

An Uneasy Settlement

Conservative Governments and
Britain's Approach to Europe
from Accession to Brexit

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Abstract

Both the accession of the United Kingdom to the European Community and Brexit have received ample attention by academics. Still, a gap persists between explanations of the former, which often focus on government actors and international relations, and of the latter, which usually emphasize Britain's domestic politics and public opinion. This thesis aims to fill this gap by further developing the theory of Liberal Intergovernmentalism in order to come to a historical understanding of the changes in approach towards European integration between Britain's various Conservative governments. Through analysis of government documents as well as primary and secondary literature on the policy preferences of major interest groups it is argued that the approach Conservative governments have taken to Europe has always been both responsive and sceptical, rooted in a discrepancy between the European institutional framework and Conservative governments' state preferences for economic liberalization and regulatory sovereignty.

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List of abbreviations

CAP – Common Agricultural Policy
CBI – Confederation of British Industry
CIA – Commonwealth Industries Association
EC – European Communities / European Community
ECJ – European Court of Justice
EEC – European Economic Community
EFTA – European Free Trade Association
EMS – European Monetary System
EU – European Union
FBI – Federation of British Industries
GATT – General Agreement on Tariffs and Trade
LI – Liberal Intergovernmentalism
NFU – National Farmers Union
OEEC – Organization for European Economic Cooperation
SEA – Single European Act
TUC – Trade Union Congress
UKIP – United Kingdom Independence Party

Introduction

For many, the decision taken by the United Kingdom on June 23rd 2016 to leave the European Union (EU) marked a watershed in European history. For authors such as Sara Hobolt Brexit was a political shock. Swept up by populist anti-globalization sentiments the British public unexpectedly voted to leave the EU, defying the preferences of the political and policy-making elite in a populist revolt against the status quo.¹ A similar argument is made by Christopher Hill, who maintains that opposition to immigration and anti-establishment thinking caused the Leave vote.² Rather than with the political establishment, the responsibility for Brexit is placed on the general population, savvy politicians and what Hill labels “right-wing tabloids”.³ Indeed, media often compare Brexit to the election of Donald Trump in the United States that same year, as both are taken to represent an unexpected uprising against the political establishment.⁴

However, perhaps one of the most striking observations about the history of the UK and European integration is that during most of the important political events of this history the UK was led by Conservative governments. The Conservatives were in charge when Britain opposed participation in European integration in the 1950s, when Britain entered the European Community (EC) in 1973, when Britain actively promoted the creation of the Single Market in 1985, when the decision was made to organize a referendum on EU membership by 2016 and when Britain sought a new relationship with Europe after Brexit. The approach Conservative governments took towards European integration has undergone fundamental changes between Britain’s accession to the EC and Brexit. This raises the fundamental research question this thesis means to answer:

To what extent and why did the attitude of Conservative governments towards European integration change in the years preceding Britain's accession to the European Community and in the years preceding Brexit?

There is truth to the view Brexit was an unexpected political event, but it is too limited, especially for historians. It offers no answer to the question as to why the

¹ Sara B. Hobolt, ‘The Brexit Vote: A Divided Nation, a Divided Continent’, *Journal of European Public Policy* 23, no. 9 (20 October 2016): 1272.

² Christopher Hill, ‘Turning back the clock: The Illusion of a Global Political Role for Britain’, in *Brexit and Beyond*, ed. Benjamin Martill and Uta Staiger, Rethinking the Futures of Europe (London: UCL Press, 2018): 186.

³ *Ibid.*, 187.

⁴ Robert Shrimsley, ‘Donald Trump Delivers America’s Brexit’, *Financial Times* (9 November 2016) <https://www.ft.com/content/78cb633e-a636-11e6-8b69-02899e8bd9d1> last accessed 06-04-2021; John Rentoul, ‘From Brexit to the Election of Donald Trump, Could 2016 Really Have Turned out Any Differently?’, *The Independent* (31 December 2016) <https://www.independent.co.uk/voices/brexit-donald-trump-president-elect-2016-could-it-have-turned-out-differently-a7503256.html> last accessed 06-04-2021; John Curtice, ‘US Election 2016: The Trump-Brexit Voter Revolt’, *BBC News* (11 November 2016) <https://www.bbc.com/news/election-us-2016-37943072> last accessed 06-04-2021.

Cameron government saw fit to subject EU membership to a referendum, why many politicians argued for Brexit and why some political elites, especially in the Conservative Party, underwent a shift from “soft” to “hard” Euroscepticism. Nor does it explain why, if British interests were so intertwined with the EU, the government did not simply choose to engage with the EU on similar terms post-Brexit to the ones it had as a member state. Moreover, it is difficult to square the idea that anti-globalization sentiment was the motivating factor for Brexit with the government’s post-Brexit plans for trade liberalization and renewed global engagement, as reflected in the mantra of “Global Britain”.⁵ A partial explanation is given by Christopher Lord, who finds an incongruence in the position of the Leave-voting public and that of the “strategists and policy entrepreneurs” behind the Leave campaign. Whereas popular opposition to the EU was an expression of anti-globalism, Eurosceptic political elites were instead motivated by post-Brexit opportunities for free trade and economic liberalization.⁶ There are more layers to British Euroscepticism than an isolated study of Brexit can explain.

Historiography and theoretical framework

Understanding Brexit, and British Euroscepticism more generally, requires a more historical approach than one focusing solely on the events leading up to Brexit. It is somewhat of a truism to say that Britain, from its government policy-makers to the general public, has always maintained a sceptical attitude towards the European project. According to Chris Gifford, Euroscepticism is a distinctive part of British national identity, resulting at least in part from a sense of “otherness” created by political discourse about Europe.⁷ This argument is an example of a common explanation of British Euroscepticism as rooted in ideology or British culture. British politicians often argued themselves that Britain’s sceptical attitude towards Europe stemmed from a long tradition of parliamentary democracy and parliamentary sovereignty, a tradition to which European integration is a threat.⁸ Brexit, then, was not a single shocking political event, but the outcome of long historical processes of cultural and ideological identity formation.

This thesis’ research question rests on the assumption that in order to understand why Britain left the European Union, it is important to understand why it joined it in the first place. During both periods Conservative governments were in charge and underwent a fundamental shift in opinion in the years preceding the decision to join and leave respectively. Consequently, the purpose of this thesis is to study both Britain’s entry into the EEC as well as Brexit with a single theoretical framework. In doing so I seek to fill a

⁵ Rebecca Adler-Nissen, Charlotte Galpin, and Ben Rosamond, ‘Performing Brexit: How a Post-Brexit World Is Imagined Outside the United Kingdom’, *The British Journal of Politics and International Relations* 19, no. 3 (1 August 2017): 582-586.

⁶ Christopher Lord, ‘The UK and European “Centre Formation” from 1950 to Brexit’, *Geopolitics, History, and International Relations* 10, no. 1 (2018): 52-53.

⁷ Chris Gifford, *Making of Eurosceptic Britain: Identity and Economy in a Post-Imperial State* (Abingdon: Taylor & Francis Group, 2008): 16

⁸ Lord, ‘Centre Formation’, 48.

major gap in the literature discussing the history of the UK and European integration. As discussed above, explanations of Brexit tend to emphasize domestic politics. However, the literature on the British approach to the EC between the 1950s and 1970s often revolves around international politics. In the late 1960s trade with Europe was expanding, while the growth of Commonwealth trade lagged behind. According to Andrew Dilley, this caused the British government to nudge Britain towards Europe and away from the Commonwealth, which' economic importance had been a main concern for sceptics of European integration.⁹ Andrew Moravcsik argues that Britain's shift towards Europe was due to a combination of declining Commonwealth exports and fears of exclusion from the European customs union.¹⁰ An alternative, less economic, theory is put forward by Kristian Steinnes, who argues that Britain's EC membership should mainly be considered a balancing act to counter growing French and German geopolitical domination of Western Europe.¹¹ Despite the differences between these explanations, they share two central assumptions. First, that international politics and changes in the global economic or security order were central to the British approach to European integration between the 1950s and 1970s. Second, that this approach was informed by the strategic motivations of political elites.. As such, there is a gap between studies of Britain's accession to the EEC and the studies of Brexit discussed above. In the former the focus is on government actors and international relations, while discussions of public opinion and domestic party politics dominate the latter.

To fill this gap this thesis presents a single coherent theoretical framework to study both British entry into the EC and Brexit, by building on Moravcsik's theory of Liberal Intergovernmentalism (LI). Central to this school of thought is the claim that governments are the key actors in international relations. Their approach to foreign policy is a response to pressure from both domestic interest groups as well as the international context in which the government operates. As such, the centrality of government action as the nexus between domestic and international politics in LI makes this theory fit to bridge the gap between studies into British entry into the EC and Brexit. In line with the theoretical framework Conservative governments' approach to Europe should be seen in the context of a combination of party pressure, domestic economic interest groups and the actions of other European governments. This is also why this thesis does not study changes within the Conservative Party in detail, as party ideology constitutes just one of the many pressures influencing Conservative government policy.

⁹ Andrew Dilley, 'Un-Imagining Markets: Chambers of Commerce, Globalisation and the Political Economy of the Commonwealth of Nations, 1945-1975', in *Imagining Britain's Economic Future, c.1800-1975: Trade, Consumerism and Global Markets*, ed. David Thackeray, Andrew Thompson, and Richard Toye (London: Palgrave Macmillan, 2018): 253-254.

¹⁰ Andrew Moravcsik, *The Choice for Europe: Social Purpose and State Power from Messina to Maastricht* (Ithaca: Cornell University Press, 1998): 164-165.

¹¹ Kristian Steinnes, 'The European Challenge: Britain's EEC Application in 1961', *Contemporary European History* 7, no. 1 (March 1998): 64.

Building on the LI framework I make two core arguments about the approach Conservative governments took towards Europe between the 1950s and 1970s and leading up to Brexit. The first is that these governments were above all motivated by political economic interests, constituting a preference for economic liberalization and the preservation of national sovereignty on economic policy. The second core argument is that both Conservative governments' gradual rapprochement to the EU in the 1960s as well as their increasingly sceptical attitude from the 1990s onward were primarily a response to changes in the institutional framework of the European project, rather than the result of significant changes in domestic preferences. Following these two core arguments I conclude that the Euroscepticism of Conservative governments originated in the fact that Britain joined the EC because Britain had to deal with the negative externalities of European integration. This meant there would always be a conflict between British state preferences and European integration, which can be observed to the present day. As such, this thesis adds to the literature on the relationship between the United Kingdom and Europe by employing a theoretical-historical approach which bridges the gap between the more historical and IR-driven explanations of Britain's approach to Europe between the 1950s and 1970s and the more social scientific literature which dominates discussions of Brexit.

Methodology and structure

The research question can be deconstructed into three components, each of which yields a central sub-question and accompanying chapter. The first question which needs to be answered is how international relations theory can account for changes in state behaviour concerning European integration. Consequently, the first chapter further develops the Liberal Intergovernmentalist theory of European integration. Specifically, it argues this theory can be used to explain changes in state behaviour over long periods of time. By developing scenario's in which states might seek to renegotiate an international institutional framework and incorporating referenda into LI theory this chapter builds a theoretical framework which can explain changes in Conservative governments' approach to Europe. The second chapter revolves around the sub-question why Conservative governments initially opposed participation in the European project, yet gradually came to support entry into the Community. It is argued that Conservative opposition to European integration resulted from a preference for economic liberalization, while the eventual rapprochement towards the EC came not as a consequence of changes in domestic preferences, but as a response to the negative externalities which resulted from the establishment of the EEC. The third chapter seeks to answer the question why Conservative governments became more Eurosceptic from the 1990s onward and how this relates to the decision by the Cameron government to renegotiate British membership of the EU and organize a membership referendum. A discussion of changes in the institutional framework of the EU in the 1980s and 1990s shows that growing Euroscepticism was a response to changes in the institutional framework of the EU. It is then argued that Cameron was motivated by similar political

economic concerns about economic liberalization and national sovereignty as his predecessors. Consequently, various theoretical approaches to referenda are applied to the case of the Brexit referendum, arguing the referendum should be seen in light of both Cameron's renegotiation and domestic party politics. Chapter 3 finishes with a discussion of the post-Brexit settlement between the UK and the EU, arguing that, despite businesses' opposition to Brexit in principle, the position of the May and Johnson governments reflected the preferences of major interest groups.

In both the second and the third chapter this thesis aims to uncover the motivations of Conservative governments in their various attempts to negotiate with the European Community / Union. LI hypothesizes that these motivations were the result of political economic interests, reflecting the preferences of major interest groups. Consequently, primary sources will be analysed to reveal the motivations of Conservative governments during British entry negotiations and both Cameron's and May's renegotiation of the UK-EU relationship. These motivations will then be related to the positions of major economic interest groups, especially business interests. In the case of the entry negotiations these sources are confidential documents circulated within the Cabinet. Specifically, the conclusions of a Cabinet meeting and communication to the Cabinet by negotiators will be used to analyse the bargaining position of the Macmillan government during its application to the European Economic Community (EEC).¹² The 1971 White Paper on the United Kingdom and the European Communities will be analysed to study the motivations of the Heath government during Britain's successful application to the EC. Both the Macmillan and Heath governments' applications will be related to Robert Lieber's analysis of the positions of major British interest groups on Europe.¹³ Internal communication during both pre- and post-Brexit negotiations has not been made public, so to study the bargaining position of the Cameron government chapter 3 will discuss the agreement Cameron negotiated between the UK and the EU. Additionally, the bargaining position of the May government will be deduced from the White Paper on the Future Relationship between the United Kingdom and the European Union. These documents will be compared to reports by the Confederation of British Industries (CBI) detailing the business view of negotiations, as well as secondary literature on the position of the financial sector.

Naturally, this research is therefore limited due to the unavailability of certain sources. Contrary to confidential internal documents government papers are less reliable in terms of detailing the actual motivations of government action. Such papers are a form of government communication, so governments have an incentive to emphasize motivations which are more likely to convince the public of the governments policy goals

¹² The European Economic Community (EEC), sometimes called the Common Market, was merged into the European Communities in 1967. Both are often referred to simply as the European Community (EC), which is why the terms EEC, EC, Community and Common Market will be used interchangeably in this thesis.

¹³ Robert J. Lieber, *British Politics and European Unity: Parties, Elites, and Pressure Groups* (Berkeley: University of California Press, 1970).

rather than the government's actual motivations. This does not mean these papers are not useful sources, but it does mean that the conclusions which can be drawn from them are more hypothetical than the conclusions which can be drawn from, for example, primary source material on Macmillan's application. This means the assessment of governments' approach after entry will have to be grounded more in theory and secondary literature.

As an Honours thesis this study represents a deepening of academic knowledge as well as interdisciplinarity. The deepening of academic knowledge is found in the historicization of Brexit specifically, and UK-Europe relations more generally, which runs throughout this thesis. Additionally, interdisciplinarity can be found in the engagement with social scientific European integration theory in the first chapter. Rather than just explain LI theory, I expand on it by introducing the element of historical change. This theoretical approach is then compounded with historical source analysis in the subsequent chapters, representing an interdisciplinary approach to the history of relations between the UK and Europe.

Chapter I: Theory and Changes in State Behaviour

The aim of this first chapter is to establish a theoretical framework which can examine both the decision of the United Kingdom to join the process of European integration as well as its eventual decision to abandon it. The position of the UK towards Europe is a study of an element of European integration as much as it is a study of British politics. Hence any examination of this topic has to build on certain assumptions about the process of European integration.¹⁴ That is why the first subsection of this chapter discusses Moravcsik's Liberal Intergovernmentalist theory of European integration.¹⁵ I expand on LI by using Historical Institutionalism critique to develop two different scenarios in which a state will renegotiate an existing framework of international institutions. Because Liberal theory stresses the importance of government actors and economic interest groups, it is interesting that Britain's decision to leave the EU was the result of a popular referendum. The second part of this chapter will therefore integrate public opinion and referenda into LI by examining the use of referenda as a political instrument by governments.

Preferences and interest groups

As explained by its most well-known proponent, Andrew Moravcsik, Liberal Intergovernmentalism boils down to one central claim: European integration is a process driven by the governments of member states, primarily for reasons of international political economy.¹⁶ The "Liberal" element relates to the claim that the foreign policy objectives of states are not fixed. Rather, the objectives pursued by a government internationally are the result of various, often competing, domestic social pressures.¹⁷ Such pressures are either communicated to the government directly through active lobbying or implicitly (e.g. the knowledge that capital can move across the border if governments adopt strict regulatory measures).¹⁸ Governments aggregate these domestic preferences into an overarching set of "state preferences", which then inform the state's bargaining position in international negotiations.¹⁹ As such, although economic interest groups play a large role in influencing government policy, government action is not

¹⁴ Antje Wiener and Thomas Diez, 'Introducing the Mosaic of Integration Theory', in *European Integration Theory*, ed. Antje Wiener and Thomas Diez (Oxford: Oxford University Press, 2004): 4.

¹⁵ Moravcsik, *The Choice for Europe*; Andrew Moravcsik, 'Preferences and Power in the European Community: A Liberal Intergovernmentalist Approach', *Journal of Common Market Studies* 31, no. 4 (December 1993).

¹⁶ Moravcsik, *The Choice for Europe*, 3

¹⁷ *Ibid.*, 22.

¹⁸ Moravcsik, 'Preferences and Power', 484.

¹⁹ Frank Schimmelfennig, 'Liberal Intergovernmentalism', in *European Integration Theory*, ed. Antje Wiener and Thomas Diez (Oxford: Oxford University Press, 2004): 77.

necessarily a direct reflection of economic interests. The concerns of governments are not just motivated by economic calculus, such as the goal of achieving economic growth, but are rooted in political economy; they relate to the government's ability to make foreign and domestic economic policy.

Moravcsik distinguishes state preferences, which precede international politics, from tactics and specific foreign policy decisions, which instead follow from a combination of state preferences and the international context.²⁰ This distinction is important because states are bound not just by their preferences, but also by the preferences and policies of other states. Such "policy interdependence" means states will bargain to both satisfy domestic goals as well as to deal with or control the policy externalities of other states.²¹ Understanding state behaviour then relies on what Moravcsik calls a "tripartite framework" in which states first develop state preferences through domestic politics, then rationally bargain with other states and, finally, construct an institutional framework to consolidate the bargain and mitigate policy externalities.²² The assumption of rationality in bargaining does not mean the preferences of a state are always rational, only that it seeks to promote these preferences in rational, strategic choices when engaging with other states.²³ How these preferences are formulated is not a matter of rational consideration, but of various, often competing domestic social pressures. It is this emphasis on domestic political contestation and the manner in which the state translates this into a coherent bargaining position internationally which is vital to the examination of Britain's application to the EC and Brexit.

Historical Institutional critique and renegotiation

A frequent criticism of LI is that it emphasizes "large" political events.²⁴ The very term "European integration" signals that it is a continuous process. The focus of LI on long-term state preferences and interstate bargaining ignores not just the daily politics of European integration, but also gradual changes enacted by European institutions which promote further integration. Instead the school of Historical Institutionalism stresses the concept of path dependence: initial steps towards integration lock states into a set of institutions and norms from which it would be too costly to detach itself, preventing them from maintaining complete control over the degree of integration.²⁵ A widely

²⁰ Andrew Moravcsik, 'Taking Preferences Seriously: A Liberal Theory of International Politics', *International Organization* 51, no. 4 (Autumn 1997): 519.

²¹ *Ibid.*, 520.

²² Moravcsik, *The Choice for Europe*, 23.

²³ Moravcsik, 'Preferences and Power', 480-481.

²⁴ Schimmelfennig, 'Liberal Intergovernmentalism', 81-82.

²⁵ Paul Pierson, 'The Path to European Integration: A Historical-Institutionalist Analysis', in *European Integration and Supranational Governance*, ed. Wayne Sandoltz and Alec Stone Sweet (Oxford: Oxford University Press, 1998): 45-46.

acknowledged example of this is the European Court of Justice which has, through case law, gradually expanded the primacy of European over national law.²⁶

Consequently, Historical Institutionalism considers European integration a forward-moving process. It shares this view with another major school of integration theory: Neofunctionalism. Whereas Historical Institutionalism considers further integration a consequence of institutional structure, Neofunctionalists see it as the consequence of a push for supranationalism by social groups, such as businesses and trade unions, who perceive this as being in their economic interest.²⁷ Both theories can explain integration, but their insistence on path dependence means they cannot account for disintegration, especially on behalf of just one member state.

Instead, what makes the LI approach useful for this thesis is its ability to account for changes in state behaviour over time. The theory assumes there is a degree of policy interdependence between states, leading to cooperation.²⁸ Consequently, unless a state makes an attempt at autarky, entry negotiations, a renegotiation of membership, as well as an exit out of the European institutional framework will result in a different form of institutional framework. In reality all are a form of renegotiation; either to amend the existing framework or to set up an alternative. An attempt at renegotiation would mean there is a discrepancy between the status quo of the institutional framework and the preferences of a member state. Reversing the aforementioned tripartite framework then presents us with an explanation for renegotiation; it is a consequence of a change in state preferences. Domestic interest groups define state preferences, so preferences might change over time as the relative influence of pressure groups changes.²⁹ Moravcsik also posits that state preferences change as a result of “exogenous changes in the economic, ideological and geopolitical environment within which European integration takes place.”³⁰ If the individual preferences of interest groups change as a result of such exogenous changes this can change state preferences even if the same interest groups remain dominant.

Both explanations assume the institutional framework resulting from an initial interstate bargain is static. Incorporating the Historical Institutionalist concept of autonomous changes in the institutional framework into LI offers an additional explanation of renegotiations. State preferences might remain the same, but gradual changes in the institutional framework can mean that, in the long run, the framework no longer serves those existing preferences. This can explain the British government’s desire

²⁶ Michael Blauberger, ‘National Responses to European Court Jurisprudence’, *West European Politics* 37, no. 3 (2014): 458.

²⁷ Liesbet Hooghe and Gary Marks, ‘Grand Theories of European Integration in the Twenty-First Century’, *Journal of European Public Policy* 26, no. 8 (2019): 1114.

²⁸ Moravcsik, ‘Taking Preferences Seriously’, 523.

²⁹ Schimmelfennig, ‘Liberal Intergovernmentalism’, 77.

³⁰ Moravcsik, *The Choice for Europe*, 23.

to negotiate various opt-outs, which is discussed in more detail in Chapter 3. Table 1 shows an overview of the relation between institutional framework and state preferences.

	Changing state preferences	Static state preferences
Changing institutional framework	Framework fits preferences*	Framework does not fit preferences → renegotiate
Static institutional framework	Framework does not fit preferences → renegotiate	Framework fits preferences

Table 2: State preferences and the institutional framework

* This assumes the change in institutional framework reflects the change in state preferences

Incorporating referenda into Liberal Intergovernmentalism

The most obvious difference between the accession of the UK to the EC and Brexit is the manner in which it was decided. Britain’s entry into the EC was the result of long negotiations between the British and European governments. Brexit, contrarily, was decided in a popular vote, fundamentally motivated by public opinion. The emphasis LI places on economic interest groups, government actors and international bargaining leaves little room for public opinion. Indeed the negligence of public opinion in European integration theory is a core concern in Postfunctionalism. Postfunctionalist theory sees European integration as a process of reconfiguration of state sovereignty and agency towards the supranational level. When this reconfiguration conflicts with national identity, this national identity becomes politicized and acts as a brake on further integration.³¹ For Postfunctionalists culture, ideology, public opinion and political party preferences play a large role in defining a member state’s approach to European integration.³² The view of a populist, bottom-up Brexit movement found in the work of Hobolt and Lord echoes the assumptions and conclusions of Postfunctionalism.³³

Postfunctionalism is in line with what Fernando Mendez et. al calls an “appropriateness” referendum. Domestic politicization leads to public contestation of the status quo, as a result of which the government is pressured to organize a referendum. As such, a referendum is a government’s response to public pressure, rather than being organized out of the government’s own volition.³⁴ Such referenda are clearly “bottom-up” in the sense that popular opinion and public pressure impact government action rather than vice versa. This presents a challenge to LI, which argues governmental elites define the state’s approach to integration by navigating the field of differing domestic opinions.

However, Aude Bicquelet and Helen Addison found that public pressure to organize a referendum does not constrain governments as much as is often assumed.

³¹ Hooghe and Marks, ‘Grand Theories’, 1116-1117.

³² Ibid., 1117.

³³ Hobolt, ‘The Brexit Vote’; Lord, ‘Centre Formation’.

³⁴ Fernando Mendez, Mario Mendez, and Triga Vasiliki, *Referendums and the European Union: A Comparative Inquiry* (Cambridge: Cambridge University Press, 2014): 75.

Party positions do not necessarily correlate with public support for a referendum and governments can be quite effective at ignoring calls for a referendum.³⁵ An example of this can be found in Latvia and Estonia, where popular calls for referenda on these countries' membership of the Eurozone were ignored by political elites.³⁶ The third chapter of this thesis discusses how British governments have also at times resisted pressure to hold a referendum on aspects of European integration. If governments have a degree of agency in the decision to organize a referendum, this means the decision to hold a referendum must be motivated by political concerns. Consequently, Mendez et. al notes two other explanations why a government might organize a referendum; as a political tool in domestic or international politics. Both explanations fit within LI theory.

Domestic politics: the partisan calculus referendum

A referendum can be a tool by the ruling government to strengthen its position domestically, either by reinforcing a government's political legitimacy or by mediating political cleavages within the governing party.³⁷ An example of both these motivations is the referendum on Britain's membership of the EC Harold Wilson's Labour government organized in 1975. Wilson was reluctant about organizing a referendum, preferring a more depoliticized approach to UK-EC relations.³⁸ However, the Labour Party had become internally split on the issue of EC membership, leading the Eurosceptic left wing of the party to pressure Wilson to organize a referendum.³⁹ Additionally, many Labour politicians supported a referendum as a means to legitimize the previous government's decision to join the EC by backing it up with an explicit popular mandate.⁴⁰ Important to note is that the strategic political motivations behind a referendum do not mean that the government assumes that the outcome of a referendum is set. Allowing the public to decide on a certain issue, such as EU membership, can be a tool to neutralize cleavages within the governing party regardless of the actual outcome of the referendum.⁴¹

Referenda and two-level diplomacy

Mendez et. al briefly mentions another political use of referenda: as a tool to pressure other governments into concessions during international negotiations.⁴² Interestingly, David Cameron announced his intention to hold the referendum in the same speech in which he announced he would renegotiate Britain's EU membership. As such, it

³⁵ Aude Bicquelet and Helen Addison, 'Are Discretionary Referendums on EU Integration Becoming "Politically Obligatory"? The Cases of France and the UK', *Parliamentary Affairs* 71, no. 2 (2018): 4.

³⁶ Mendez, Mendez and Vasiliki, *Referendums and the European Union*, 2.

³⁷ *Ibid.*, 78-79.

³⁸ Paul Martin Gliddon, 'The Labour Government and the Battle for Public Opinion in the 1975 Referendum on the European Community', *Contemporary British History* 31, no. 1 (2017): 94.

³⁹ *Ibid.*, 92.

⁴⁰ Roger Jowell and Gerald Hoinville, 'An Unconsonable Time Deciding', in *Britain into Europe: Public Opinion and the EEC*, ed. Roger Jowell and Gerald Hoinville (London: Croom Helm Ltd, 1976): 15.

⁴¹ Bicquelet and Addison, 'Discretionary referendums', 3.

⁴² Mendez, Mendez and Vasiliki, *Referendums and the European Union*, 18.

is worth considering international bargaining theory and the role referenda can play diplomatically.

In international negotiations governments are partially bound by the preferences of other governments. However, as such preferences are sourced from domestic interest groups, governments are equally constrained by the preferences of domestic actors. This means governments are tied up in what Putnam famously called a “two-level game”. The first level consists of the actual intergovernmental negotiations based on governments’ state preferences.⁴³ When an agreement is reached, politics moves to Level II: the state has to ratify the agreement domestically, for example through a parliamentary vote, agreement among cabinet members and/or in consultation with interest groups.⁴⁴ In international negotiations states have a bargaining advantage if they have a relatively small “win-set”: a limited range of domestically ratifiable negotiation outcomes.⁴⁵ The reason for this is that a small win-set allows a government to convince other governments there is a high chance of involuntary defection; a rejection of the agreement domestically. As a consequence the government might be able to pressure other governments into concessions. The organization of referenda can be integrated into this two-level framework. A referendum places the decision to ratify or reject an agreement in the hands of the general public. As a result, public opinion becomes an important additional concern on top of the existing channels for ratification, both for the government which organized the referendum, as well as the other governments at the negotiating table. Domestically this leads to a politicization of whatever issue is being discussed internationally. As Putnam describes, an issue which might not have been politically salient suddenly becomes important as previously uninterested groups of voters, who also have a say in the referendum, are activated.⁴⁶ As a consequence of this extra layer of ratification a state which organizes a referendum makes its own win-set (appear) smaller: the government effectively ties its own hands in international negotiations.

Concluding remarks

The purpose of this first chapter has been to develop a single theoretical framework which can explain both Britain’s entry into the EEC as well as Brexit. I have opted for a Liberal Intergovernmentalist view of European integration because this approach can be used to construct logically coherent explanations of a (partial) disintegration of the European project. This would be the consequence of changes in state preferences or changes in the institutional framework of European integration, as a result of which existing state preferences are no longer served. In order to incorporate referenda into LI theory this chapter considers the use of referenda as a political instrument by governments. Besides discussing referenda as a consequence of partisan calculus I have

⁴³ Robert D. Putnam, ‘Diplomacy and Domestic Politics: The Logic of Two-Level Games’, *International Organization* 42, no. 3 (Summer 1998): 436.

⁴⁴ *Ibid.*, 437

⁴⁵ *Ibid.*, 440.

⁴⁶ *Ibid.*, 445.

built on the concept of two-level diplomacy by integrating referenda into Putnam's analytical framework of international negotiations. The following two chapters will use the theoretical framework this chapter has developed to study the change in attitude towards European integration of Conservative governments leading up to Britain's entry into the EEC and Brexit.

Chapter II: Joining the Community

This chapter deals with the approach various Conservative British governments took towards Europe between the 1950s and early 1970s. Based on analysis of historical literature as well as government sources it is argued that the British government maintained a sceptical view of European integration from the beginning, rooted in its state preferences for a liberal economic regime, especially relating to the Commonwealth. To build this case the chapter is divided into four parts. The first argues that British state preferences for liberalized trade followed from Britain's relations with the Empire-Commonwealth and that this resulted in British opposition to any attempts at exclusively European economic integration. The second and third parts discuss the failed application to join the EEC by Macmillan and the successful application by Heath, arguing that they do not reflect a significant change in British state preferences, but rather a response to the policy externalities of European integration. The chapter ends with a brief discussion on the changes in public opinion regarding Britain's membership of the EC during the applications by Macmillan and Heath, arguing that public opinion did not significantly impact government opinion.

British state preferences and European trade

A Liberal Intergovernmentalist approach requires a consideration of the individual preferences of domestic interest groups as well as understanding of the international context in which a government operates. From an overview of the international context and the preferences of domestic interest groups it can be concluded that British foreign economic policy was led by state preferences for free trade, leading the Conservative governments of the 1950s to oppose forms of European economic cooperation which would exclude extra-European trade.

In terms of international context, the Commonwealth dominated in Britain's economic relations in the 1950s. In the post-war period most British colonies gradually transformed into Commonwealth members, which meant that these countries became formally independent from Britain, only tied to their former imperial overlords through economic links, historical association and the formal sovereignty of the British Crown. That is why in order to maintain influence in the (former) Empire British governments actively pursued policies to maintain close economic links. The prime example of this is the system of Imperial or Commonwealth Preference announced at the 1932 Ottawa Conference. The Preference guaranteed free trade within the Empire-Commonwealth while maintaining external tariffs to third countries.⁴⁷ As a result of the Preference Scheme the Commonwealth accounted for 38% of Britain's exports and 40% of its imports

⁴⁷ Lynden Moore, *Britain's Trade and Economic Structure: The Impact of the EU* (London: Taylor & Francis Group, 1999), 66.

in 1950.⁴⁸ As table 2 shows, British exports mostly consisted of manufactured goods, whereas imports mostly consisted of primary products. As Britain was a net importer of agricultural goods, the Commonwealth Preference allowed Britain to import food at exceptionally low prices compared to food traded outside of the Preference area.⁴⁹ The British government thus had a substantial interest in maintaining deep Commonwealth ties, which required it to maintain the Preference Scheme. Maintaining the Preference meant Britain could not join any form of regional cooperation, such as the EEC, which prevented the government from retaining its sovereignty over trade policy.

UK trade in 1950	% of overall exports	% of overall imports
Manufactures	81	18
Primary products*	13	74

Table 2: UK imports and exports by category in 1950. Data from Lynden Moore, *Britain's Trade and Economic Structure: The Impact of the EU* (London: Taylor & Francis Group, 1999): 120.

* This includes: food, beverages, tobacco and basic materials

Bearing in mind Moravcsik's claim that the preferences of interest groups result from the environment in which international politics takes place, it can be expected that the importance of the Commonwealth was reflected in the position of the major economic interest groups. In his study of the positions of interest groups towards Europe Lieber found that influential organizations such as the Federation of British Industries (FBI), which maintained close ties with the Conservatives, and the Trades Union Congress (TUC), strongly tied to Labour, both supported the establishment of a Europe-wide agreement on free industrial trade, while explicitly rejecting the supranational elements of European integration for discriminating against extra-European trade.⁵⁰ Those groups which were closely tied to the Commonwealth were even more critical of Europe. The Commonwealth Industries Association (CIA) opposed European free trade entirely, arguing for Commonwealth self-sufficiency. However, this more radical position meant the CIA's influence was limited.⁵¹ The more influential National Farmers Union (NFU) was more accepting of European free trade, but sought to exclude agriculture, which benefitted highly from the Commonwealth Preference, from such an agreement.⁵²

Governments aggregate preferences into an international negotiating position. Based on LI it can be expected that the British government would seek trade liberalization in Europe. However, due to the economic importance of the Commonwealth it would

⁴⁸ Moore, *Britain's Trade*, 65.

⁴⁹ Ann-Christina L. Knudsen, *Farmers on Welfare: The Making of Europe's Common Agricultural Policy* (Ithaca: Cornell University Press, 2011): 146.

⁵⁰ Lieber, *British Politics*, 40, 69.

⁵¹ *Ibid.*, 66.

⁵² *Ibid.*, 48.

reject any attempt at exclusive European economic integration which would undermine the principle of Commonwealth free entry.

This position is confirmed by Conservative governments' Europe policy in the 1950s. A first example is that the British government had been a vocal supporter of the establishment of the Organization for European Economic Cooperation (OEEC). The OEEC was meant to promote post-war economic recovery by administering the Marshall Plan and liberalizing European trade. However, when a proposal was launched to compound the OEEC with a customs union and single external trade policy Britain – along with the Scandinavian countries, which later also stayed out of the EEC – vetoed it.⁵³ Additionally, when “the Six” – France, West Germany, Italy and the countries of the Benelux – opened negotiations to establish the EEC, at the heart of which was a Common Market with a single external tariff policy, the Eden government sought to intervene by announcing Plan G; a proposal to create an OEEC-wide free trade area without a customs union.⁵⁴ The French government rejected this proposal, insisting on a common trade policy and economic policy harmonization.⁵⁵ Consequently, rather than acquiesce to French demands, the Eden government created the European Free Trade Association (EFTA) with six other non-EEC countries.⁵⁶ The EFTA can be seen as a more humble implementation of Plan G. It included a free trade area, maintained member states' sovereignty on trade policy and included only little policy harmonization. As such, the EFTA was not only an economic opportunity, but an explicit alternative to the more politically integrated EEC.⁵⁷

Trade, agriculture and Macmillan's application

Although the EFTA was economically beneficial, it did not stop the development of the Common Market. The next section will consider Macmillan's 1961 application to join the EEC from the LI framework. First, an analysis of secondary literature will present the domestic and external pressures exerted on the British government by domestic interest groups and the actions of other European governments. Combining this with an analysis of documents circulated within the Macmillan Cabinet this section argues that the application cannot be seen as an embrace of European integration. Rather it was an attempt to mitigate the policy externalities the EEC created for Britain.

⁵³ Rasa Daugėlienė and Paulius Puskunigis, 'The Scope and Specificity of Economic Relations Between the EU and the United Kingdom in Brexit Case', in *Brexit: History, Reasoning and Perspectives*, ed. David Ramiro Troitiño, Tanel Kerikmäe, and Archil Chochia (Cham: Springer International Publishing, 2018): 268.

⁵⁴ N. Piers Ludlow, *Dealing with Britain: The Six and the First UK Application to the EEC* (Cambridge: Cambridge University Press, 1997): 27.

⁵⁵ *Ibid.*, 27-29.

⁵⁶ Lieber, *British Politics*, 72-73. At its formation the EFTA included the UK, Denmark, Switzerland, Norway, Sweden, Portugal and Austria.

⁵⁷ Archil Chochia et al., 'The First European Community and the British Position', in *Brexit: History, Reasoning and Perspectives*, ed. David Ramiro Troitiño, Tanel Kerikmäe, and Archil Chochia (Cham: Springer International Publishing, 2018): 69.

Domestic and external pressure

In the early 1960s the preferences of the major pressure groups had not undergone significant change, but these groups had become increasingly worried about the negative effects of the European customs union. British exports to the Commonwealth had declined relative to exports to the EEC between 1950 and 1960, as shown in Table 3. Both the British business lobby and the Macmillan government had become worried about the policy externalities European integration was creating for Britain. Specifically, the customs union placed British businesses at a relative disadvantage compared to European businesses due to the higher degree of liberalization among EC member states than with non-member states.⁵⁸ As a result, the FBI, which consisted in large part of exporting manufacturing businesses, had come to support EC membership.⁵⁹ Smaller businesses, especially those united in the CIA, remained opposed to the Common Market, while the NFU supported the Common Market while rejecting its Common Agricultural Policy (CAP).⁶⁰

However, these groups’ support for entry came with considerable conditions. The FBI and NFU maintained their opposition to the CAP and emphasized the principle that membership should not come at the expense of Britain’s obligations to the Commonwealth and EFTA.⁶¹ EC membership is seen as just one element of a wider free trade agenda. This is not surprising; as Table 3 shows, the Commonwealth was still a more important export destination for British businesses than the EEC. What this means is that the only substantial change in domestic preferences from the 1950s was that interest groups had come to accept that the Common Market was now a reality they had to deal with. The economic benefits of entry did not outweigh the political economic interest of maintaining the Commonwealth Preference.

Destination	% of exports in 1950	% of exports in 1960	% of exports in 1965	% of exports in 1970
EEC	11	15	19	21
Commonwealth	38	34	26	20

Table 3: British exports to the EEC and Commonwealth as percentage of total exports. Data from Lynden Moore, Britain’s Trade and Economic Structure: The Impact of the EU (London: Taylor & Francis Group, 1999): 65.

The institutional framework

State preferences had not changed, but Macmillan still sought to join an institutional framework previous governments had opposed. In the LI framework this

⁵⁸ Moravcsik, *The Choice for Europe*, 167.
⁵⁹ Lieber, *British Politics* 93-94, 96.
⁶⁰ *Ibid.*, 94, 185.
⁶¹ *Ibid.*, 93-94, 96.

means that the Macmillan would seek to change the institutional framework so that it lined up more with British preferences. Indeed, changes in the institutional framework of the EEC were more important to Macmillan's decision to open negotiations than changes in domestic preferences. The discriminating effect of the customs union was a first issue, but more significant was agriculture. The 1960 proposal for the CAP set up a quite protectionist policy of considerable intervention in domestic agricultural markets by introducing a price floor and high external protections for European farmers against fluctuating world prices.⁶² As the CAP had the express goal of stimulating European exports of agricultural produce this would impact global agricultural trade in its entirety.⁶³ This was contrary to the goal of Britain's Commonwealth Preference Scheme, which aimed to ensure cheap food imports from the Commonwealth. On the topic of agriculture there was a clear disconnect between the state preferences of the British government and those of the Six.

When the Macmillan government applied to the EC it thus sought to join an institutional framework which conflicted with its state preferences. Theoretically it can be assumed that the goal of the Macmillan application was to renegotiate the institutional framework of the EEC. Just before the application the Cabinet held a meeting to discuss its intention to apply to the EEC and specifically how to discuss this with Commonwealth governments. The now publicly available conclusions of this meeting were labelled "secret" at the time. The confidential nature of these conclusions means they provide an insight into the actual thought process of the Macmillan government. The document presents a summary of the bargaining position the Cabinet had decided on during earlier, equally confidential meetings.

The bargaining position set out in the conclusions of the Cabinet meeting confirms that maintaining the Commonwealth Preference, as was the desire of the major interest groups, was central to the negotiating position of the Macmillan government. The Cabinet stated that it saw no reason to change its bargaining position that association with Europe should not come at the expense of Britain's ties to the Commonwealth and the EFTA.⁶⁴ Specifically, the Cabinet concluded that it could not subscribe to Articles 2 and 3 of the Treaty of Rome, which form the basis of the customs union and the CAP, "consistently with trying to secure the maintenance as far as possible of the principle of Commonwealth free entry".⁶⁵ This means the government rejected the existing institutional framework of the EC and would seek to renegotiate it. Indeed during the meeting Macmillan argued that Britain's application to the EEC was only a means to find out what the terms for entry would be and to assess whether these would be satisfactory.⁶⁶ The state preferences of

⁶² Knudsen, *Farmers on Welfare*, 144.

⁶³ *Ibid.*, 300.

⁶⁴ 'Conclusions of a Meeting of the Cabinet held at Admiralty House, S.W.1, on Thursday, 22nd June, 1961, at 10.30 a.m.', CAB 128/35/35, *The National Archives* (22 June 1961): 4
<http://discovery.nationalarchives.gov.uk/details/r/D7664111>

⁶⁵ *Ibid.*

⁶⁶ *Ibid.*

the Macmillan government had not changed significantly from its predecessors. Consequently, if the Six were not willing to renegotiate the framework, negotiations would fail.

This is exactly what happened. During negotiations Secretary of State for Commonwealth Relations Duncan Sandys reported back to the Cabinet that the Six rejected the principle of Commonwealth free entry and were only willing to give Commonwealth states “a position intermediate between member-states and third countries”.⁶⁷ If Britain joined the Common Market it could not uphold the Commonwealth Preference. This was also observed by the leaders of the Commonwealth who, during a Commonwealth conference, criticized the EEC for its protectionism, especially concerning Commonwealth agricultural interests, rejecting the intermediate association status the Six had offered them.⁶⁸ When French president De Gaulle vetoed the British application in mid-January of 1963 this was just a formal end to negotiations which had already stagnated over agricultural concerns by December of 1962.⁶⁹ In conclusion, Macmillan’s EEC application did not reflect a change in preferences, but a change in tactic to serve those preferences, by attempting to renegotiate the European institutional framework.

Changing trade relations and Heath’s application

Britain’s second application to the EEC was also vetoed by De Gaulle. It is easy to attribute the success of the third application of 1971-1973 to newly elected prime minister Heath’s pro-Europeanism or the resignation of President de Gaulle in 1969.⁷⁰ However, the most important change was that the Heath government announced it was willing to accept membership without a fundamental renegotiation of existing European policies and institutions, including the CAP.⁷¹ Moravcsik’s study of Britain’s entry into the EC details how the terms of entry the Six offered were not substantially different from those under Macmillan; in return for entry Britain was made to offer concessions on most of its demands.⁷² As such, Heath’s bargaining position was fundamentally different from that of his predecessors. The next section argues that the reason for this change in position was that the economic argument against entry – rooted in the economic importance of the Commonwealth – became less valid, while the political economic argument for entry – to try to mitigate European policy externalities – became more convincing to Heath’s government.

⁶⁷ Duncan Edwin Sandys, *European Common Market Negotiations*, Circular 540/62 (15 August 1962) https://www.cvce.eu/en/obj/circular_from_duncan_sandys_on_the_negotiations_for_british_accession_to_the_european_communities_15_august_1962-en-3ab6d677-f71b-4b3b-b5fc-f7366a6c3741.html

⁶⁸ Ludlow, *Dealing with Britain*, 170.

⁶⁹ *Ibid.*, 192, 198-199.

⁷⁰ David Gowland and Arthur Turner, *Reluctant Europeans: Britain and European Integration, 1945-1998* (Harlow: Pearson Education Limited, 2000): 168.

⁷¹ *Ibid.*, 169

⁷² Moravcsik, *The Choice for Europe*, 303.

Economic motives

The economic importance of agricultural imports from the Commonwealth had been the primary cause of Britain’s unwillingness as well as its failure to join the Community. If Heath was willing to join the European institutional framework on existing terms, it must mean that the barrier to entry which the Commonwealth Preference created fell away. Indeed, during the 1960s Britain’s dominant position as an exporter of manufactures in the Commonwealth started to decline. The reason for this was that other Commonwealth countries, especially Canada, Australia and New Zealand, had gradually undergone a process of industrialization.⁷³ Table 4 below shows that in 1970 the volume of imports of manufactured goods had overtaken imports of primary products, even though the goal of the Commonwealth Preference had been to boost exports of manufactures and imports of primary products.

UK trade in 1970	% of overall exports	% of overall imports
Manufactures	85	53
Primary products	9	37

Table 4: UK imports and exports by category in 1970. Data from Lynden Moore, Britain’s Trade and Economic Structure: The Impact of the EU (London: Taylor & Francis Group, 1999): 120.

The growing importance of exports to the EC noted above in table 2 combined with the industrialization of the Commonwealth thus meant that British manufacturing businesses were facing increased competition. As in the early 1960s they were still partially excluded from the European market. As a result of a combination of growing industrial competition and the declining importance of agricultural imports for the British economy, the Commonwealth Preference had lost its economic significance. This strengthened the economic argument to join, softening the government’s bargaining position.

Political motives

Although economic interests influence the government’s bargaining position, LI posits political economy is a more important consideration. This is confirmed by an analysis of the motivations of the Heath government to apply to the EC.

In the late 1960s the British government increasingly saw its ability to serve its state preferences undermined by the political integration of the Six. Conservative governments always had a preference for economic liberalization. Consequently, the exclusive character of the European customs union had been a main reason for Britain to stay out of European integration in the 1950s and 1960s. However, Britain increasingly

⁷³ Gowland and Turner, *Reluctant Europeans*, 93.

saw itself side-lined in international trade negotiations, most notably during the so-called Kennedy Round of negotiations on the General Agreement on Tariffs and Trade (GATT) in the late 1960s. Rather than on Britain, American negotiators focused their attention on the countries of the EC.⁷⁴ Consequently, the idea spread among government officials that, if the British state preference for trade liberalization was to be served, it might be more effective to steer the conversation within the EC.⁷⁵ If this was the case, this means that, as LI argues, political economy – the ability to engage in (foreign economic policy) – was more important than strictly economic concerns.

This is evidenced by the fact the Heath government itself presented this as the primary argument for EC membership. After having negotiated Britain's terms of entry to the EC in 1971 the Heath government published the White Paper on the United Kingdom and the European Communities, the purpose of which was to justify the decision to apply to the EC on existing terms. As such, it provides an insight into the government's motivations. Aside from a number of paragraphs about economic opportunities, this White Paper presents what Heath calls a "political case" for membership. Central to this political case is the claim that membership would enhance Britain's ability to influence global economic policies, for example in the GATT, through the EC.⁷⁶ Without the EC, it is argued, Britain would lose global influence. The Paper refers to the fact that East African Commonwealth countries had given the EC trade preferences over the UK; evidence that maintaining sovereignty on trade policy was no longer a strategic benefit.⁷⁷ This shows concerns over the government's ability to engage in foreign economic policy were central to its motivations to join the EC.

The early 1970s also saw the start of monetary integration in the EC. This led to significant policy externalities for Britain, which caused businesses to lobby for EC membership even more strongly. As Table 3 above shows, the EC had become an increasingly important destination of British exports. With increasing European monetary integration there would be a stronger coordination of exchange rates among EC countries. This would impact the ability of British businesses to export to the EC. As can be expected, the Confederation of British Industry (CBI, the successor of the FBI) as well as the financial firms of the City of London came to overwhelmingly support entry into the Common Market.⁷⁸ As with trade, the consequences of European policies rather than strictly economic gains were the most important concern.

⁷⁴ N. Piers Ludlow, 'Commercial Preferences: Economics and Britain's European Choices, 1945-2016', in *Imagining Britain's Economic Future, c.1800-1975: Trade, Consumerism and Global Markets*, ed. David Thackeray, Andrew Thompson, and Richard Toye (London: Palgrave Macmillan, 2018): 291.

⁷⁵ David Sanders, *Losing an Empire, Finding a Role: British Foreign Policy since 1945* (London: Macmillan Education Ltd, 1990): 145.

⁷⁶ Her Majesty's Government, *The United Kingdom and the European Communities*, Cmnd. 4715 (July 1971) https://www.cvce.eu/en/obj/white_paper_presented_by_the_uk_government_to_the_uk_parliament_july_1971-en-8cf072cb-5a31-46f6-b04f-cb866be92f72.html paragraph 7-11.

⁷⁷ *Ibid.*, pages 10-11.

⁷⁸ Moravcsik, *The Choice for Europe*, 275.

What this shows is that, as Commonwealth trade faced a relative decline, the direct economic consequences of EC membership for Commonwealth trade were no longer the most relevant calculation in Conservative governments' Europe policy. The consolidation of the European external trade policy, CAP and efforts at monetary integration created policy externalities for British businesses and impacted the ability of the British government to engage in foreign economic policy. As LI theory would argue, policy externalities were the primary reason Britain joined the EC.

Public opinion during the Conservative applications

This chapter has paid little attention to public opinion. The reason for this is simple: public opinion had little impact on successive governments' approach to Europe. It is still important to consider public opinion, as it suddenly became incredibly important to UK-EC relations when Wilson, after defeating Heath's Conservative Party in the 1974 election, organized a referendum on continued EC membership. As was discussed in the first chapter, a major concern for the Labour Party was that EC membership required clear democratic legitimization.⁷⁹

However, such concerns mostly remained at the political level. Studies of public opinion show there was little correlation between successive British governments' approach to Europe and the views of the general public. During Macmillan's application the largest voter group, about 41%, had been undecided on the question of EEC membership.⁸⁰ By the time of Heath's successful application a majority opposed membership.⁸¹ Interestingly, there was instead a strong correlation between public support for the sitting government and support for EC membership. During both applications rates of inflation increased, consequently approval of the sitting government decreased and, subsequently, approval of the EC decreased as well.⁸² One major reason for this is that Britain's governments had consistently portrayed EC membership as a pragmatic economic issue.⁸³ As a result the issue of European integration was not strongly politicized among the general public. The White Paper discussed above is an example of this, as it presents EC membership as an economic and pragmatic political choice, without reference to some higher ideal of European federation or international security. Consequently, one major opinion polling company found that approval rates of Common Market membership rose from 29% to 39% within a week after the publication of the White Paper.⁸⁴ After Britain had become a member of the EC public support only grew,

⁷⁹ Roger Jowell and Gerald Hoinville, 'An Unconsonable Time Deciding', in *Britain into Europe: Public Opinion and the EEC*, ed. Roger Jowell and Gerald Hoinville (London: Croom Helm Ltd, 1976): 15.

⁸⁰ James Spence, 'Movements in the Public Mood: 1961-75', in *Britain into Europe: Public Opinion and the EEC*, ed. Roger Jowell and Gerald Hoinville (London: Croom Helm Ltd, 1976): 19.

⁸¹ *Ibid.*, 24.

⁸² *Ibid.*, 23, 25, 31.

⁸³ Stephen George, 'Great Britain and the European Community', *The Annals of the American Academy of Political and Social Science* 531 (1994): 45.

⁸⁴ Spence, 'Movements in the Public Mood', 29.

eventually resulting in a 67% majority voting in favour of continued EC membership in the referendum of 1975.⁸⁵ In conclusion, at various points in the 1960s and early 1970s public opinion either diverted significantly from the position taken by the government or followed rather than informed government action.

Concluding remarks

This chapter has used a Liberal Intergovernmentalist framework to analyse the approach various Conservative governments took towards Europe between the 1950s and 1970s. A few conclusions can be drawn. Britain's economic dependence on the Commonwealth created a state preference for free trade, resulting in opposition to attempts at European integration in the 1950s. An analysis of Cabinet conclusions shows the Macmillan government did not take a fundamentally different view of Britain's state preferences than its predecessors. Consequently, its application to the EEC should primarily be understood as an attempt to change the institutional framework of the EEC, which had begun to create policy externalities for Britain. As the White Paper shows the Heath government's decision to join the EC on existing terms was equally motivated by political economic concerns. The policy externalities European integration was creating for Britain had become more severe, especially relating to trade and monetary policy. Additionally, the economic importance of the Commonwealth was no longer an argument against EC membership.

The most important conclusion which can be drawn from the historical analysis this chapter has presented is that Conservative governments did not attempt to take the United Kingdom into the European Community out of conviction, but out of necessity. The institutional framework the Six had developed did not fit British state preferences, but there was no alternative. Indeed Conservative governments' attempts at creating a less politically integrated alternative during the 1950s had failed, as well as attempts to renegotiate the European institutional framework to fit British state preferences in the 1960s. If the European Community did not exist Britain would not have invented it, but the EC was a reality and the UK, despite the scepticism of Conservative governments, had to deal with it.

⁸⁵ Saskia Hollander, *The Politics of Referendum Use in European Democracies* (Cham: Springer International Publishing, 2019): 177.

Chapter III: Leaving the Union

In chapter 1 it was established that political economy is the primary motivation for states to participate in European integration. As chapter 2 showed, this meant the Heath government joined the EC hesitantly, leading to an uneasy settlement of Britain inside the European institutional framework. This third chapter focuses on the period leading up to and including Brexit. By applying LI theory it argues changes in the institutional framework of the EU conflicted with the British state preference for economic liberalization, due to increased European regulation of social policy and the financial sector. This engendered Euroscepticism among Conservative governments and the Conservative Party more generally. Consequently, analysis of the preferences of British businesses and the bargaining position of the Cameron government shows Cameron's renegotiation was motivated by domestic pressure, in line with the existing state preference for economic liberalization. It is then argued that Cameron's decision to hold a referendum on EU membership was not only motivated by domestic political concerns, as is the dominant view, but should also be seen in light of the renegotiation. The last section of this chapter considers the post-Brexit negotiations, arguing that regulatory divergence was central to the government's post-Brexit approach to Europe, reflecting a degree of continuity in state preferences.

Economic interests and differentiated integration

The three Conservative governments led by Margaret Thatcher between 1979 and 1990 are well known for their sceptical approach towards European integration.⁸⁶ However, it is widely acknowledged that the Thatcher government was one of the most vocal advocates of the SEA.⁸⁷ Conversely, the Thatcher government strongly opposed British entry into the European Monetary System (EMS), intended to regulate European exchange rates.⁸⁸ An examination of the government's position on both these two leaps forward in European integration shows that the government's concerns were rooted in a state preference for economic liberalization, following the interests of the CBI and the financial firms of the City of London. Additionally, it is argued that the preferences for liberalization these pressure groups held, persisted into the 2010s. This will be vital to the later discussion of Cameron's renegotiation of Britain's EU membership.

The City and monetary integration

⁸⁶ Peter Dorey, 'Towards Exit from the EU: The Conservative Party's Increasing Euroscepticism since the 1980s', *Politics and Governance* 5, no. 2 (5 April 2017): 28.

⁸⁷ Archil Chochia et al., 'Enlargement to the UK, the Referendum of 1975 and Position of Margaret Thatcher', in *Brexit: History, Reasoning and Perspectives*, ed. David Ramiro Troitño, Tanel Kerikmäe, and Archil Chochia (Cham: Springer International Publishing, 2018): 133.

⁸⁸ Sanders, *Losing an Empire*, 218.

It was mentioned in the previous chapter that the City of London had come to support British entry into the EC to mitigate the consequences of European monetary integration. However, Britain maintained outside of attempts at creating a monetary union. The reason for this is that the Thatcher government had actively pursued policies to promote the development of the City of London as a centre of global finance during the 1980s. A major example is the government's decision to abolish capital controls, making Britain the second industrialized country to do so.⁸⁹ This state preference for liberalization of the financial sector conflicted with the purpose of the EMS to regulate exchange rates at the European level. Additionally, contrary to trade, British financial interests were more concentrated in the Commonwealth and the United States than in Europe.⁹⁰ This created dual pressure on the British government to deal with the policy externalities of European monetary integration, while also maintaining national sovereignty with respect to macroeconomic policy. This is exactly what Thatcher did by remaining in the EC, but opting out of the EMS.

The state preference to maintain national sovereignty on the regulation of financial services only became stronger in the 2000s. Despite a failed attempt by the Major government Britain had not become a member of the European monetary union. Still, its membership of the Single Market meant that free movement of financial services was guaranteed. Consequently, London became an important centre for international trading in Euros in the 2000s, which massively benefitted the City's financial firms and London's leading position in global financial markets.⁹¹ As this leading position resulted from British exemption from European monetary integration, the government would have a strong incentive to maintain that unique position.

The CBI and the SEA

During the 1970s non-tariff barriers had continued to hamper free trade within the Common Market. The idea to instead create a Single Market – liberalizing trade by replacing national economic regulation with harmonized European regulation – had been contemplated by the European Commission and several member states. However, of all the European governments the British government under Thatcher was the strongest advocate of what eventually became the SEA.⁹² In *The Choice for Europe* Moravcsik discusses the establishment of the SEA as an example of LI theory. Moravcsik explains that the Thatcher government often consulted with businesses during SEA negotiations. The CBI had already stated in the early 1980s that a liberalization of European trade was necessary to promote extra-European competitiveness and, as such, supported the SEA.⁹³

⁸⁹ Helen Thompson, 'How the City of London Lost at Brexit: A Historical Perspective', *Economy and Society* 46, no. 2 (3 April 2017): 215.

⁹⁰ Gowland and Turner, *Reluctant Europeans*, 226.

⁹¹ Thompson, 'City of London', 217.

⁹² Chochia et al., 'Enlargement to the UK', 133.

⁹³ Moravcsik, *The Choice for Europe*, 319, 322-325.

However, the SEA had tremendous political consequences, as it put the European Commission in charge of economic regulation, rather than national governments.⁹⁴ For Commission President Delors the momentum the SEA created should be harnessed to harmonize social policy at the European level.⁹⁵ Although the Thatcher government had intended for the SEA to create the European free trade area Britain had wanted for decades, it became increasingly critical of what it considered to be regulatory overreach by the Commission.⁹⁶ This opposition to European regulation lines up with the preferences of British businesses. In a range of publications the CBI criticized European regulatory overreach and explicitly rejected attempts at European social policy for undermining the liberalized British labour market.⁹⁷ Although Thatcher and some Conservative politicians often held more strongly Eurosceptic positions than businesses, their goal of market liberalization while preventing political integration lined up.⁹⁸

The somewhat sceptical approach the CBI took to European integration can also be observed in its 2013 publication on EU reform. In this report the CBI argued that legislative power concerning social and employment law and welfare should return to the member states.⁹⁹ Additionally, two out of the report's six chapters focus on how British membership of the EU allows it to influence the European regulatory agenda.¹⁰⁰ This means the CBI not only supported EU membership because of the Single Market, but because British membership could allow Britain to steer the institutional framework of the EU in a way which fits British state preferences for economic liberalization. Although most businesses wished to remain in the EU, some businesses turned this criticism of European regulation into a full-on rejection of the EU. After the Brexit referendum Jim Ratcliffe, founder of INEOS stated that "INEOS supported the common market, but not a United States of Europe."¹⁰¹ It should be noted that INEOS has a very globalized production network.¹⁰² Dyson, another major company supporting Brexit, also locates a considerable degree of its operations outside of Europe.¹⁰³ These businesses' criticism of the EU was similar to that of the CBI, rejecting alleged European overregulation, yet their

⁹⁴ Chochia et al., 'Enlargement to the UK', 133.

⁹⁵ Helen Drake, *Jacques Delors: Perspectives on a European Leader* (London: Taylor & Francis Group, 2000): 115.

⁹⁶ Gowland and Turner, *Reluctant Europeans*, 268.

⁹⁷ Scott Lavery, 'The UK's Growth Model, Business Strategy and Brexit', in *Diverging Capitalisms: Britain, the City of London and Europe*, ed. Colin Hay and Daniel Bailey (Cham: Springer International Publishing, 2019): 156-157.

⁹⁸ Moravcsik, *The Choice for Europe*, 325-326.

⁹⁹ CBI, *Our Global Future: the business vision for a reformed EU* (7 November 2013) https://www.cbi.org.uk/media/1492/our_global_future.pdf 19.

¹⁰⁰ *Ibid.*, 93-130.

¹⁰¹ INEOS' vote of confidence after Brexit, *INCH Magazine 11* (December 2016) <https://www.ineos.com/inch-magazine/articles/issue-11/ineos-vote-of-confidence-after-brexit/> last accessed 2 April 2021.

¹⁰² 'Locations', *INEOS.com*, <https://www.ineos.com/locations/> last accessed 2 April 2021.

¹⁰³ Dyson 'enormously optimistic' about post-Brexit trade, *BBC News* (27 March 2017) <https://www.bbc.com/news/business-39400795> last accessed 2 April 2021.

more globalized economic interests meant they could afford to take a more strongly Eurosceptic position. In conclusion, although business support for the EU was substantial, businesses remained highly sceptical of attempts at further integration

Conservative Euroscepticism

Although businesses are largely driven by economic interests, it could be argued that the rise of Euroscepticism in the Conservative Party was the result of ideological change. Authors such as Dorey see the growth of Euroscepticism among Conservative MPs since the 1980s as a feature of the growing dominance of “Thatcherism” within the Conservative Party.¹⁰⁴ Ideology should not be disregarded, as the Conservative Party has featured a wide range of opinion on Europe from the 1950s until the present day. However, although Thatcher was personally ideologically opposed to the principles of European integration, the discussion above has shown that her views lined up with the preferences of economic interest groups, specifically the CBI and the City of London. The Conservative government and party became more Eurosceptic in the 1980s and 1990s as the European institutional framework changed, especially with the increase in regulation of social policy resulting from the SEA. Purely ideological concerns might decide the degree of Euroscepticism of Conservative politicians, but the sceptical overall position of the party was in line with the preferences of major interest groups.

Cameron’s renegotiation

In his 2013 “Bloomberg speech” Conservative prime minister David Cameron announced both his intention to renegotiate Britain’s settlement in the EU as well as organize an in-out referendum on EU membership, opening the possibility of Brexit.¹⁰⁵ Mads Jensen and Holly Snaith surveyed various interest groups on their position in the Brexit debate. All these groups – the CBI, the City of London, the NFU and the trade unions – dominantly backed Remain.¹⁰⁶ The authors then conclude “no evidence suggests that the decision to negotiate was demand-driven by powerful interest groups within the UK”, presenting a challenge to Liberal Intergovernmentalism.¹⁰⁷

However, as discussed above, business support for the EU was conditional. Financial firms benefitted from the British exemption from monetary integration, while the CBI strongly opposed attempts at European social policy harmonization. Although it can be concluded from Jensen and Snaith’s survey that a majority of businesses did not support holding a referendum, this does not mean Cameron’s attempt at EU reform was not driven by their preferences. Thomas König employs an LI approach to Brexit, but moves around the alleged irrationality of the renegotiation and referendum by arguing a

¹⁰⁴ Dorey, *Towards Exit*, 34.

¹⁰⁵ David Cameron, *EU speech at Bloomberg* (23 January 2013) <https://www.gov.uk/government/speeches/eu-speech-at-bloomberg>

¹⁰⁶ Mads Dagnis Jensen and Holly Snaith, ‘When Politics Prevails: The Political Economy of a Brexit’, *Journal of European Public Policy* 23, no. 9 (20 October 2016): 1304-1305.

¹⁰⁷ *Ibid.*, 1308.

shift occurred in state preference formation. Rather than economic interests, ideology and party pressure had become central to the Cameron government's approach to Europe.¹⁰⁸

The agreement Cameron negotiated with the EU, which would have come into law if the British public had voted Remain, was to be a new legally binding international treaty registered at the United Nations.¹⁰⁹ LI suggests that a negotiation of this magnitude would have to be motivated by domestic economic pressure. In advance of the negotiations Cameron's bargaining position had been rather vague, as Cameron relied on the EU to initiate more detailed negotiations.¹¹⁰ In the absence of a clear formulation of the British bargaining position the next section relates the preferences of The City and the CBI to the negotiated agreement to examine the motivations behind the renegotiation. Studying other source material, such as speeches given by Cameron, could be useful in revealing the government's motivations. However, the negotiated agreement includes the whole range of negotiation outcomes, whereas public statements by government officials would be more liable to emphasize politically salient issues. Contrary to König and Jensen and Snaith the next section argues the negotiated agreement reflects the political economic preferences of the City and the CBI discussed above. These preferences already existed in the 1990s, so theoretically this would mean that there had been changes in the institutional framework of the EU which triggered the attempt at renegotiation.

The City

After the 2008 financial crisis the EU set out on a regulatory agenda to curb free trade in financial services. The European institutions specifically targeted British financial firms with, among other measures, European regulation of clearing houses and a tax on financial transactions. The French government launched several proposals with the express goal of moving the financial centre of Europe into the Eurozone.¹¹¹ The British financial services industry started feeling the policy externalities of Eurozone deepening.

Theoretically, this would lead the Cameron government to attempt to block further European regulation of the British financial sector. Indeed, the Cameron government brought multiple cases before the European Court of Justice (ECJ) for undue European interference in national laws, some of which were successful.¹¹² After the government's failure to negotiate an opt-out of financial regulation in the European Council in 2011, it

¹⁰⁸ Thomas König, 'European Integration and British Membership: Still an Intergovernmentalist Story?', *European Political Science* 18, no. 1 (1 March 2019): 120.

¹⁰⁹ Her Majesty's Government, *The best of both worlds: the United Kingdom's special status in a reformed European Union* (February 2016)

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/502291/54284_EU_Series_No1_Web_Accessible.pdf 33-34.

¹¹⁰ Derek Beach and Sandrino Smeets, 'The Unseen Hands: Collaborative Instrumental Leadership in the British Renegotiation Case', *European Journal of Political Research* 59, no. 2 (2020): 455-456.

¹¹¹ Thompson, 'City of London', 219.

¹¹² Christakis Georgiou, 'British Capitalism and European Unification, from Ottawa to the Brexit Referendum', *Historical Materialism* 25, no. 1 (3 April 2017): 116.

needed to employ a tougher strategy, such as renegotiation.¹¹³ In the run-up to the negotiations Cameron explicitly stated that he sought to ensure legally binding protections of the financial services industry against EU regulation.¹¹⁴ In the final UK-EU agreement Cameron references the court cases as well as the necessity to protect the financial interests of the City.¹¹⁵ The entire first section (out of four) of the agreement then focuses on the relation between Britain and the Eurozone. The UK would not be required to participate in further monetary integration, but retains decision-making power in Eurozone agreements.¹¹⁶ The fact that Cameron wanted to have a say over Eurozone integration shows not just a preference for maintaining sovereignty on macroeconomic policy, but especially a concern about European policy externalities. Two conclusions can be drawn from this. First, the interests of the City were an important motivation for Cameron's renegotiation. Second, the negotiations did not follow from changing domestic preferences within the financial sector, but as a response to the policy externalities of Eurozone integration.

The CBI

As discussed above, the CBI supported EU membership for promoting businesses' international competitiveness, but strongly rejected attempts at political integration. In the aforementioned 2013 report detailing "the business vision for a reformed EU" the CBI emphasized these two issues. The central position taken in the report, aptly titled "Our Global Future", was that Britain's economic future lies outside of Europe, but EU membership is a way to promote global engagement, free trade and greater openness.¹¹⁷ In a practical sense this means the CBI believes that the EU, apart from signing international trade agreements, should promote business competitiveness through further liberalization of the Single Market, especially by slashing bureaucratic regulations.¹¹⁸ This preference for liberalization is also seen in the CBI's continued rejection of European coordination of labour legislation.¹¹⁹

These preferences are reflected in the bargaining position of the Cameron government. The second section of Cameron's renegotiated agreement focuses on three major issues: fewer stifling regulations, deepening the Single Market into other sectors such as services and the digital economy and a stronger commitment to signing free trade agreements with emerging economies.¹²⁰ This is an almost exact repetition of the views expressed by the CBI years before. Additionally, the treaty includes a number of clauses which emphasize Britain's exemption from further political integration and give legal

¹¹³ Thompson, 'City of London', 220.

¹¹⁴ Ibid., 222.

¹¹⁵ HM Government, *The best of both worlds*, 16.

¹¹⁶ Ibid., 14.

¹¹⁷ CBI, *Our Global Future*. The first two chapters set out the goal of greater openness, global engagement and free trade. The last four chapters explain the benefits of achieving this through the EU

¹¹⁸ Ibid., 18.

¹¹⁹ Ibid., 19

¹²⁰ HM Government, *The best of both worlds*, 19.

guarantees that the British government and parliament can block EU legislation it considers to be against its national interest.¹²¹ Again, this is a response to changes in Europe rather than a change in state preferences. During the 2000s the European Commission, Parliament and other European organizations had started to campaign to end the British exemption from European social legislation, an exemption the CBI had lobbied for.¹²²

In conclusion, both the City and the CBI supported EU membership while explicitly rejecting attempts at political integration, especially on the regulation of financial services and social policy. This position is reflected to the letter in the treaty negotiated by David Cameron. Although the Eurosceptic right wing of the Conservative Party created pressure for reform, the Cameron government was motivated by a genuine desire to renegotiate the institutional framework of UK-EU relations, rooted in the preferences of major economic interest groups.

The Brexit referendum as a two-level game

As economic interest groups dominantly supported British participation in the EU and informed Cameron's bargaining position, the question remains why Cameron organized a referendum on EU membership. The first chapter of this thesis considered three explanations why governments organize referenda. They will be dealt with one by one, arguing that the Brexit referendum should be seen as a two-level game: the result of a combination of domestic and international political pressure.

There is little evidence that the Brexit referendum was an appropriateness referendum, in which case it would have resulted from a politicization of public opinion and public pressure. Monthly opinion polling by Ipsos Mori found that the EU was far from a salient political issue for British voters. The amount of respondents ranking EU membership as "[one of] the most important issue[s] facing Britain today" was consistently below 10% between 2007 and 2013, when Cameron gave the Bloomberg speech. It ranked far below everything from pensions, healthcare and poverty to immigration and the aging population.¹²³ As can be seen in figure 1, the political salience of Europe increased massively after the passing of the European Union Referendum Act in 2015, which formally confirmed that there would be a referendum. This suggests that the EU was not a major issue in public opinion; it was only politicized as a consequence of the referendum pledge.

¹²¹ Ibid., 26.

¹²² Lavery, *The UK's Growth Model*, 157.

¹²³ Issues Index: 2007 onwards, Ipsos MORI, first posted 25 March 2014, <https://www.ipsos.com/ipsos-mori/en-uk/issues-index-2007-onwards> last accessed on 6 April 2021.

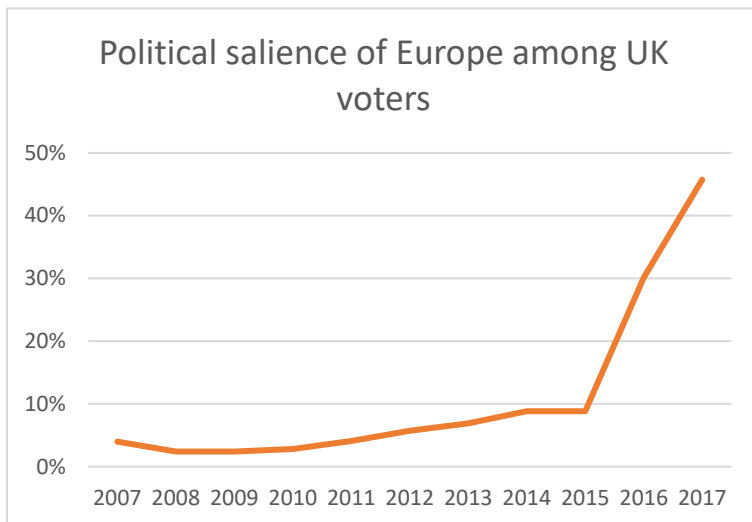


Figure 1: Share of voters which considers Europe the most important issue facing Britain. Data from Ipsos MORI, Issues Index: 2017 onwards <https://www.ipsos.com/ipsos-mori/en-uk/issues-index-2007-onwards> last accessed on 06 April 2021.

Instead, the most common explanation of the referendum is partisan calculus: both the renegotiation as well as the referendum pledge were a means to neutralize ideological conflict over European integration within the Conservative Party and to deal with the electoral competition created by the United Kingdom Independence Party (UKIP).¹²⁴ UKIP only ever won one seat during general elections, but made some significant gains in other elections. Already before winning its first Westminster seat in 2014 the share of the vote going to UKIP had been increasing, both in opinion polling and in by-elections.¹²⁵ In the 2014 elections to the European Parliament UKIP became the second biggest British party to be elected to the Parliament behind the Conservatives.¹²⁶ Clearly, UKIP was a threat to the Conservatives, appealing to its more Eurosceptic supporters. Consequently, Cameron had an incentive to “settle” the divisive European issue by getting a clear mandate for EU membership in a referendum vote, neutralizing both the critics within his party as well as UKIP.

There is validity to the partisan calculus argument. However, it cannot explain the decision entirely. It is true that a significant contingent of Cameron’s Conservative Party held Eurosceptic beliefs, but this vocal minority had existed for decades.¹²⁷ Moreover, there had been times before when the debate over Europe threatened to damage the Conservative Party electorally. In the 1990s Conservative prime minister Major was faced with declining public support and an internal party split on British accession to the European Exchange Rate Mechanism. Subsequently, calls for a referendum on both the ERM and EU membership as a whole became louder, with both the founding of UKIP in

¹²⁴ Hobolt, ‘The Brexit vote’, 1261; König, ‘European integration’, 120, 123.

¹²⁵ Edward Fieldhouse et al., *Electoral Shocks: The Volatile Voter in a Turbulent World* (Oxford: Oxford University Press, 2019): 74.

¹²⁶ Lukas Audickas, Richard Cracknell and Philip Loft, ‘UK Elections Statistics: 1918-2019: A Century of Elections’, *House of Commons Library*, 27 February 2020, <https://commonslibrary.parliament.uk/research-briefings/cbp-7529/> 51.

¹²⁷ Nathaniel Copsey and Tim Haughton, ‘Farewell Britannia? “Issue Capture” and the Politics of David Cameron’s 2013 EU Referendum Pledge’, *Journal of Common Market Studies* 52 (September 2014): 78.

1991 and growing support for the Eurosceptic Referendum Party.¹²⁸ Still a referendum never materialized. Cameron himself also promised a referendum on the Lisbon treaty in 2007, but broke this promise upon entering government in 2010.¹²⁹ Clearly, the government has a lot of autonomy in deciding whether to bow to political pressure to hold a referendum. Partisan calculus does not tell the whole story. Cameron announced his intention to hold a referendum at the same time as his intention to renegotiate Britain's membership of the EU. As such, the referendum should also be seen in light of this renegotiation.

Most importantly, by announcing the referendum the Cameron government shrunk its diplomatic win-set during the UK-EU negotiations. Subjecting the result of negotiations to an additional layer of domestic ratification – the voting public – Cameron put pressure on other European governments to make concessions. It is telling that in the letter Cameron sent to European Council President Donald Tusk to announce his intention to renegotiate he concludes by stating the economic and financial importance of the UK to the EU, following this up by saying that if an agreement is reached “...I am ready to campaign (.....) to keep Britain inside a reformed European Union...”.¹³⁰ Similar statements were made by Chancellor of the Exchequer George Osborne who, in a speech to German industry leaders, stated that if Britain were to stay in the EU considerable changes would have to be made.¹³¹ By presenting Brexit as the alternative the Cameron government heightened the pressure on EU negotiators to bow to British demands. This observation is shared by Helen Thompson, who argues that the Eurozone crisis had weakened British political influence in the EU and, in the absence of Treaty reform, Brexit was the threat necessary to regain that influence.¹³²

As theory would predict, the final settlement thus included quite substantial reforms for which EU negotiators mostly conceded to British demands rather than the other way around, especially on the Eurozone and immigration.¹³³ The settlement agreed upon in 2016 showed that the other European leaders had proven willing to concede to similar demands for sovereignty on financial regulation to the ones they had rejected during Cameron's bid for an opt-out in 2011. In conclusion, there is some evidence that Cameron's decision to hold the referendum was at least in part an international negotiating tactic to pressure other European governments to concede to far-reaching British demands. However, this happened in a domestic political context which also gave

¹²⁸ Gowland and Turner, *Reluctant Europeans*, 308-309.

¹²⁹ Sofia Vasilopoulou and Dan Keith, 'Renegotiation Versus Brexit: The Question of the UK's Constitutional Relationship with the EU', *Journal of Common Market Studies* 57, no. 3 (2019): 488.

¹³⁰ David Cameron, *A new settlement for the United Kingdom in a reformed European Union*, PM letter to President of the European Council Donald Tusk (10 November 2015) https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/475679/Donald_Tusk_letter.pdf 6.

¹³¹ 'Full Text: George Osborne Speech in Berlin', *Financial Times* (3 November 2015) <https://www.ft.com/content/3d629e00-821c-11e5-a01c-8650859a4767>.

¹³² Thompson, 'City of London', 221-222.

¹³³ Beach and Smeets, 'The unseen hands', 445.

reason to organize a referendum. Consequently, the referendum should be seen as a tactic to kill two birds with one stone, both domestically and internationally.

However, because Cameron had left the European issue to the general voting public there was always the risk of involuntary defection. Cameron assumed voters would support Remain because Brexit would come at a high economic cost. Fittingly, the Remain campaign continuously emphasized the economic disruption leaving the EU would bring, attempting to push voters towards the security of EU membership.¹³⁴ Unlike businesses, however, voters are not necessarily primarily motivated by economic concerns. Cameron and the Remain campaign underestimated the politicization of immigration and the feeling of disenfranchisement about the political establishment which had spread widely among the voting public. Authors such as Hobolt and Taylor have done extensive research on the dominant role these issues played among Leave voters.¹³⁵ What this thesis argues, however, is that although the result of the referendum was to a considerable degree the consequence of ideological and cultural issues, the origins of the referendum, Cameron's renegotiation as well as the more general Euroscepticism exhibited by Conservative governments can be found primarily in the long-standing state preferences of the British government, informed by pressure from major economic interest groups.

Brexit and Liberal Intergovernmentalism

As the decision to leave the EU did not follow directly from British state preferences, LI would suppose that the British government would seek a deal with Europe which closely resembled the status quo. Indeed this is what Moravcsik argued in the *Financial Times* before the Brexit vote. Considering the economic importance of Europe, Moravcsik maintained, the government would create a deal not too dissimilar to the status quo and find a way sell that to the population.¹³⁶ Indeed, this is largely what the May government attempted to do. The government's bargaining position was published as the White Paper on the Future Relationship Between the UK and the EU. In this document Prime Minister May set out a view of Brexit which would have Britain leave the customs union and Single Market, no longer make Britain subject to European law, while guaranteeing unrestricted access to the European market for goods and services.¹³⁷ This best-of-both-worlds approach reflects the preferences of British businesses. In its report on the Brexit deal the CBI emphasized that the government should ensure free European

¹³⁴ Hobolt, 'The Brexit vote', 1262.

¹³⁵ Ibid.; Graham Taylor, *Understanding Brexit: Why Britain Voted to Leave the European Union* (Bingley: Emerald Publishing Limited, 2017).

¹³⁶ Andrew Moravcsik, 'The Great Brexit Kabuki — a Masterclass in Political Theatre', *Financial Times* (8 April 2016) <https://www.ft.com/content/64159804-fc1f-11e5-b5f5-070dca6d0a0d> last accessed 6 April 2021.

¹³⁷ Her Majesty's Government, *The future relationship between the United Kingdom and the European Union*, Cm 9593 (July 2018) https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/786626/The_Future_Relationship_between_the_United_Kingdom_and_the_European_Union_120319.pdf 7, 84.

trade without being subjected to EU regulation on social and employment law, as it had argued while Britain was a member of the EU.¹³⁸

However, because Brexit required new negotiations with the EU, the Conservative government's ability to deliver Brexit was also dependent on the position of the EU. During the negotiations European officials maintained that Britain could not be a member of the Single Market without accepting all its four freedoms, hence rejecting May's deal. This means close economic ties would necessarily include accepting EU regulation and the legal primacy of the ECJ.¹³⁹ The post-Brexit deal which the Johnson government eventually signed was essentially a far-reaching trade agreement.¹⁴⁰ Following Moravcsik's argument this seems like a challenge to LI theory. However, both the previous chapter and this chapter have argued that the approach Britain's Conservative governments took to European integration was above all a response to the policy externalities of European integration. The desire to have a say over European regulation was central to the British approach within the EU, as exemplified by Cameron's attempt at renegotiation. Consequently, the ability to influence the rules of the Single Market had been a main reason for businesses to support Remain.¹⁴¹

If remaining a member of the EU was not an option, I would argue LI suggests the British government would prioritize being exempted from EU regulation over the direct economic benefits of close association with the EU. This might be irrational in terms of economic gains, but LI does not assume preferences are rational; rather they are aggregations of a broad range of domestic preferences. Consequently, governments have a degree of agency in the formulation of state preferences. Governments aggregate domestic preferences and the domestic preferences which existed before Brexit, discussed at various points in this chapter, included opposition to EU regulation of financial services, a rejection of European social policy and a desire to promote extra-European trade. All of these preferences would be negatively impacted if Britain remained subject to EU regulation. Indeed, Prime Minister Boris Johnson stated that he considered diverging from EU regulation a core reason to support Brexit.¹⁴² The "hard" approach to Brexit, where economic benefits are sacrificed to uphold regulatory sovereignty, fits within the LI framework.

¹³⁸ CBI, *Making a success of Brexit: a whole economy view of the UK-EU negotiations* (December 2016) <https://www.cbi.org.uk/media/1234/cbi-making-a-success-of-brexit.pdf> 18.

¹³⁹ Lee McGowan, *Preparing for Brexit: Actors, Negotiations and Consequences* (Cham: Springer International Publishing, 2018): 39.

¹⁴⁰ 'Britain's Relationship with the EU Will Look like Switzerland's', *The Economist*, 2 January 2021, <https://www.economist.com/britain/2021/01/02/britains-relationship-with-the-eu-will-look-like-switzerlands> last accessed 6 April 2021.

¹⁴¹ Lavery, *The UK's Growth Model*, 163-164.

¹⁴² 'The Economist Explains - What Is the Level Playing Field and Why Is It Such a Problem for Brexit?' *The Economist*, 11 December 2020, <https://www.economist.com/the-economist-explains/2020/12/11/what-is-the-level-playing-field-and-why-is-it-such-a-problem-for-brexit> last accessed 6 April 2021.

This is the context in which a government mantra such as “Global Britain” should be understood. With Global Britain the government set out to emphasize how Britain had not become more closed as a result of its exit out of the EU.¹⁴³ To the contrary, its exit out of the Union is taken as an opportunity to increase Britain’s flexibility internationally as well as a more global outlook on foreign (economic) policy.¹⁴⁴ Hill argues that such pretences, which were a common feature in the arguments of Brexiteers, are delusional, as Britain has no real alternative to the EU.¹⁴⁵ The arguments of politicians and campaigners may indeed be irrational, but LI assumes a degree of rationality in the actions of governments. In its 2016 report on Brexit the CBI, in the absence of EU membership, called for a “renewed focus on global economic relationships”.¹⁴⁶ Consequently, regardless of whether it is actually a realistic alternative, Global Britain can be seen as an attempt by the British government to compensate for the loss of EU membership.

Concluding remarks

This chapter has shown LI theory can explain Brexit as a consequence of the actions of British governments acting to serve long-standing state preferences. Conservative governments’ attitude towards European integration had always been rooted in primarily political economic concerns. The approach of the Thatcher government as well as the renegotiations Cameron started above all resulted from a state preference for economic liberalization. This preference led these governments to oppose European regulation of the British financial sector and labour market, reflecting the preferences of interest groups such as the CBI and the City of London. The Brexit referendum, conversely, was a consequence of an interplay between domestic and international politics, serving both as a tool to neutralize Euroscepticism within Britain as well as to pressure other European governments into concessions during Cameron’s renegotiation of Britain’s EU membership. Cameron’s referendum wager backfired, yet Brexit was clearly interpreted by his successors as an opportunity to promote economic liberalization, maintain distance from EU regulation and, perhaps naïvely, attempt to carve out a more global future for Britain. Brexit might be a disruptive political event, but fits within a long history of British governments’ Euroscepticism, rooted in the preferences of economic interest groups, which stretches back decades.

¹⁴³ House of Commons Foreign Affairs Committee, *Appendix: Memorandum from the Foreign and Commonwealth Office* (March 2018)

https://publications.parliament.uk/pa/cm201719/cmselect/cmfaff/780/78008.htm#_idTextAnchor035
point 7.

¹⁴⁴ *Ibid.*, point 6.

¹⁴⁵ Hill, ‘Turning back the clock’.

¹⁴⁶ CBI, *Making a success of Brexit*, 26.

Conclusion

The attitude of Conservative governments to relations between the United Kingdom and Europe has always resulted from an interplay between domestic and international politics. Understanding the changes which can be observed in this attitude thus requires a theory and analysis of the formulation of state preferences in response to domestic preference formation and changes in the international regime. That is why this thesis employed a Liberal Intergovernmentalist framework to find an answer to the question: *To what extent and why did the attitude of Conservative governments towards European integration change in the years preceding Britain's accession to the European Community and in the years preceding Brexit?*

The purpose of this thesis has been to tie Britain's entry into the European Community and its decision to leave the European Union together into a single coherent theoretical framework. Above all it argues that Brexit, despite being a unique and somewhat unexpected political event, should be seen in light of the long history of Conservative governments' approach to European integration. It is common to claim that Britain has never been a fully convinced participant in the European project. This thesis has added to the debate on the origins of this reluctant approach, arguing that besides the potential influence of ideology, culture or geopolitics, this was in large part motivated by political economy and historical economic relations. This has been done by presenting an analysis of the changes in attitude among Conservative governments preceding British entry into the EC and Brexit. Specifically, the combined analysis of governments' bargaining position in contentious European negotiations and primary and secondary source analysis of the preferences of major interest groups has created a single approach to UK-Europe relations. In doing so I have sought to close the gap between studies into Britain's entry into the EC, which tend to emphasize international causes and government actors, and research into Brexit, which tends to emphasize domestic politics and changes in public opinion.

As such, answering the research question comes down to two lines of reasoning which extend throughout this thesis. The first is that in both case studies the extent to which Conservative governments' approach to European integration changed was primarily the result of concerns about political economy. Second, Conservative governments' Europe policy was always a response to other governments' actions rather than an enthusiastic embrace of the principle of European integration. This resulted in an uneasy settlement of the United Kingdom in the European institutional framework. As such, the attitude of Britain's Conservative governments towards Europe changed depending on the extent to which these governments believed their preferences of economic liberalization and political economic sovereignty to be served inside the European Community / Union. These preferences remained relatively stable over the roughly seventy years of history this thesis has discussed, so I have argued that the multiple changes in approach Conservative governments took were primarily a response

to changes in the European institutional framework instead of changes in domestic preferences.

This conclusion follows from a Liberal Intergovernmentalist analysis of primary sources and secondary literature. The LI framework emphasizes the dominance of political economic concerns in governments' approach to Europe, based on the preferences of domestic interest groups. However, LI theory is most often employed to explain single political events, bargaining positions and negotiation outcomes. By introducing the issue of autonomous institutional change I have sought to broaden the scope of LI, crafting explanations for when a state might attempt to renegotiate an institutional framework which has already been established. Either state preferences change as a result of changes in the pressure domestic interest groups exert on the government or the institutional framework changes, as a result of which existing state preferences are no longer served as well as at the initial bargain. Due to the central role LI ascribes to governments and economic interest groups, this thesis studied primary sources such as government White Papers and internal Cabinet communication as well as reports by the Confederation of British Industry to examine the motivations behind Conservative governments' various attempts at renegotiating the European institutional framework.

As such, I argue Britain's rapprochement and eventual entry into the European Community as well as Cameron's attempt at renegotiating Britain's EU membership were a response to changes in the institutional framework other European states had developed. In the 1960s and 1970s the Macmillan and Heath governments were primarily concerned with the impact the European customs union, CAP and economic policy coordination were having on British trade and businesses. Earlier attempts, especially by the Eden government, to construct a less integrated, more free-trading alternative to the EEC, which lined up more closely with British state preferences, had failed as the Six continued down the path of integration. These state preferences, above all the desire to maintain sovereignty over trade policy, originated in Britain's historical economic relations with the Commonwealth, which was characterized by free internal trade. These historical economic relations to the Commonwealth meant domestic interest groups, such as the Federation of British Industries and the National Farmers Union, became concerned about the exclusionary economic effects of European integration.

Documents of communication within the Cabinet, specifically the conclusions of a Cabinet meeting on the EEC application and a letter by Foreign Secretary Sandys, show that preserving the trade preferences Britain granted the Commonwealth was a core concern for the Macmillan government. This was in direct conflict with the Common Agricultural Policy and customs union of the EEC. Combined with data showing the Commonwealth remained more important to the British economy than Europe deep into the 1960s this supports the claim that the Macmillan application was primarily an attempt to renegotiate the European institutional framework to fit Britain's existing state preferences. Not unexpectedly, the sceptical British position meant negotiations failed.

The White Paper on the United Kingdom and the European Communities published by the Heath government shows that Heath, too, was primarily concerned with the political economic consequences of the EC. The bulk of the White Paper revolves around the “political case” for membership of the EC. Central is the observation that the EC was starting to significantly impact global trade, damaging the ability of the British government to engage in foreign economic policy. The economic importance of the Commonwealth for Britain dwindled, making the Heath government more willing to concede to the terms the EC laid out. Regardless, the decision by the Heath government to take Britain into the Common Market was primarily a response to the consequences of European integration for Britain’s ability to serve its state preferences, rather than a result of a significant change in these preferences.

As a result, Britain became a member of the EC not because Conservative governments embraced the principles and goals of European integration, but as a necessity to deal with the fact that European integration was having an impact on Britain. I argue this is why Britain’s position in the Community, and later the EU, was marked by differentiated integration, especially in monetary matters, and the dominance of economic concerns. The consolidation of the European Union in the 1990s caused a rise in Euroscepticism within the Conservative Party. Additionally, although EU membership was supported by an overwhelming majority of businesses, this was highly conditional. This becomes evident from a report by the CBI on Cameron’s renegotiation of EU membership as well as secondary literature on the position of the financial sector in the British and European economy. The CBI strongly opposed European regulation of social policy, while the City of London rejected European regulation of the financial sector. As such, businesses supported EU membership not just out of economic opportunity, but because this allowed the British government to curb the European regulatory agenda.

Cameron’s renegotiation of Britain’s settlement in the EU was motivated by these same concerns. Since the 1990s European regulation of social policy had increased, while the Eurozone crisis led to European attempts to curb the liberalized market in financial services. This was in direct conflict with the preferences of British businesses and, as a result, the state preferences of the Cameron government. An analysis of the final agreement of Cameron’s negotiations shows that the concessions Cameron managed to get out of the EU strongly revolved around sovereignty on economic policy, especially relating to monetary and fiscal policy. Equally, analysis of the agreement shows the bargaining position of the Cameron government reflected the policy preferences outlined in the CBI report, especially its concerns about regulatory sovereignty and a further liberalization of the European market.

Additionally, the Brexit referendum should be seen in light of both domestic politics and international negotiations. There was significant pressure on Cameron to deal with the Eurosceptic sentiments which threatened to split his party and had led to the rise of UKIP. However, incorporating referenda into Putnam’s theory of international diplomacy yields an explanation of the role referenda can play in international

negotiations. An analysis of the bargaining position of the Cameron government as well as communication from the Cameron government to EU leaders shows that the referendum was a useful tool in the negotiations between the UK and the EU. Indirectly threatening to leave the EU gave Cameron a way to force other European governments into concessions. Yet, Cameron underestimated the ability of the more radical Eurosceptics within his party to steer the referendum campaign by focusing on the issue of immigration. Due to a combination of domestic and international factors Brexit had become a reality.

Thus, Brexit was not a direct consequence of the state preferences of Conservative governments. However, through the Liberal Intergovernmentalist framework I argue that Brexit was taken by the Conservative governments of May and Johnson to promote these state preferences for economic liberalization and regulatory sovereignty. Brexit required a new institutional framework for UK-EU relations. This thesis argues that the decision by the Johnson government to keep distance from the EU despite its economic costs reflects a desire for regulatory sovereignty, in line with the state preferences Britain's Conservative governments have always exhibited. Just as in the 1960s businesses dominantly supported close association with the internal European market, yet Conservative governments' concerns about sovereignty on economic policy reigned supreme.

This is not a conclusion this thesis necessarily worked towards from the beginning. Advocates of various strands of European integration theory often engage in extensive discussions, suggesting these theories are incompatible. Consequently, this thesis initially set out to argue strongly for a political economic approach to UK-Europe relations, while refuting explanations focusing on culture, ideology or geopolitics. The research into primary and secondary sources which ensued revealed a much more nuanced view of this history. Ideological, geopolitical and political economic motivations are often intertwined and specific theories cannot account for all aspects of Conservative governments' approach to Europe. The discussion of post-Brexit relations between Britain and the UK, and Moravcsik's views on this specifically, shows that even within a single school of thought such as LI different hypotheses can be developed. This is testament to the complementary nature of theoretical approaches to history and international relations. As a BA-thesis this particular study is naturally limited in words and time. Regardless, a few suggestions for further research could expand the body of knowledge concerning both Liberal Intergovernmentalist theory and the history of UK-Europe relations. The agency of individual Prime Ministers, for example, has received little to no attention. There is a stark difference between the combative approach Thatcher took to European negotiations and the more careful approach taken by Cameron. Further research might shine a light on how this impacted their capacity to renegotiate the terms of British membership and the negotiating tools they employed. This leads to a second topic of further study: referenda. This thesis has theorized how referenda can be used as an international bargaining tool. Governments, however, have a variety of bargaining tools at their disposal, so further theorizing might yield an explanations as to when this specific

instrument is likely to be employed. Furthermore, in the entire history of European integration Britain's Conservative governments showed a concern for national sovereignty on economic policy-making, even when this conflicted with the direct economic interests of businesses. A further development of the theoretical framework employed in this thesis could delve deeper into the question of when economic calculus beats concerns over national sovereignty and policy externalities. Naturally, although Liberal Intergovernmentalism in some ways stands opposed to culture or ideology as motivating factors for government action, a further examination of the role these factors play may further nuance the theory. As discussed, party pressure is one of the domestic pressures exerted on the government, so ideology should not be disregarded entirely. Still, this thesis has added to the historical discussion on the relationship between the United Kingdom and Europe by placing governmental concerns about political economy at the forefront. By doing so it has presented an approach to UK-Europe relations which considers theory when approaching historical change and vice versa.

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