

Interpreting the Blair Government's Policy-making on European Monetary Union: An Examination of Public Policy Theories

CHIH-MEI LUO

Department of Public Administration and Policy, National Taipei University, Taiwan

ABSTRACT *This paper is an investigation of policy-making by the Blair government on the issue of the UK's European Monetary Union (EMU)/Eurozone membership. The Blair government inherited a 'wait and see' policy from its predecessor, and introduced its own variations in the detail of this policy. In particular, five economic tests were invented and placed at the centre of EMU policy-making, in order to depoliticise the political risks during a general election and referendum while also serving the needs of party management. This paper applies four well-known theories of policy-making to the EMU policy case: the broker state pluralist model, instrumental Marxism, the core executive model and rational choice theory. This paper demonstrates that each model possesses a degree of applicability, but argues that instrumental Marxism seems the most appropriate theoretical model among those examined.*

KEY WORDS: EMU/euro policy, Blair government, public policy-making, theories, five economic tests

Introduction

Ever since agreement on the Maastricht Treaty the question of whether the UK should join the European single currency has been a momentous issue for policy-makers. This paper investigates how policy-making on the UK's European Monetary Union (EMU) membership, described by the former Prime Minister Tony Blair as 'the most important decision this country is likely to face in our generation' (*BBC*, 'Blair opts to delay E-Day', 1 December 1998), was developed by the Blair government. As EMU policy is an ongoing issue, this investigation focuses on the formation of the 'five economic tests'—the centrepiece of the Blair government's EMU policy—and the dynamics of the decision-making surrounding the Treasury's two assessments. Both primary and secondary sources were employed in data collection in this investigation. This paper further applies four main public policy theories in order to interpret this case study, and assesses their respective applicabilities.

The discussion is arranged in five parts. The first section briefly reviews the development of the Blair government's EMU policy. The second section analyses the nature and characteristics of the policy in comparison with preceding policy. The third section employs four well-known public policy theories to interpret this case study, followed by an assessment

of their individual applicability in the fourth section. To provide a focused analysis representative models are selected from each theory group: the broker state model, instrumental Marxism and the core executive model were respectively selected from pluralism, Marxism and the governmental/institutional view, and are presented along with rational choice theory. The final section summarises the findings of this investigation.

The Blair Government's EMU Policy: The Invention of the Five Economic Tests

The Government's Approach to EMU Policy-making

When Blair came to power in May 1997 the framework of the UK's EMU policy had already been set by the previous Conservative government under John Major. Labour inherited—willingly or unwillingly—a number of policy principles, mainly the right to opt-out from the EMU and a commitment to a referendum. The EMU policy was embodied in the Chancellor of Exchequer's 1997 (Brown, 1997) statement and the Prime Minister's 1999 speech (Blair, 1999), which characterised the policy through four principles and five economic tests.

The four principles were:

1. The government supports the principle of the UK's membership of the EMU;
2. There are no constitutional obstacles to the UK's EMU membership;
3. The EMU entry decision should be put to a vote in parliament and then to a referendum of the British people, once the government decided to recommend EMU membership based on an assessment of economic tests;
4. A clear and unambiguous economic case would be required for EMU membership.

The five economic tests were then set out accordingly, to determine such 'a clear and unambiguous economic case.'

1. Can there be sustainable convergence between Britain and the economies of a single currency?
2. Is there sufficient flexibility to cope with economic change?
3. What will be the effect on investment?
4. What will be the impact on the UK's financial services industry, particularly the City's wholesale markets?
5. Is it good for growth, stability and employment?

The then Chancellor, Gordon Brown, delivered the Treasury's first assessment of the five economic tests in 1997, with a second assessment in 2003, during the Blair government's second term. In spite of the fact that the second assessment was announced six years later, and the fact that the government had undertaken various preparations while facing EMU establishment during this period, the outcome of the much more in-depth second assessment was still very similar to that of the first one. In both assessments all the tests were failed, except that of financial services (HM Treasury, 1997, 2003).

Divisions and the Power Struggle over the EMU Issue Within the Blair Government

For the Blair government EMU policy was assumed to be confined to a purely unarguable economic case which was exclusively entrusted to the custody of the Chancellor and

Treasury. Theoretically the Treasury's assessments of the five tests should be the only standard and the ultimate arbiter of the final decision, as both Blair and Brown restated several times. Other policy sectors were (presumably) expected to unite under such an official line. Yet the dynamics of EMU policy-making exemplified instead a series of conflicts and compromises among different policy sectors and cabinet ministers, particularly between the two key policy-makers, the Prime Minister and the Chancellor themselves.

In accordance with the remit of their respective departments, the preference of different policy sectors for EMU policy varied. As the critical departments responsible for economic management and the performance of the entire economy the Treasury and the Bank of England revealed a more reserved and cautious attitude to the UK's EMU membership. The Treasury was concerned about the inflexibility of the fixed exchange rate regime of the EMU and its limits upon public borrowing (HM Treasury, 2002, pp. 11–13). Further, Brown did not conceal his satisfaction with the UK's better economic performance compared with that of the Eurozone. This performance, he believed, was underpinned by the superior design of the new macroeconomic frameworks that he introduced in 1997 (Brown, 2003a, col. 273–274; *The Daily Telegraph*, 22 November 2002, *The Times*, 12 December 2002, *The Times*, 7 April 2003).

The Bank of England, through Eddie George (the then serving Governor) and Mervyn King (the then Governor designate), queried the applicability of the EMU's 'one size fits all' monetary policy to the UK economy and the UK's readiness to join. George even suggested that the Bank's consensus style of decision-making was superior to that of the European Central Bank, as the latter may lead to a 'risk of conservatism' (*Reuters*, 'UK needs higher rates than euro zone', 14 February 2003; *The Guardian*, 22 January 2002, *The Guardian*, 15 April 2002, *The Times*, 11 December 2002, *The Times*, 5 March 2003).

In contrast, the Foreign and Commonwealth Office and the Department of Trade and Industry tended to be more pro-EMU and appealed to other considerations—such as the UK's political influence within the EU—alongside economic arguments when evaluating EMU membership. The then foreign secretary, Jack Straw, pointed out that the government's decision on EMU membership had to involve an overall judgement, implying that political factors should not be ignored (*BBC*, 'Euro decision political says Straw', 21 February 2002).

A few cabinet ministers explicitly or implicitly challenged the monopolistic role played by the Treasury and the Chancellor in EMU policy-making, e.g. the then Trade and Industry Secretary Patricia Hewitt; the then Welsh Secretary Peter Hain and the then leader of the House of Commons John Reid. Hain's remarks on 'the exchange rate of sterling against the euro falling to a sustainable level for the UK to join' were immediately interpreted by the press as a pre-emptive action against Brown's second assessment of the five tests, which was due to be published a month later. It was also interpreted as evidence of increasing division and conflict within the cabinet (*BBC*, 'Pro-euro ministers "press for poll"', 22 April 2003; *The Guardian*, 22 April 2003, *The Independent*, 10 January 2003, *The Times*, 12 May 2003).

Other so-called pro-euro ministers were reported to have met for a discussion of how to exert influence on Blair and within the cabinet (ePolitix.com, 1 May 2003). When talking to the author the then Education Secretary Charles Clarke confirmed these meetings were being held and said that the cabinet, in parallel with the Chancellor, should have a say on EMU policy (interviewed 9 May 2003).

The more serious division within the government, however, was between Blair and Brown. It was pointed out that the EMU had become the most contentious issue between

them, even though it was also alleged that their differences on policy substance were not as different as appeared and tended to be amplified by their respective aides and the media (Naughtie, 2001, pp. 129–134; Rawnsley, 2000, pp. 85–88; Seldon, 2004, pp. 637–640; Stephens, 2004, pp. 165–166, 252–255 & 332–338). In spite of Blair's reiteration of his support for the Treasury's assessments, Brown's cautious view was not in line with his enthusiasm to pursue early EMU entry. Their different views, as explained by Stephens (2004, pp. 252–254), were the product of their respective institutional standings and personal ambitions. For Blair UK EMU membership involved not only a judgement on economics but also geopolitical considerations, with which the UK's influence in the EU was associated. Blair viewed the issue as part of a larger project of reversing the UK's relationship with Europe from semi-detachment to active engagement, as well as personal ambition for his legacy and place in history. In contrast, Brown was convinced that the UK's better economic performance in comparison with that of the Eurozone implied that delayed entry would be in the national interest and would not jeopardise his own hope of succession as Prime Minister. Both the uncertainty of the referendum result and immediate EMU entry were assumed to put such a hope at risk.

The different thinking on the desired policy outcomes consequently led to their different approaches to EMU policy-making. With Blair's increasing concern over the issue and Brown's control over interpreting the economic conditions determining the final decision their conflicts became more evident—this power struggle was exacerbated by the second assessment of the five tests. In spite of the fact that the assessment work was, theoretically, entirely the responsibility of Brown and the Treasury, the direction of the second assessment was instead the product of a power struggle and compromises between Blair and Brown. It was broadly reported that numerous meetings were held before the final report in order to achieve a mutually acceptable solution. The main points reported as being discussed in these meetings were: the wording; the likely timing of a review the five tests and any subsequent referendum; a common, united line on the EMU policy (*Financial Times*, 23 April 2003; *The Guardian*, 10 February 2003; *The Guardian*, 16 April, 2003; *The Independent*, 10 February 2003; *The Times*, 16 April 2003).

In order to counterbalance Brown's decisive power Blair was reported to be considering introducing more participation by the cabinet, and even a reformulation of the five tests (*The Guardian*, 21 April 2003; *The Times*, 10 February 2003). A timely report published by the Foreign Policy Centre, a pro-euro thinktank of which Blair was a patron, contended that the responsibility for assessing EMU membership should be ideally shared by the Prime Minister, the Chancellor, the Foreign Secretary and the Trade and Industry Secretary collectively, rather than by the Chancellor alone (*The Guardian*, 10 February 2003). Related news, later confirmed by the Prime Minister's office, reported that Blair had informed Brown that the whole cabinet, within which 15 out of 23 members were in favour of EMU entry, was entitled to be consulted and to decide on this issue. Nonetheless, Brown insisted in a later interview that the Treasury's assessment would still be of paramount importance and be 'the centrepiece of what we say on June 9,' the scheduled date of announcing the government's final decision (*Financial Times*, 19 May 2003, p. 1; *Financial Times*, 24/25 May 2003, p. 2; *The Daily Telegraph*, 20 April 2003).

It is difficult to verify the real intentions behind these reports. However, they indicate the dynamics of the power struggle over EMU policy-making between different departments and between the two key decision-makers within the Blair government.

The Characteristics and Nature of Blair's EMU Policy: Still on the Same Track

A few interrelated characteristics of the Blair government's EMU policy can be deduced from the above history.

First, the government's actions clearly did not mirror its words. The Blair government made its positive gestures on the EMU issue by affirming its ambition and the benefits from the outset. Both Blair and Brown labelled themselves pragmatists with the claimed policy approach an active 'prepare and decide', in contrast to the Major government's passive 'wait and see' (Blair, 2001; Brown, 2001). These policy differences, however, were more ceremonial than essential; formal rather than substantial. The Blair government's policy was composed of three elements: the cabinet's decision based on assessment of the economics; a vote in parliament; the public's consent in a referendum. This policy was not the Blair government's creation—the elements were legacies from and a continuation of the past. Both the Major and Blair governments ostensibly placed economic interests over political issues when formulating policy and resorted to a referendum as the instrument for downplaying controversies within their own parties and society, diminishing the electoral risks that the issue may have produced. As commentators point out, the government's decisions on EMU reflected less the issue itself and more the considerations of party management and electoral contests (Baker, 2003; Moran & Alexander, 2000, p. 117).

This party management consideration in Blair's EMU policy-making was confirmed by Charles Clarke in an interview with the author (9 May 2003). Clarke admitted that a major concern of his government with regard to EMU membership was to avoid, or reduce, any rifts within the government and the party. This was in the light of the example of the Major government, which suffered from the EMU controversy, and its failure in the 1997 general election, partly due to an open split on the issue.

Constrained by similar parameters, Blair's EMU policy did not deviate from the Major government's framework. It was still on the same track of 'wait and see', cautiously waiting to see how the EMU could and would perform and only then deciding whether the economic case was sufficiently clear to join. This is a strategy that could meet multiple political needs, seemingly with a more friendly and positive manner and language.

The second characteristic was the attempt to depoliticise this controversial issue by setting the five economic tests as the final arbiter in making the decision. In spite of the government's assertion of a strong political case for EMU membership, its stance could be regarded as an economic determination. This means that the policy outcome would be determined only by economic issues, arguably as a strategy to play down unmanageable political splits within the Labour party and society on this highly sensitive issue. With the memory of the failed ERM (Exchange Rate Mechanism) experience, the government upheld the five tests as the determining factor and claimed no other political factors should/could compete with them. The dimensions of policy-making were thus narrowed and simplified to only one condition: the economic case.

Indeed, the only major difference, and the most important part of the Blair government's approach, was the specification of these five tests. The government for the first time enumerated the economic conditions of its assessment. They became the only pillar upholding the 'black box' of the government's decision-making. It can be argued that these five tests were as equivocal as the Major government's abstract concept of national economic interest. However, the appearance of the five tests and the insistence on their

supreme status in decision-making drew an explicit line between the specific factors that would be considered (and in what way) and those that would be excluded. At the same time they placed the Treasury in an exceptionally dominant position in the policy-making process and allowed Brown to suggest that the cabinet's role was marginal, a 'rubberstamp' (*The Guardian*, 28 February 2003).

The five economic tests are, therefore, the main focus of this investigation and the measures considered when examining the applicability of public policy theories in the later parts of this paper. What did these five tests result from, then?

Attempts to collect direct evidence from Blair and Brown were unsuccessful, as the author's several requests for information went unanswered. Indirect evidence collected from those who had access to key decision-makers provided some explanations. Both Phyllis Starkey, MP and the then private secretary to the Minister for Europe, and Norman Lamb, MP and then a member of the Commons Treasury Select Committee, indicated that there had been no significant outside influence, at least none from the cabinet and the Treasury Select Committee, on the form and arrangement of the five tests and that they were purely the workings of the Treasury (the talk with Starkey was held on 19 February 2004; the reply from Lamb was received on 13 January 2004). Senior journalists, on the other hand, provided a 'hearsay' account. Philip Whyte, a senior editor/economist for the *Economist Intelligence Unit*, and Ed Crooks, the economic editor of *Financial Times*, tended to believe that 'the five tests came out in 20 minutes in the back of a cab' when Brown and his advisor Ed Balls were on their way to meet US Treasury officials in Washington in February 1997, when the Labour party was in opposition. These tests were invented in order to explain the party's position on UK EMU membership. The suggestion is, therefore, that they originated from a somewhat hurried decision by these two men without any considered or well-discussed process (the interview with Whyte was conducted on 10 February 2004; the talk with Crooks was held on 19 February 2004).

The third distinction is the attention to the historical lessons of the UK's participation in international and European monetary arrangements, particularly those relating to the ERM. In his speeches Brown had repeatedly stressed that the government's EMU policy would not repeat the mistakes made when joining the ERM (Brown, 2003b; *Financial Times*, 21 May 2003, p. 5). His chief economic advisor, Ed Balls, further expounded that what the government had learned from historical lessons was that 'getting the politics right demands that we get the economics right' (Balls, 2002). This emphasis on history in turn justified the imperative of the economic tests over political enthusiasm and defended the approach of depoliticisation/economic determination.

Interpreting the Blair Government's EMU Policy-Making

How do public policy theories interpret the dynamics and characteristics of this case? The broker state model of pluralism, instrumental Marxism, core executive model and rational choice theory each have their respective interpretations.

The Broker State Model Interpretation

Pluralism contends that power is dispersed among a variety of groups, although not necessarily equally. The outcome of policies is the product of a series of power struggles among diverse interests, represented by multiple players both inside and outside the

political system. The broker state model explains the behaviour of officials as a complex of personal preferences and organisational interests. They are neither passive reactors nor neutral arbiters, but interest seekers motivated partly by their own ambitions and commitments and partly by roles given by their agency positions. This account can explain the EMU case in four respects.

First, it correctly depicts multiple players in the decision-making process. A series of trilateral meetings among individual cabinet ministers, Brown and Blair was held. In these meetings inputs into EMU policy-making were extended from the initially narrow and simple Treasury economic assessment to the wider picture of the government's overall strategy towards the EU. Different departmental views and the intervention of aligned or non-aligned third forces alongside Blair and Brown to some extent influenced the final verdict at this stage. It is arguable that these pluralistic third forces altered the dynamics of the Blair–Brown power struggle and pressured them into convergence. An initially slim hope of Blair's preference for the referendum being held in his second term, which was resisted by Brown, became possible only after this third pluralistic force entered into the policy-making process.

Moreover, the legislative power, in the form of the cross-party Commons Treasury Select Committee, also demonstrated its independence from the executive power. The committee's extensive examination of more than 50 witnesses illustrated Parliament's attempt to act as a counterbalancing force to the dominance of the core executives over policy-making. These consultations cannot equate to a direct influence on decision-making, however, it would be equally wrong to deny the political implications of the Committee's production of its own 70 page report (*The Times*, 28 April 2003; *The Guardian*, 28 April 2003) just a month before the Treasury's second assessment.

Also, the prolonged media battle, in which aides to both Blair and Brown engaged in briefings, provided an instantaneous if not accurate barometer of the dynamics of their power struggle. The extensive coverage of rifts in the government's decision-making, critical views offered by various newspapers (even from conventionally Labour friendly ones) and the potential importance of the media in shifting the perceptions of the public all meet this theory's expectations of media independence and impact.

Second, the theory's prediction of 'incrementalism' in policy-making is largely verified in this case study. The consistencies and similarities between the Major and Blair governments' policy approaches supports the theory's point that policy is usually pursued on the basis of what was pursued before and that policy-making tends to be restricted to existing policies because this is more manageable and feasible. As a consequence, the variations in the Blair government's EMU policy, compared with the Major government, were small-scale and marginal. It mainly followed its predecessor's decision-making model and similarly emphasised the precedence of the economic case. The accidental appearance of the five tests (if the hearsay is to be believed) also confirms that incremental policy-making is remedial rather than forward looking. Policy-makers only dealt seriously with the issue when it was clear that the EMU would be established on schedule.

Third, the numerous negotiations and bargainings between Blair and Brown illustrate pluralist descriptions of 'partisan mutual adjustment' in the policy-making process. The outcomes of the decision-making, such as the direction and final wording of Brown's speech to the House of Commons and the general public and the timing of the referendum represent adaptations in the process of trading-off between them. Different options, examples of 'partisan mutual adjustment', were reported to be discussed intensively

so as to offer a space for compromise.¹ As no single option could simultaneously satisfy these two men completely, some degree of adjustment was inevitable. Both of them achieved (and at the same time gave up) some of their respective requirements by adjusting to each other. For example: the warm wording and positive message evident in Brown's speech; the option of a possible third assessment in Blair's second term; the declaration of the drafting of a referendum bill, implying Blair's victory and Brown's concessions. On the other hand, the maintenance of the five tests at the centre of policy-making and retention of the Treasury's control over assessing them can be seen as Blair's concessions to Brown.

Fourth, the pivotal role of the five tests in the EMU policy-making process exemplifies that it is means, rather than objectives, which determine policy-making. The negative results of the two technically sophisticated evaluations of the five tests consequently gave policy-makers no options but to delay the entry decision and the timing of the referendum. Changes in policy-making only became possible when policy instruments and means changed, so the possibility reportedly being considered by Blair, of redevising the five tests, is explicable. Policy-makers, as pluralists argue, are subject to what means are offered.

The Marxist Interpretation

According to Marxism the state serves the interests of the capitalist class. The meaning of the state, in the descriptions by Marx and Engels, is nothing 'but a committee for managing the common affairs of the whole bourgeoisie.' Therefore, policies, as a product of the state and government, mirror the interests of the bourgeois class and the domination of the economic system by this class. In the case of Blair's EMU policy instrumental Marxism provides an explanation in three ways.

First, the EMU case proves the main argument of instrumental Marxism that policies are distinctly pro-business in orientation because they are assured to be consistent with, and reflective of, capitalist interests. This pro-business characteristic is reflected in the selection of the economic tests. Five specific tests were chosen to evaluate EMU membership. Among these five standards—sustainable economic convergence; flexibility in coping with economic change; effects on inward investment; effects on the financial services industry; effects on employment—the first four are either directly or indirectly associated with the protection of capitalist interests. Moreover, the conventional Marxist criticism of the policies of successive UK governments in the twentieth century as leaning toward the interests of finance capital, which has been regarded to be detrimental to the interests of industrial capital, is also evident in Blair's EMU policy. The financial services sector is the only industry specified in the government's five tests.

Second, the characteristic of depoliticisation/economic determinism reflects the Marxist assertion that economics overrides politics. The upholding of the economic tests over political factors and the professional evaluations of more than 100 economists forced Blair to forego his expectation of early entry and instead follow this economic determinism. This is vivid Marxist evidence that whoever policy-makers are and whatever their policies, they have to serve the capitalist interests, in spite of their subjective preferences.

Third, instrumental Marxism offers a convincing account of the divisions between political elites. According to the basic arguments of Marxism core executives of the state should always unite and work together for the needs of the capitalist class, so conflicts

among political elites are supposed not to happen. However, instrumental Marxism also predicts that in a residually competitive capitalist society intra-elite divisions can occasionally occur, especially when foreign capital is involved. The discord and struggle between governmental departments and core executives could be seen as a reflection of conflicts between different focuses of capital. The preference of the majority of foreign investors for EMU membership explains why the Department of the Trade and Industry, which institutionally serves the needs of foreign investors, was keen on entry. In contrast, the Treasury and the Bank of England, which assume a more comprehensive responsibility for the well-being of various economic actors, were obliged to take a more reserved stance.

Similarly, large, multinational and foreign financial institutions, which held regular breakfast meetings with Blair (*The Daily Telegraph*, 3 September 2003, p. 31) and were the main sources of political donations to the Labour Party, revealed similar positions on the issue of early entry. On the other hand, small and medium domestic industrial capital, which is more vulnerable to international competition and tends to demand more political protection of its national government, largely shared Brown's cautious point of view.

Thus, the inconsistency and power struggle within the Blair government could be interpreted in a Marxist picture as competition and a conflict of interests among different factions of capital, embodied in the corresponding agencies and the associated ideological wing of core executives within the government.

The Core Executive Model Interpretation

The core executive model suggests that the outcome of policy-making is power competition and/or coordination among core executives who act as final arbiters of conflicts between different departments. The power of the core executive is relational and fluid, ranging from the complex web of institutions, networks and practices at the very centre of the executive branch of government to less formalised ministerial clubs, meetings and bilateral negotiations. All actors within the core executive have resources, which are determined by both external and institutional structures, although some, such as the Prime Minister and the Chancellor, may be better resourced than others. Resource exchanges between core executives are needed in order to achieve goals. The degree of an actor's dependence on resource exchanges varies according to the context they face and the tactics they develop (Rhodes & Dunleavy, 1995, p. 12; Smith, 1999, pp. 1–5 & 29–37). This model can explain EMU policy-making in four ways.

First, the model's emphasis on context explains the behaviour of Blair and Brown. Brown's role as a key Labour moderniser, his restraint in not competing with Blair for the party leadership when in opposition, his success in economic management when in office and the electorate's support for a non-political assessment of EMU entry all constituted a favourable context for him to be less dependent on resource exchanges with others, including Blair, and to accumulate authority and significance in government operations. Blair's development of an alliance within the cabinet when encountering such a highly independent Chancellor can be understood by the model as his response to the context and consequent dependence on resource exchanges with other ministers.

Second, the model highlights the relationship between the Prime Minister and the Chancellor in policy-making, because they are the most resource-laden individuals within government, and this is strongly reflected in the EMU case. As Smith (1999, p. 93) argued, the government's decision-making on EMU membership 'is very much a result of policy

worked out between Blair and Brown.’ The fact that Blair could not risk sacking his Chancellor, although he was reported to be considering moving Brown to the Foreign Office at the height of their power struggle (*Financial Times*, 19 May 2003, p. 17), is predicted by the model’s emphasis on their highly mutual dependence.

Third, this model also constructs a theoretical account of the revelations made in leaked inside stories from within government. A characteristic of the EMU policy-making process was a series of leaked governmental papers and inside stories given to the press by aides to both Blair and Brown, whether authorised or not. This model views those revelations as a tactic utilised by actors in order to achieve their goals. The successes and failures in these media battles, enriched by these revelations, and the consequent impressions perceived by the public of their competence in turn influenced the gains and losses in their respective image-shaping and bargaining powers in the struggle for policy control.

Fourth, the EMU case exemplifies the model’s argument that parliament’s power is ritualised and symbolic in core executive politics. Indeed, parliament has a right to vote on the government’s entry recommendation and the Common Treasury Select Committee did conduct a detailed investigation and published a referable report, however, its self-restraint in not making a conclusive judgement on EMU membership and instead leaving that to the Treasury demonstrated the ceremonial function of parliament in EMU policy-making.

The Rational Choice Theory Interpretation

Rational choice theory sees human beings as intentional subjects with their own preferences, values and interests. They act in their own self-interest and seek to maximise their personal resources through the process of optimising resources. Policy-making is seen as an outcome of rational calculations by individuals in choosing whether or how to react to the constraints of outside structures, which may be group demands, sets of institutions or wider socio-economic contexts. The dynamics of how and why individuals choose to cooperate consists of, and accounts for, policy-making.

The theory fittingly explains the EMU policy-making process in four ways. First, it explains the behaviour of middle ranking cabinet ministers and their pro-EMU positions. Political actors within government are mostly elected politicians. They seek to increase their personal resources by examining the prospects for their institutions and departments and by picking up and promoting ideas, problems and solutions which will lead to favourable consequences in their careers. With the motivation of being re-elected and promoted, and of ensuring favourable publicity, middle ranking ministers are more likely to accept and promote new ideas or initiatives which attract attention. This hyperactivism orientation explains why a number of middle ranking ministers, such as Jack Straw, Peter Hain, Patricia Hewitt and Charles Clarke, sought to play a role in the policy-making process and explains their pro-EMU position.

In contrast, central political leaders, responsible for balancing conflicting imperatives and pursuing electoral success, usually behave in a more reserved manner. This account explains Brown’s prudent and cautious behaviour, as he was in charge of economic performance as a whole, and his attempt to depoliticise the EMU issue, which was in line with the sceptical attitude of the majority of the general public. Also, Blair’s convergent position with those of middle ranking ministers is explainable by the theory, as this issue

was likely viewed by Blair as having strategic importance and as being an opportunity to ensure his place in history.

Second, Blair's involvement of the cabinet's in the decision-making demonstrates the theory's argument about how individuals react to outside constraints. The theory suggests that individual choices are exercised on three different levels as related to the rules of conduct. The first level is acting within existing rules, the second level is arguing for a change in the rules and the third level is bargaining for the redesign of those institutions which govern subordinate rules. As there was little room to increase Blair's bargaining power in the struggle with Brown under the original policy framework, his efforts to involve the cabinet in policy-making could be seen as a rational choice exercise at the second level, since the choices provided at the first level were unfavourable to him.

Third, the strategy of depoliticising the EMU policy-making can also be explained by the theory's argument about policy-making as an outcome of individuals' rational reactions to the constraints of outside structures. Public opposition to EMU membership (outweighing support by about two to one), the controversies and divisions within the Labour party and the historical lessons all constitute structural constraints to policy-makers. The choice of a depoliticised strategy with the allegedly professional assessments was then desirable because it could serve multiple aims. It could, first, increase the credibility of the government's final decision. Second, it met the needs of party management. Third, it eased the public's doubts about the government's pro-EMU position, which might have disadvantaged the Labour party in elections. To depoliticise EMU policy-making seemed the optimum option with maximum utility (in other words, fewest political risks) for an rational individual in that position.

Fourth, the dynamics of the power struggle between Blair and Brown can be explained by the theory as a process by which these two men attempted to turn a 'prisoners' dilemma game' into an 'assurance game', as neither of them could afford the consequences of non-cooperation. The former is a classic game theory scenario in which actors tend not to cooperate in order to try to retain maximum resources, while the latter is one in which individuals increase their resources by cooperating with others. The assurance game is apparent in the EMU case for both theoretical and practical reasons. The theory predicts that one of three possible ways of turning a prisoners' dilemma game into an assurance game is through playing super-games. The theory suggests that actors cooperate when they discount benefits over time, particularly when the same people face each other for long periods, as in the EMU case, with Blair and Brown having been reported to have reached a secret deal about future leadership arrangements as early as 1992.² In practice, there were realistic requirements for cooperation in realpolitik. As Philip Stephens puts it:

For Mr. Brown, dislodging Mr. Blair would put him at the head of a party no longer worth leading. For the prime minister, the chancellor's angry departure would leave a party incapable of being led. Mr. Blair cares about his place in history; Mr. Brown [cares] about the condition of his inheritance. These two things should be mutually reinforcing. (*Financial Times*, 19 May 2003, p. 17)

As a consequence, rational choice theorists would view all compromises between them as a rational necessity. Their growing convergence on the eve of the special cabinet meeting can be explained as the emergence of an 'assurance game', as opposed

to a 'prisoners' dilemma game'. The final outcome of their common line appeared in Brown's speech on the final verdict and was a rational choice of playing the 'assurance game' by not only Blair and Brown, but also cabinet ministers after calculated consideration of interests and party management.

Examining the Applicability of Public Policy Theories

Each theory, with their respective theoretical emphases, was applicable to the Blair government's EMU policy-making to some varying extent (see Table 1). Like two sides of one coin, the strength of each theory's applicability in certain aspects often shows itself as a weakness in others aspects. Thus, no single theory has fully captured the whole dynamics.

Assessing Pluralism

Pluralism explains well the multiple forces/actors; incremental changes and the accidental invention of the five tests and their constraints on decision-making as a policy means. The latter two effects are especially significant, because they neatly fit two characteristics of the Blair government's policy-making: the marginal difference from its predecessor's and the appearance of the five tests. However, it also has limited applicability in the following aspects.

First, the participation of multiple actors was not equal to the real decision-making power. Their role in the EMU case was rather symbolic than substantial. According to the evidence collected the Blair government's policy-making on EMU was a very closed process. Developing and assessing the five tests was not a competition between plural forces. Rather, it was controlled by few core executives, centred on Blair and Brown. The outcome of EMU policy was, to a very large extent, determined by their institutional positions and concerns about electoral risks and party division, as well as their respective ambitions for their future careers, rather than as a response to demands of plural interest groups.

Second, it cannot explain the constraints on policy-making put in place by the historical lessons of the UK's participation in European monetary integration, especially the ERM. In the light of the UK's failed experiences of ERM membership, decision-makers had been taught that mistaken policy-making was not only detrimental to national interests but also their chances of winning elections. However, historical factors are not taken into consideration by the pluralist model.

Assessing Marxism

Marxism is useful in understanding why EMU policy-making was highly pro-business under a capitalist economy at the macro level. It is the only theory among the four that can explain the reality that the form and arrangements of the five tests, although perhaps rushed, reflected capitalist interests. The lack of concern for the non-capitalist classes should not be regarded as coincidental. It was an instinctive reaction that any policy-makers structured by a capitalist economy would have. At the meso level the economic determinism of Marxism was fully reflected in the EMU policy approach of depoliticisation. This, on the one hand, shows the limited leeway available to decision-makers and the imperative of converging different political preferences to reflect capitalist interests and, on the other, it provides a good structuralist explanation for the marginal changes in the Blair government's EMU policy from that of the Major

Table 1. A comparison of applicability of public policy theories in the EMU case

	Broker state pluralism	Instrumental Marxism	Core executive model	Rational choice theory
Macro level		Pro-business design and arrangement of the five tests, especially the emphasis on the finance sector	Economic and societal context constraining policy-makers (overlapping with Marxism)	
Meso level	Invention of the five tests Incremental changes in policy-making Constraints of the five tests as policy means on decision-making	Depoliticising policy-making/economic determinism	Ritual and symbolic position of legislative power	Marginal changes in policy substance Depoliticising policy-making
Micro level	Multiple actors/forces participating in policy-making process	Divisions between political elites due to interest competition between different factions of capital	Power struggle and resources exchanges between core executives (overlapping with rational choice theory and pluralism)	Contrasting positions between middle ranking ministers and Chancellor Changing dynamics of the power struggle from conflict to cooperation

government. At the micro level it can also explain the internal divisions within the government from a perspective of interest competition and conflicts between different factions of capital.

However, with its structuralist emphasis Marxism apparently encounters limits at the micro level. It ignores the effects of individuals on and their autonomy in shaping policy outcomes. Some dynamics of power struggles between policy-makers, born of their respective personal calculations, such as Blair seeking a legacy in history and Brown's ambition of succeeding Blair as premier, cannot be explained by a capitalism structuring account. Also, as with pluralism, Marxism dismisses historical factors.

Assessing the Core Executive Model

In contrast to Marxism, the core executive model's emphasis on the dominance of a few core executives over policy-making is much closer to the real picture at the micro level. It rightly captures the complex policy-making process of media battles, verbal exchanges, alliances and compromises. These can all be reduced to power games between core executives in this account.

However, the inclusion of too many variables (historical, societal, economic, and institutional contexts) means that the core executive model can only be used by incorporating many other factors; otherwise, the understanding would be incomplete. It is also at this point that it seems to overlap with other theories. For example, it overlaps with the rational choice theory when explaining the behaviour and interactions of key actors. It may also look like a pluralist version of institutionalism when it comes to the argument of actors' dependence on resource exchanges. Its argument about socio-economic context also look familiar in the light of the economic structuralism of Marxism. Because of its wide inclusion of many factors this model, not surprisingly, can explain a wider range of the dynamics of EMU policy-making. However, this inclusiveness makes the model less distinct in terms of constructing a well-defined theory compared with the others.

Assessing Rational Choice Theory

Rational choice theory can satisfactorily interpret the changing dynamics of the power struggle (how conflict turned to cooperation between the key policy-makers and the depoliticisation of EMU policy-making), compared with pluralism and Marxism. It is also at this point that this theory constructs a better defined explanation than the core executive model. Moreover, it explains well how, with the constraints imposed by calculations of party management, electoral risks, the referendum and historical lessons, the only rational choice for the Blair government was to make marginal changes to EMU policy and to depoliticise it.

A major limit of this theory is that it cannot explain why the five tests appeared and how they were developed. The collected evidence suggests that they were not born of complicated, rational calculations by policy-makers. On the contrary, they were allegedly made up during an impromptu personal discussion, neither the product of reason nor of careful choice. This theory cannot see that the distinct pro-business bias of these tests in effect reflects a wider capitalist structure behind the policy-makers.

Conclusion

The Blair government followed the greater part of its predecessor's EMU policy, with only marginal changes, particularly setting the five economic tests as its own novel innovation. The new policy was characterised by depoliticisation and an emphasis on historical lessons. The latter is understandable, as EMU was the last stage of European monetary integration and the policy towards EMU was itself a historical continuation.

In spite of its pro-Europe manner and language the Blair government's policy on EMU was on the same track as the UK's orientation towards European monetary integration. It was based on semi-attachment/detachment with an indefinite timetable for entry, a wait and see policy in nature. It would join the movement only when it became economically necessary with no better option available, as in the case of the UK's application for EC and ERM membership. As the UK economy had been performing well since Blair came to power, there was no imperative nor interest for either the UK public or policy-makers to seek to join the EMU. The problem of EMU policy for the Blair government, therefore, became that of how to minimise the political risks and controversy. Depoliticisation, by putting the five tests at the centre of decision-making, served multiple political aims: electoral risk; the referendum; party management. However, as Burnham (2001, p. 136) argued, such a depoliticisation strategy was highly political itself. It did not prevent political conflicts and compromises during policy-making nor did it guarantee that it would not be repoliticised in the future.

Among the four public policy theories examined it was found that the core executive model and rational choice theory were applicable when describing and explaining the dynamics of the EMU policy-making process. However, none of them was able to provide a convincing account of the emergence of the five tests. Such a failure is significant and, therefore, restricts their applicability to a degree. It is at this point that pluralism and Marxism illustrate their effectiveness. The former can explain the accidental emergence of the five tests, while the latter explains form and arrangements. In terms of comprehensiveness and consistency instrumental Marxism, comparatively, provides more applicability than the broker state pluralist model, encompassing the macro, meso and micro levels.

Notes

¹ One compromise was the announcement of a target date for EMU entry, the strongest commitment, which demonstrated the Prime Minister's strong commitment to entry but without resolving the problem of the Chancellor's resistance. Another was the proposal of a political road map by the government, in which obstacles to the referendum would be minimised, but the cooperation of the Chancellor would still be required. Yet another was to put off the decision and retain the decisive role of the five economic tests for a reassessment some time after the general election, which would meet the Chancellor's demands but would be at odds with the ideas of the Prime Minister (see *Financial Times*, Eurozone roadmap painted in shades of grey, 20 May 2003, p. 3 for more details).

² It has been indicated that when in opposition Blair and Brown had an understanding dating from July 1992 not to stand against each other in a leadership election. Brown was, allegedly, assured by Blair of his support for future succession when Brown decided to self-sacrifice in the Labour leadership contest following their famous 'Granita Dinner' meeting on 31 May 1994 (Keegan, 2003, Naughtie, 2001, pp. 69–75; pp. 119–125; Rentoul, 2001, pp. 224–236; *Financial Times*, 10 June 2003, p. 2, in a special section on the Euro). 13 years later Brown succeeded Blair as Prime Minister on 26 June 2007.

References

- Baker, D. (2003) The shotgun marriage: managing Eurosceptical opinion in British political parties 1972–2002. Paper presented at the 8th Biennial International Conference of European Union Studies Association (EUSA), Nashville, Tennessee, 27–29 March.
- Balls, E. (2002) The 2002 Cairncross Lecture by the Chief Economic Advisor to the Treasury, Speech by the Chief Economic Advisor to the Treasury at the 2002 Cairncross Lecture at St Peter's College, Oxford, 4 December 2002.
- Blair, T. (1999) Speech by the Prime Minister on the euro to the House of Commons, 23 February 1999, *Hansard*, Series 6, Vol. 326 (London: HMSO). Available online at: <http://www.number-10.gov.uk/output/page1275.asp> (accessed 20 March 2006).
- Blair, T. (2001) Prime Minister's Speech to the European Research Institute: Britain's Role in Europe, University of Birmingham, 23 November 2001.
- Brown, G. (1997) Statement on Economic and Monetary Union by the Chancellor of the Exchequer to the House of Commons, 27 October 1997, *Hansard*, Series 6, Vol. 299 (London: HMSO). Available online at: http://www.hm-treasury.gov.uk?newsroom_and_speeches/speeches/statement/.sp (accessed 20 April 2006).
- Brown, G. (2001) Chancellor's speech at the Mansion House, London, 20 June.
- Brown, G. (2003a) Chancellor of the Exchequer's budget statement, 9 April 2003, *Hansard*, Series 6, Vol. 403 (London: HMSO). Available online at: http://www.hm-treasury.gov.uk/budget/bud_bud03/bud_bud03_speech.cfm (accessed 25 April 2006).
- Brown, G. (2003b) Statement by the Chancellor of the Exchequer on UK membership of the single currency, 9 June 2003, *Hansard*, Series 6, Vol. 406 (London: HMSO). Available online at: http://www.hm-treasury.gov.uk/documents/the_euro/assessment/euro_assess03_speech.cfm (accessed 26 April 2006).
- Burnham, P. (2001) New Labour and the politics of depoliticisation, *British Journal of Politics and International Relations*, 3(2), pp. 127–149.
- HM Treasury (1997) *UK Membership of the Single Currency: An Assessment of the Five Economic Tests* (London: HMSO).
- HM Treasury (2002) *Macroeconomic Frameworks in the New Global Economy* (London: HMSO).
- HM Treasury (2003) *UK Membership of the Single Currency: An Assessment of the Five Economic Tests* (London: HMSO).
- Keegan, W. (2003) *The Prudence of Mr Gordon Brown* (Chichester, UK: Wiley).
- Moran, M. & Alexander, E. (2000) The economic policy of New Labour, in: D. Coates & P. Lawler (Eds) *New Labour in Power* (Manchester, UK: Manchester University Press).
- Naughtie, J. (2001) *The Rivals: The Intimate Story of a Political Marriage* (London: Fourth Estate).
- Rawnsley, A. (2000) *Servants of the People: The Inside Story of New Labour* (London: Hamish Hamilton).
- Rentoul, J. (2001) *Tony Blair: Prime Minister* (London: Little, Brown Books).
- Rhodes, R. A. W. & Dunleavy, P. (1995) *Prime Minister, Cabinet and Core Executive* (London: Macmillan).
- Seldon, A. (2004) *Blair* (London: Free Press).
- Smith, M. (1999) *The Core Executive in Britain* (Basingstoke, UK: Macmillan).
- Stephens, P. (2004) *Tony Blair: the Price of Leadership* (London: Politico's).

Copyright of *Journal of Contemporary European Studies* is the property of Routledge and its content may not be copied or emailed to multiple sites or posted to a listserv without the copyright holder's express written permission. However, users may print, download, or email articles for individual use.