

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Introduction

This book focuses on the effects of political and economic crises on the European Union (EU) and on the seemingly endless debate in the UK over the UK's position within the EU. It analyses the way the sovereign debt crisis, in particular, has fuelled the further rise of radical euroscepticism in the UK against the backdrop of a deepening crisis in the British political system and wider questioning of the European project across the EU. The widening rift between the UK and the EU is seen as occurring at a time when, paradoxically, the EU has, in many respects, become closer to the traditional model of intergovernmental cooperation and market-led solutions encouraged by successive British governments. Long described as an 'awkward partner' (George 1998) and in spite of Tony Blair's half-hearted attempts to engage with his partners between 1997 and 2007, the UK under a coalition government has become further estranged from other member-states and EU institutions with, we argue, potentially damaging consequences for the UK and the future of the EU itself.

Underlying this process has been a clash between two geopolitically dominant visions of Europe and political economy, one centred on Germany within the EU, based on pooling sovereignty and institutionalising rule-bound centralised economic oversight, and the other, strongly promoted by Conservatives of various kinds in the UK, ranging from pragmatic reclaimed national sovereignty (enhanced intergovernmentalism) to an ultra-free market hyperglobalism seeking freedom from EU membership (Baker et al. 2002).

One significant symptom of this has been the increasing influence of the British right in UK-EU relations, with the rise of the United Kingdom Independence Party (UKIP) and the side-lining of pro-European voices in an increasingly radicalised and eurosceptic Conservative Party,

especially since the issue of immigration became intertwined with the issue of Europe. The resulting shift of the Conservative Party to the right caused David Cameron to withdraw from the centre-right grouping in the European Parliament; offer an in/out referendum on EU membership if elected in 2015; threaten to unilaterally restrict economic migration from Eastern European states, which would be in breach of European law and bring the UK into direct confrontation with its partners; and threaten to withhold part of the £1.7 billion extra budget payments caused by a recalculation of the UK's Gross National Income (GNI).

A multi-faceted crisis

Since this is principally a study of how the global political and economic crises have impacted on the EU and the UK and how these crises have then interacted, a concept of crisis is essential. Crisis is derived from the Greek *krisis* meaning a 'decision' taken at a time of intense difficulty or danger, when vitally important judgements and actions must be made and taken. Marx saw such crises as a recurrent and hugely damaging part of capitalism's development, while Joseph Schumpeter reformulated this to make capitalism's 'creative destruction' a positive factor in its development.

A political crisis is often a turning point or watershed intensifying political activity. In any system-wide crisis, after short-term emergency measures marked by a loss of direction, fear and widespread cognitive dissonance comes a period of intense soul-searching over who or what is to blame, and fierce debate over whether or not it is necessary to make fundamental changes to the system, or simply restore the status quo. Any system-wide crisis such as the present 'Great Recession' creates the potential political space for radical new thought and actions and opens at least some citizens to new ideas and movements, changing the established balance of power. As Andrew Gamble suggests:

Crises expose points of weakness and force the recognition of new realities. They signal the rise of some sectors and some states and the decline of others. In the fog of a good crisis it sometimes takes a while for the long-term effects of what is happening to be understood, but in retrospect certain turning points can be recognized.

(Gamble 2014: 186)

He offers a comprehensive analysis of such crises, making a crucial distinction between relatively short-term externally driven 'existential'

crises, responding to emergency measures through the traditional policy channels of human agency; as opposed to ‘deep structural crises’ which often take decades to develop. These latter crises contain multiple levels of complexity and overlapping sources of causation and asymmetries of power, which can render almost any orthodox solution self-negating, so that resolving one or more issues simply exacerbates others.

From Gamble’s perspective (and our own), the EU/Eurozone (EZ) and the UK remain in an underlying state of structural crisis – a crisis which threatens to define their future directions and (of particular relevance to this book) poses particularly serious questions for the UK as the leading dissenting member-state. Gamble also suggests that the structural impasse is currently masked by the fact that the immediate crisis appears to have been successfully contained without the fall of any liberal democratic regimes, or halt to wider globalising developments, which has allowed the forces of economic and political orthodoxy to maintain their credibility and pursue austere policies with little effective opposition from the left or right. However:

The current calm is deceptive... The 2008 crash was an existential crisis, created by a sudden emergency, a moment of danger, which required quick decisions and firm action. But it was also a symptom of a much deeper structural crisis... the neo-liberal order, like its predecessors [the classical liberal and Keynesian embedded liberalism] has become increasingly ungovernable and is an amalgam of unstable and unpredictable forces.

(Gamble 2014: 6–7)

If he is correct, and there are many indications in our book that he is, the present underlying structural crisis will have profound implications for the future direction of the EU and the UK’s place within, or outside, it.

In tandem with Gamble’s political economy model, we see the Gramscian model of ‘organic crises’ as useful. An organic crisis is characterised by a loss of political hegemony by governing elites as many citizens cease to believe the rhetoric of their leaders and turn away from traditional governing parties to anti-regime alternatives. Furthermore, under conditions of deep uncertainty and popular challenge, ruling elites seek salvation in strong leaders, or self-proclaimed ‘technocratic’ solutions, centred on a depoliticised discourse (Bates 2002: 258–259). As a consequence it becomes difficult to map new movements and parties onto a traditional left/right spectrum – a situation we have witnessed across parts of the EU/EZ and in the UK with UKIP adopting

both Conservative and Labour policies, and elsewhere in the EU, with movements such as Golden Dawn in Greece and Beppe Grillo's Five Star Movement in Italy.

This is significant because both the UK and the EU are undergoing interlinked political, economic and social crises. In the case of the UK, a slow drawn-out recovery has centred largely on the London region, fuelled by the value of the pound falling, bailing out of the banks via Quantitative Easing (QE) and ultra-low interest rates. This has resulted in asset speculation, a housing bubble in the South East, rising consumer borrowing, falling real wages for many and stagnant productivity. From early 2012 this created the paradox of the highest growth in the G7 economies, matched by the largest fall in living standards for the majority of UK citizens for over 100 years, with real wages falling by 10%. With low-wage, low-skill and often part-time or 'zero hours' contracts expanding from 1.9% of the workforce in 2006 to 8% in 2014, while often low-income low-skill self-employment has gone up by 2.5%.¹

In October 2014, the Social Mobility and Child Poverty Commission stated that the UK was 'on the brink of becoming a nation permanently divided between rich and poor', predicting an absolute rise in poverty over the following decade for the first time since records began. Significantly the report linked this development to home ownership halving among young people in 20 years and 5 million workers trapped in low pay.²

At the same time the upper sections of British society have seen real incomes rising above low inflation, with tax rates falling and, for many, the value of their properties rocketing too. Meanwhile, the 'austerity' narrative continues to dominate orthodox politics, threatening at least a lost decade for many workers and their families and containing the potential to collapse the Coalition-promoted cheap money, debt-fuelled consumer 'recovery' and inflated housing market growth model, which could dangerously undermine the UK's already fragile social fabric.

This has reinforced an already widespread rejection of the major parties by an increasingly alienated electorate, exemplified by low voter participation and the rise of UKIP, which mixes traditional fear of immigrants with populist euroscepticism. This alienation from the London-based establishment was also seen in the 2014 Scottish referendum where a large minority (including a majority of younger Scots) voted to leave a union they saw as London-centric, undemocratic and against Scotland's communal values and interests. General public attitudes towards the EU continue, however, to be confused and confusing.

A poll from IPSOS/MORI conducted in October 2014 suggested that 56% of Britons would vote to stay in the EU in a referendum – the highest support since 1991, suggesting that the rise of UKIP has polarised the debate.³ However, in a sign of the current volatility, this was followed a week later by a YouGov poll which showed 35% for staying in against 44% for leaving.⁴

The concurrent crisis of the EU/EZ in part mirrors the UK's crisis of austerity applied to the young, women, the un- and semi-skilled classes and former state employees, especially among the populations of the 'debtor states' – Portugal, Italy, Ireland, Greece and Spain (pejoratively labelled the 'PIIGS'). Lacking the levels of growth generated by the laxity of monetary policy evident in the UK and with an intransigent Germany refusing to sanction full QE spending, while trapped in a euro currency which prevents them from devaluing their currencies, several debtor states were showing signs of entering a deflationary 'death spiral' by late 2014. As a result, the social fabric of southern Europe has been stretched to the limit with up to a quarter of the population unemployed and drastic falls in living standards and social welfare provision for a majority of the population.

Meanwhile, wealthier citizens have taken their capital out of the debtor countries and invested in property in London and other safe asset classes abroad while avoiding national taxation. In addition, the EU/EZ authorities have acted in an openly elitist manner in seeking to solve the crisis, making decisions behind closed doors, appointing (or promoting) unelected technocrats to drive austerity and restructuring, forcing the sale of state assets and threatening expulsion from the EZ and economic collapse unless bail-out loans were accepted at onerous rates to pay off creditors and prop up their economies. Germany in particular has acted in a passively aggressive manner behind the scenes, ensuring that the crisis is viewed and solved entirely from the creditor nations' perspective and dictating terms for the future development of the EU/EZ based upon ordoliberal (statist neoliberal) principles of centralised macro-economic oversight promoting 'balanced budgets' and 'sound money'. Consequently, by late 2014 Italy was facing a possible triple-dip recession and Greece had several banks under severe market pressure, as market borrowing costs to service their debts rose once again towards penal levels.

Against this background, the orthodox political elites of some debtor states were under huge pressure from electorates close to political mutiny over seemingly endless and harsh austerity, with the main results being stagnation and deflation. If one were to implode under