

UNDERSTANDING POLITICS

*Understanding*

British and  
European  
political issues

NEIL McNAUGHTON

**UNDERSTANDING  
BRITISH AND EUROPEAN  
POLITICAL ISSUES**



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# UNDERSTANDING POLITICS

Series editor **DUNCAN WATTS**

Following the review of the national curriculum for 16–19 year olds, UK examining boards have introduced new specifications for first use in 2001 and 2002. A level courses will henceforth be divided into A/S level for the first year of sixth form studies, and the more difficult A2 level thereafter. The **Understanding Politics** series comprehensively covers the politics syllabuses of all the major examination boards, featuring a dedicated A/S level textbook and three books aimed at A2 students. The books are written in an accessible, user-friendly and jargon-free manner and will be essential to students sitting these examinations.

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# ***Understanding British and European political issues***

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A guide for A2 politics students

**NEIL McNAUGHTON**

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# Introduction

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This book has been produced to serve a number of needs. Most importantly, there is always a need to bring students and teachers of politics up to date with the great political issues of the day. By their nature, such issues are constantly changing in character, the political agenda is moving on and critical events can change the political landscape. This book, therefore, seeks to review the state of political issues early in the twenty-first century, when New Labour is in its second term of office.

As part of the updating process it became necessary to choose *which* political issues are important. Clearly it would be an enormous volume which sought to cover every conceivable issue. Choices have, therefore, to be made. In this case the rationale has been to include the main issues which appear in current **Advanced Level Politics syllabuses**. In the case of Edexcel, which offers a specific political issues option in its A2 specification, all the specified issues have been included. In addition there are some chapters dealing with the process of constitutional and political change which are issues in themselves. Thus we have included material on constitutional reform (incorporating the recent development of human rights in Britain), and devolution.

With **Citizenship** now a part of the National Curriculum for key stages three and four, the book will make a useful companion to those teachers who wish to enrich their teaching of the subject with a fuller understanding of political issues and the European Union.

The book also covers the kind of issues which will be of interest to more **general readers**. The student of politics needs to have a grasp of how substantive issues are developing, even if they are not specific parts of his or her field of study. He or she may also need a **general introduction** to the British political landscape. Politics is, after all, important, because of what its processes achieve, or fail to achieve. There may also be some who come to politics simply out of interest and who need to be able to take a detached and informed view of how such issues have developed. This book will be of value and interest to them.

A substantial section of the book deals with the **European Union** and Britain's relationship to it. Again there is more than one reason for this. Current A level

syllabuses all require students to have a thorough knowledge of various aspects of the European Union. There are four elements to this section: an understanding of how the European project developed and the conceptual ideas which have underpinned it; a description of the institutions of the EU, how they are organised, what their functions are and what issues have emerged concerning their operation and powers; a review of the main issue facing the EU currently; and finally an account of how Britain's involvement with the EU has developed and what problems have resulted from this process.

A second reason for having a substantial section on Europe is simply that it is now extremely important to British politics. Most issues now have a European dimension. Furthermore, a wide variety of decisions are now made in EU institutions, with British political bodies playing a marginal role. Finally, it must be emphasised that Britain's relationship to the EU is in itself a political issue which has fundamentally changed the party system.

The general approach taken on each topic is to examine the following aspects:

- 1 a description of the background information, sometimes stretching back to World War II, sometimes returning only to the period when the issue became central in British politics;
- 2 analysis of how the issue has developed, its main features, including landmark events and periods of change;
- 3 a further analysis of the nature of the issue today, including an examination of how parties and other political groups have approached it;
- 4 where appropriate, a certain amount of speculation concerning the immediate future of the issue, identifying those aspects which require solutions.

Where necessary, summary boxes, lists of main events, statistical tables and definitions have been included to guide readers and help students learn factual material in an organised way.

Clearly, political issues are, by their nature, constantly evolving and fresh events alter their nature. However, this book is designed to give a framework of knowledge and conceptual understanding into which such changes can be incorporated. Thus, for example, if there are significant developments in social security, police powers or the political system of the EU, the changes can be reviewed and understood in the light of the principles explained in the book.

There is, therefore, something for everybody who needs an analysis and review of modern British political issues, whether they be teachers, students or general readers.

# List of abbreviations

---

## British and other

|        |  |
|--------|--|
| AMS    | Additional Member System                               |
| AV     | Alternative Vote                                       |
| BMA    | British Medical Association                            |
| CCT    | compulsory competitive tendering                       |
| CCTV   | closed circuit television                              |
| CHI    | Commission for Health Improvement                      |
| CJA    | Criminal Justice Act                                   |
| CPAG   | Child Poverty Action Group                             |
| CRE    | Commission for Racial Equality                         |
| CSE    | Certificate of Secondary Education                     |
| DEFRA  | Department for the Environment, Food and Rural Affairs |
| DUP    | Democratic Unionist Party                              |
| ERA    | Education Reform Act                                   |
| ERM    | Exchange Rate Mechanism                                |
| GDP    | Gross Domestic Product                                 |
| GFA    | Good Friday Agreement                                  |
| GLA    | Greater London Authority (or Assembly)                 |
| GLC    | Greater London Council                                 |
| GM     | Genetically Modified                                   |
| HMIP   | Her Majesty's Inspectorate of Pollution                |
| HRA    | Human Rights Act                                       |
| ILEA   | Inner London Education Authority                       |
| IMF    | International Monetary Fund                            |
| INLA   | Irish National Liberation Army                         |
| IRA    | Irish Republican Army                                  |
| LMS    | Local Management of Schools                            |
| MPC    | Monetary Policy Committee                              |
| NC     | National Curriculum                                    |
| NHS    | National Health Service                                |
| NICE   | National Institute for Clinical Excellence             |
| NRA    | National Rivers Authority                              |
| OECD   | Organisation for Economic Co-operation and Development |
| OFSTED | Office for Standards in Education                      |
| PACE   | Police and Criminal Evidence Act                       |

|      |   |
|------|---|
| PC   | Plaid Cymru                               |
| PR   | Proportional Representation               |
| RCN  | Royal College of Nursing                  |
| RCS  | Royal College of Surgeons                 |
| RSPB | Royal Society for the Protection of Birds |
| RUC  | Royal Ulster Constabulary                 |
| SDLP | Social Democratic Labour Party            |
| SDP  | Social Democrat Party                     |
| SNP  | Scottish National Party                   |
| SPA  | Special Health Authorities                |
| STV  | Single Transferable Vote                  |
| UDA  | Ulster Defence Association                |
| UUP  | Ulster Unionist Party                     |
| UVF  | Ulster Volunteer Force                    |
| VAT  | Value Added Tax                           |

## European Union

|         |   |
|---------|---|
| CAP     | Common Agricultural Policy                            |
| CESDP   | Common European Security and Defence Policy           |
| CFP     | Common Fisheries Policy                               |
| CFSP    | Common Foreign and Security Policy                    |
| COREPER | Council of Permanent Representatives                  |
| EC      | European Community or European Commission             |
| ECB     | European Central Bank                                 |
| ECHR    | European Convention (or Court) of Human Rights        |
| ECJ     | European Court of Justice                             |
| ECSC    | European Coal and Steel Community                     |
| EEC     | European Economic Community ('Common Market')         |
| EFTA    | European Free Trade Association                       |
| EMC     | European Military Committee                           |
| EMS     | European Military Staff (or European Monetary System) |
| EMU     | European Monetary Union                               |
| EP      | European Parliament                                   |
| ESC     | Economic and Social Committee                         |
| MEP     | Member of the European Parliament                     |
| NATO    | North Atlantic Treaty Organisation                    |
| OSCE    | Organisation for Security and Co-operation in Europe  |
| PSC     | Political and Security Committee                      |
| QMV     | qualified majority voting                             |
| SEA     | Single European Act                                   |
| WEU     | Western European Union                                |

# The economy

# 1

- **The post-war background to economic policy making in Britain**
- **The nature of the post-war economic consensus**
- **The economic 'revolution' which took place under Margaret Thatcher after 1979**
- **The movement away from Thatcherite policies in the 1990s**
- **The policies of the Labour government after 1997**

## POST-WAR OVERVIEW

### The end of Empire

At the end of World War II it became clear that the best days of the British empire were over. For a number of reasons, policy makers had to face up to the fact that British economic prosperity could no longer rely upon the advantages of controlling a wide range of colonies.

The lesson of two world wars for Britain was that the maintenance of a far-flung empire was no longer feasible in both economic and military terms. The onset of the Cold War in the late 1940s polarised the world into two great power blocs and Britain could certainly not stand alone in this new world order. She had to shelter under the nuclear umbrella provided by the United States. Defending an empire in the face of Soviet and, later, Chinese power, was not going to be possible. At the same time a Labour government had been elected in 1945. On the whole the party was ideologically opposed to imperialism. Although the pragmatic elements in the Labour party recognised the economic benefits of clinging on to the colonies, the political will to remain as a great imperial power was weakening.

India was granted independence in 1947. There was a moratorium on the independence movement for ten years or so (corresponding to the return of the Conservatives to power), but the dismantling of the empire resumed at the end of the 1950s. The disaster of Britain's failed attempt to maintain its

dominance of the Middle East in the 1956 Suez crisis and the advent of Harold Macmillan as a realistic, pragmatic prime minister in 1957 provided a spur to this process. During the late 1950s, 1960s and early 1970s most of the empire in Africa, South-East Asia and the Caribbean was granted independence.

Put simply, the empire had underpinned British prosperity for over a hundred years by providing both a source of cheap raw materials and ready markets for her own manufactured goods. Although preferential trade agreements were made with the former colonies to protect Britain's privileged economic position, things would never be the same again. When Britain joined the European Community at the beginning of 1973, it had to give up these special trade agreements, and so the benefits of empire were finally lost.

What this meant for the British economy was essentially twofold. First, the country would now have to pay the full price for its raw materials in world markets (except for the temporary trade agreements referred to above). Secondly, Britain would have to compete on even ground with all the other industrial powers for markets for its manufactured goods. There was an economic dividend arising from the loss of empire in that defence expenditure could be cut back drastically, but the net effect on Britain was detrimental. The problem was exacerbated by the post-war recovery of the western European economies and the 'economic miracle' which Japan was enjoying.

## **The management of economic decline**

As a result partly of its imperial status, and partly the sophisticated industrial infrastructure built up over two hundred years, Britain retained its position as a leading economic power into the 1950s. Thereafter, however, the story has been one of relative economic decline, when British performance is measured against its main competitors.

This is not to say that this was the fault of successive British governments. To some extent the relative decline can be seen as inevitable. What it has meant, however, is that governments have had to deal with this reality and to try to reduce the effects of the process. The repercussions of decline were considerable. Among them were the problem of maintaining public services, maintaining capital investment when the profitability of British industry was declining, the difficulty of staying competitive in a world where competition was intensifying and, perhaps most seriously, of dealing with poverty which inevitably resulted from the decline of traditional industries in several specific regions.

From the 1950s until the 1990s economic management in Britain can be viewed very much in this vein. For two generations the country was forced to adjust to its new, lower, economic status. Governments could not realistically hope to reverse British fortunes. All they could do was to ameliorate the effects

of relative decline. So, for example, the Labour governments of Harold Wilson in 1964–70 attempted to modernise British industry, but this largely failed in the face of a number of economic crises. The development of the Concorde aircraft at that time was a typical example. British science and engineering was capable of producing the world's first supersonic airliner, but it never reached full-scale commercial production. The same happened to an infant computer industry which was easily overcome by American and Japanese competition.

Membership of the European Community (later European Union) provided one possible long term answer to this process. However, it was not until the 1990s that the benefits of European integration began to show real progress.

## European integration

When Britain became a member of the European Community in January 1973, there were genuine fears that the inherent weaknesses which by then existed in the economy would bring special problems. Faced by membership of a free market, with more intense competition for overseas customers, it was felt by many that Britain would suffer. Among the problems of the economy were lack of capital investment, low levels of labour productivity, unsettled industrial relations and poor management. Britain seemed to lag behind its European partners in all these areas. Worse still, the British market was now thrown wide open to European exporters.

## The new economic structure

While Britain was moving from being a world imperial power to a European player, the nature of its economy was also changing. The old, traditional industries steadily declined and were replaced by new, service-based or 'tertiary' activities. The manufacturing infrastructure, which had been the basis of British prosperity, began to disappear. Staple industries such as textiles, iron and steel, shipbuilding and coal mining all suffered gradual decline. In increasingly free global markets, British heavy industry could not compete with the rest of Europe, Japan, parts of the Third World and the new 'Asian tiger' economies such as Korea, Taiwan and Malaysia. The diminishing importance of these industries can be seen in table 1.1.

**Table 1.1** Decline in manufacturing industry in the UK

| Year | % of male workforce | % of female workforce |
|------|---------------------|-----------------------|
| 1981 | 32                  | 17                    |
| 1991 | 25                  | 12                    |
| 2001 | 22                  | 8                     |

Source: Office for National Statistics.

The most serious effects of this process were experienced in the 1970s and 1980s. The economy failed to adjust to the new realities and economic decline worsened. Towards the end of the 1980s, however, progress began to be made. Partly as a result of the reforms of the Thatcher era, which are described below, and partly fuelled by the strength of the higher education system (a legacy of the growth of this sector in the 1960s), Britain was ready for the emergence of new industries. Such sectors as finance, leisure and entertainment, technology, computer software, communications and electronics were growing in Britain as quickly as anywhere else in the world. In these fields Britain could and did compete successfully with Far Eastern powers, the USA and Germany. This shift in the 'balance' of British industry is shown clearly in table 1.2.

**Table 1.2** Table shows the percentage of the workforce employed in distribution, hotels, catering, finance and other services

| Year | Men | Women |
|------|-----|-------|
| 1981 | 45  | 73    |
| 1991 | 44  | 83    |
| 2001 | 59  | 86    |

*Source: Office for National Statistics.*

This is not to say that manufacturing disappeared completely. In the 1990s Britain became an attractive subject for inward investment. Foreign companies, particularly from the Far East, set up factories all over the country, producing cars, electrical equipment, telecommunications equipment and computer technology. The decline of trade union power, resulting in more settled industrial relations, relatively low wage levels and large government grants and subsidies helped to attract such multinational corporations as Toyota, Nissan, Honda, General Motors, Siemens and Motorola to Britain.

The net result, by the 1990s, was that the British economy had drastically changed its structure. There was still a large manufacturing sector, but it was now largely foreign owned. The service and technology sectors, on the other hand, were growing fast and were largely home grown.

## Globalisation

The governments of the 1990s were forced to face up to a new challenge beyond that of European integration. This was the reality that all markets – in products, commodities, labour and finance – were becoming increasingly global.

The effects of globalisation are yet to be fully revealed, but some certainties have already emerged. In order to survive in world markets it has become clear that Britain will have to develop a number of economic qualities. Among them are a well educated, trained and flexible workforce, management which

is geared to world-wide competition, a willingness to respond to intense competition, higher levels of capital investment, leadership in the field of information technology and full involvement with international institutions such as the European Union, World Trade Organisation, World Bank, International Monetary Fund, G7 and the Organisation for Economic Co-operation and Development (OECD).

## The management of economic success

As we have seen above, much of the story of post-war economic policy making has been concerned with relative decline. During the 1990s, however, when Britain emerged from the world recession in better shape than Japan, the Far East and her European partners, a new set of circumstances became apparent.

Many of the inherent and seemingly incurable problems of the British economy began to respond to treatment. As we have already seen, industrial relations had improved during the 1980s. In addition, labour productivity began to rise and Britain became known for low, rather than excessively high, wage costs. The new 'tertiary', service and technology industries were finding a leading place in world markets. Above all, however, the recurring problem of inflation receded in the second half of the 1990s. The record of British economic management had reached an all time low in 1992 when the country was unceremoniously dumped out of the European Exchange Rate Mechanism – the ERM – (of which more below). This event, known as 'Black Wednesday', was the culmination of several years of indecisive attempts to adjust to the new European and global realities. Since 1992, more responsible governments under John Major and Tony Blair have understood that it was necessary to conquer the British economy's natural tendency to rapid inflation in order to compete successfully.

From the mid-1990s onwards, therefore, Britain has enjoyed a number of years of almost unprecedented low inflation, low interest rates and low unemployment. Economic growth was consistently healthy and there were rises in investment in public services. Relative prosperity was, however, to present as many problems for government as economic decline.

The principal dilemma faced by politicians in this period has been how to distribute the new-found wealth. Those in the centre and to the left of the political spectrum wished to see rises in expenditure of public services such as education, social security, housing, public transport and health. They have also demanded reductions in tax levels for the poorer sections of the community. In this way the inequalities in standards of living may be reduced. On the right of politics, however, economic growth is seen as an opportunity to reduce taxation for all. This, they suggest, will increase incentives, reward

initiative and so safeguard future growth. This political tendency is not concerned with inequalities in wealth within the population. For them higher disposable incomes can take the pressure off state-run public services and the private sector can expand to compensate.

Not surprisingly, politicians in all the main parties have tended to gravitate towards the centre of this conflict, suggesting that both of these objectives can be achieved at the same time as long as some compromises are accepted. This new 'consensus' will be the subject of further discussion below.

## THE KEYNESIAN CONSENSUS

### The economic beliefs of Keynes and the Keynesians

The economist John Maynard Keynes (1883–1946) was a prominent British academic and political figure in the 1920s and 1930s. His economic beliefs, however, did not gain full acceptance in the political arena until after World War II. In fact, it is likely that his policies would have been implemented earlier had the war not intervened. Ironically, Keynes died before he could see the practical fruits of his work.

What became known as 'Keynesian economics' has many technical aspects beyond the scope of this book. There are, however, a number of principles which are relatively easy to understand. But before studying them we need to examine briefly what had gone before.

So-called 'classical economics' had flourished for about a century, from the 1830s to the 1930s. This tradition believed that the economy would inevitably suffer from 'periodic cycles', moving regularly from boom periods, when there was rapid economic growth, to periods of slow-down or slumps in which growth was slow or even ceased altogether. Governments, the classical economists argued, should not interfere with these natural processes. Indeed, excessive interference would be detrimental. Rather, the periods of slump would correct themselves. The process would be that, as there was little economic activity, wages and prices would stop rising and might actually fall. The falling prices would encourage consumers to buy more and companies to invest more in capital. The lower wages would mean that more labour would be employed. The effect of these changes would be to kick start the economy into renewed growth and the recessions would come to a natural end. The role of government was to do nothing except to ensure that the currency remained stable by controlling the amount of money in circulation.

These beliefs held up until the Great Depression of the 1930s. In that period the theory ceased to work. The economic recession would not end even

though governments obeyed the golden rule that they should not attempt to interfere. Keynes' theories, however, provided an explanation for the new phenomenon.

He suggested that, in the modern economy, there is no reason why economic activity should pick up spontaneously as the classical economists suggested. In short, recessions like this one could recur and grow worse. Keynes offered a new set of policy options. Governments *should* intervene, he argued. They should take positive steps to boost the level of aggregate demand in the economy. Aggregate demand consists largely of consumer spending, government expenditure and capital investment by companies. By ensuring that consumers, companies and government all spent more money in the economy, the recession could be ended, as industry expanded to meet the higher level of demand. At the same time, by careful adjustments, many of the recessions could be avoided in the first place.

How could this be done? In direct opposition to classical economic beliefs, Keynes argued that, by lowering the level of taxation, and by increasing government spending, the overall level of aggregate demand would rise. Even if the policy led to government debt, it could still be justified by the positive economic results. Future generations would be able to pay off the debts out of the increased prosperity which his policies would bring. His ideas became known as **demand management**, underpinned by active **fiscal policy**. The classical economists were sceptical, but by the 1940s Keynes' policies had won the day.

## The consensus in action

For the sake of neatness we can say that the keynesian consensus lasted from 1950 (when many of the immediate economic effects of the war had begun to recede) until about 1979, when Margaret Thatcher was first elected prime minister. So we are dealing with a period of about thirty years.

Economic policy making is a complex business, with many variables being manipulated by government. However, the great age of the consensus can be reduced to a few basic principles, as follows:

- The main way to try to manipulate economic activity was to control the level of demand.
- Demand was best controlled through levels of taxation (especially income tax) and government expenditure.
- When economic activity slowed down it was normal for government to reduce taxation levels and raise government expenditure (typically on social security and pensions or on building projects). This usually resulted in a growth in government debt, financed out of borrowing from banks or the general public in national savings schemes.