



The British Coalition Government

This brief examines the political trajectory and longevity of the British coalition government within the context of its relationship to fellow European Member States and the EU. This paper also examines how deliverable the coalition government's political agenda is, and how the onset of the coalition government makes the UK look more like its continental counterparts. However, the coalition in fact signals a divergence from the UK's past movement toward Europe, and should the Lib-Dem-Conservative coalition collapse, it is likely to herald an unprecedented move towards euroskepticism and a renegotiation of the UK's membership of the EU.

The Domestic Political Situation

The British coalition government of the Conservatives and Liberal Democrats (the social democratic third party in British politics) is unprecedented in modern British politics. The British first past the post electoral (FPTP) system, coupled with the electoral boundaries, can normally be relied upon to deliver a working majority to the political party who can garner a share in excess of 36% of the vote across the nation. Indeed, the outgoing Labour government under first Tony Blair and then Gordon Brown was elected in 2005 with just over 35% of the popular vote. By implication, the major political parties have little experience governing in coalition and little desire (or need) to do so.

As the United Kingdom has changed from a two-party political system dominated by the Labour Party and the Conservative Party into a three-party system that includes the Liberal Democrats, the structure of competition at different levels of government has also complicated any possible coalition dynamics. Any two parties that might see advantages in collaborating at the national level will likely be fierce rivals for the control of individual parliamentary constituencies or local governments.

For these reasons, the electoral marriage between the Conservatives and Liberal Democrats looks (superficially) problematic. In much of the affluent Conservative heartlands in the south of England, the Liberal Democrats are the Conservatives' main opponents (and in South West England vice versa), and the Lib-Dems have generated a well-deserved reputation for particularly effective and biting campaigning in local settings. Given the rules for FPTP elections, the Lib-Dem's 23% share of the vote translates poorly into effective representation, providing them with some 80 fewer Members of Parliament than they would achieve under a proportional voting system. Nevertheless, the Lib-Dem's vigorous form of campaigning has caused a great deal of resentment with Conservative Party activists, and perceived concessions to the

parliamentary Lib-Dems have similarly caused friction with Conservative members of parliament and their local constituencies.

Grass-root supporters of the Liberal Democrats, who appear to be politically to the left of the outgoing Labour Party, were very unhappy with the coalition agreement. Evidence of this discontent includes the problems the Lib-Dems faced attempting to field candidates in the May 2011 local government elections, in which they suffered large losses¹. For Lib-Dem grass-root activists, who spend most of their political lives fighting Conservative policies, the coalition is exclusively a Parliamentary arrangement, and has no bearing on their political lives. Sadly for them, in the May 2011 local elections the electorate demonstrated that they had made a connection between this parliamentary pact and the wider political scene.

For Lib-Dems elected to parliament, the possibility of reaching a coalition agreement with the Conservative Party looked very different. The Lib-Dems under-performed in the 2010 general election – their electoral support collapsed from a second week opinion poll highpoint of 34% to just 23% once the votes were tallied. Having come up short for the second time in a row, the chance of helping to form the government (for the first time in 63 years) was too good an opportunity to pass up.

The importance of this opportunity to enter into government was not universally appreciated. Even within the small Parliamentary Lib-Dem Party there were splits between the traditional wing of the party and the so-called “orange bookers”, named after the book they collaboratively authored in 2004, *The Orange Book*, which set out their program of changes for the Lib-Dem Party based on a libertarian model of economic governance and social liberalism. *The Orange Book* was highly controversial within the Liberal Democrat movement, and much of its manifesto had been rejected internally by the party and successive annual conferences (which generally set the pattern for the party’s policy positions).² However, the negotiations for the coalition agreement were conducted outside of the party structures and by a small number of Lib-Dem parliamentarians, including:

- Nick Clegg (the party leader)
- Vince Cable (the now Business Secretary)
- David Laws, Danny Alexander (Chief Secretary to the Treasury)
- and Chris Huhne (the Energy Secretary)

for whom dealing with the Conservative Party is not nearly as discomforting as for their ordinary supporters.³ The coalition agreement, negotiated in May 2010, is remarkably close to that set out in *The Orange Book*, marking the shift of the Conservative Party prior to 2010, and the assumption of power within the Lib-Dem Party by the Orange Book group. For the Lib-Dem Party members who have voted down *Orange Book* proposals at successive party conferences, the negotiated settlement in the coalition

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agreement is something of a political betrayal, and may come to represent a fundamental shift in the politics of the party.

Thus, the question about whether this coalition government will survive to serve the full five year term is complicated. Nick Clegg's personal political capital has been substantially reduced by the charges of lying to the public over his 2010 election pledge over student tuition fees (he pledged to eradicate the tuition fees, but has in government trebled them), the loss of the voting reform referendum,⁴ and the Lib-Dem's losses in the 2011 local elections.⁵ The Lib-Dem ministerial team has also been particularly accident-prone in the first year of government: David Laws was forced to resign over irregularities with his parliamentary expenses, Vince Cable had some of his ministerial responsibilities removed after the Daily Telegraph recorded him saying that he was "at war" with Rupert Murdoch's News Corporation just prior to making a quasi-judicial decision about News Corps acquisition of Sky television, and Chris Huhne is, at the time of writing, under police investigation for an offense he denies dating back to 2003.

By contrast, the Conservative Party, which had been blighted by accusations of sleaze in the mid-1990s, has remained remarkably unaffected. Some Conservative Ministers have faced trouble, including Liam Fox (Defense Secretary) on questions of policy, Andrew Lansley (Health Secretary) similarly on questions of an ill-thought out policy, and Kenneth Clarke (Justice Minister) on ill-judged comments he made about the severity of date-rape. For the dynamics of the coalition, this now means that the Conservatives, already with a large numerical advantage, have many political advantages too. Worryingly for the Lib-Dems, the Conservatives have delayed the signing into law of fixed term Parliaments (which was within the coalition agreement) and, based on the opinion poll figures in the early part of 2011, could have conceivably called a snap general election to take a majority in their own right. Such a prospect seems to be receding as we move further into 2011, as the polling data is moving against the Conservatives. The Sunday Times figures for July 24, 2011 were: Conservative 35%, Labour 43%, Lib-Dems 10%, and a government approval rating of minus 29 points.⁶

Political Agenda

The key agenda for the coalition government is reducing the government's financial deficit. It has set out to do this, for the most part, by reducing government spending both by producing large cuts in the range of services provided by government, and by allowing private industry and charitable groups to get more involved in the delivery of what would traditionally be considered public services. Like most economically liberal governments, the coalition has sought to try and increase the amount of tax-revenue by encouraging growth – particularly from small and medium size enterprises – rather than through tax increases, but it has also accepted to increase some levels of taxation where it has felt it is politically expedient to do so.

The attempt to reduce government debt levels can be seen as the framing device for all the government's policy initiatives. This has caused some considerable political friction

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in defense policy (where the government tried to save some 8% of the defense budget via a “strategic” defense review) which connects British defense and security policy, and reorients British defense towards small but frequent expeditionary military operations.⁷ This has pulled the British defense posture closer towards what we might identify as being a European stance, while also causing concern to the Obama administration, which is understandably vexed about the extent to which the US burden in Afghanistan is being shared by British and European partners.

In the health sector, where the government's proposals include a widening of private involvement in healthcare delivery, local healthcare budgets are to be placed under the control of consortia of General Practitioners. Some of these proposals will bring British practice into line with European competition laws; others are intended to reduce the involvement of the state and to reduce the amount of money the government spends on healthcare. The debates surrounding President Obama's healthcare package were followed carefully in the UK, with some intellectual cross-pollination between the opponents of the Obama proposals and the exponents of the UK healthcare reforms. Further inspiration from America can be found in the coalition government's attempts to roll back the frontiers of the British state (whether at the national or the local level). The budgetary cuts to local government have been partly about reducing government spending, but mostly about reducing the political influence of local government. The ways the cuts have filtered out have been patchy in the extreme, with poorer communities feeling the cuts more acutely than the affluent south. Some authorities have made some curious and unpopular decisions, including ending funding for disabled care (Birmingham), and the wholesale erosion of the public library services.

Prime Minister Cameron's main project for this first term of office has been “the big society”, which is political shorthand for enabling communities to do more for themselves, and it is premised on a culture of volunteer work.⁸ The essential tension in this policy idea is that cuts to unemployment benefits and the reduction in the number of paid employment opportunities make pathways to financial independence problematic for those unfortunate enough not to have paid employment. However, Cameron's “big society” idea is a more positive vision than one can observe across the rest of as it battles with the sovereign debt crisis. Increasing levels of protest and electoral ructions in Italy, violent protest movements in Greece, and patchy movements in Spain provide no positive vision of how to overcome the economic woes of their country and inspire eventual economic growth.

For Britain's European and American partners, the fate of the coalition is important for issues of certainty in dealing with Britain. There are considerable challenges facing the coalition, not least the mutually enforcing desire of Lib-Dem MPs not to shoulder all the negative burden of the coalition policies (which will shortly manifest itself in more vocal dissent from the Liberals), and Conservative disquiet about the prospect of making any further concessions to their troubled junior partners. If the coalition were to fail, without an election being called, then a minority Conservative government may still be able to get its business done – so long as there is not a unified majority against its proposals. More

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likely is that Prime Minister Cameron will take the opportunity to call a General Election in the hopes of securing an outright majority, which would provide Britain's foreign partners with the certainty of dealing with a four or five year Conservative government.

The Coalition Government and Europe

As a political coupling, the coalition government is at its least comfortable on the issue of European integration and Britain's stance towards the European Union. The irony of it being a Conservative Prime Minister who took Britain into the EU (Edward Heath) seems entirely lost on the current crop of Conservative MPs, who are almost universally hostile to the European project – just as their heroine Prime Minister Thatcher became, having signed the strongly integrationalist Single European Act in 1986. If freed from political constraint, the Conservative Party would seek to renegotiate the UK's membership in the EU, reducing it right down to the bare essentials of the common market. Conservative politicians, who have campaigned vigorously in opposing Britain's possible adoption of the single European currency, feel thoroughly vindicated by the banking and sovereign debt crisis that has blighted Europe since the autumn of 2009.

This is in stark contrast to their coalition partners in government, the Liberal Democrats, who are the most Euro-enthusiast of all the main political parties in the UK. Federalism (a poorly understood concept in British politics) is a central tenet of Liberal Democrat philosophy, from the way they run their own political party, right through to how they see Britain's place in the EU. Indeed, Lib-Dem leader Nick Clegg started his professional career as a functionary in the European Commission and was first elected to serve in the European Parliament rather than the House of Commons at Westminster.

These attitudes toward European integration are significant both because of what they imply about Britain's role in the European Union, and what they reveal about how the different parties view Britain's role in the wider world. They tell us much about economic policy, but they tell us more about the high politics of international affairs.

One key dynamic of British politics prior to the 2010 election and thereafter has been the competition between the three parties over competency on defense. Perceived competence on this issue has been a cyclical phenomenon from the end of the Second World War to the present day. Defense is an issue that the Conservative Party elites have traditionally felt that they have "owned". During the 1990s and early 2000s however, the Labour Party managed to put to rest the ghosts of the nuclear unilateralism of the 1980s via its muscular approach to the international crises in Kosovo, Sierra Leone, Afghanistan and Iraq. It also ensured that it maintained far better relations with the defense industries than it had ever enjoyed before taking over the mantle of being the party of defense in the UK. However, by the late 2000s Labour's management of defense had come in for extensive criticism. The armed forces had consistently complained from 2004 onwards about overstretch and problems in the supply and replacement of key equipment. Much of the £38 billion (approx \$62 billion) funding gap in the British defense budget at the end of the Labour term in government came from equipment programs that were running late,

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over-budget, or had been started and cancelled (and the government was blamed for its handling of defense procurement). Sustaining casualties in Iraq and Afghanistan, coupled with widespread and well-publicized problems with military housing (as one example) eroded the Labour Party's command on defense, returning it to its problematic area of thirty years prior.

When the Labour Party was elected in 1998, it sought to fix some of the immediate problems it had inherited in defense. It did so in the first instance by negotiating and signing the Saint Malo Accords with the French government. The Saint Malo process then developed into the Europe-wide negotiations over the European Security and Defense Policy (ESDP), which were included in the 2001 Nice Treaty. The 2010 coalition government has emulated this approach through signing its own version of an Anglo-French defense accord, which promised a closer working military relationship, the creation of a European prime defense contractor (from French and British manufacturers), and the sharing of equipment lines.⁹ Such a move fits neatly into the prevailing wisdom within the EU – that influential governments generate the political motivation for closer integration. It also plays into the hands of Euroskeptic politicians in Britain and France, who have been keen to emphasize the need for domestic control over European initiatives, and also that the conventional pattern of bilateral agreements can be more effective than coordination through intergovernmental organizations. For the British coalition partners, the Anglo-French defense accords works well – it is a positive European policy development that does not expand the range and competencies of the EU. This particular development also helps to bolster the “essential relationship”, as President Obama termed it, between the US and UK, as such agreements help the UK maintain its status as a middle-ranking military power.

The European Financial Crisis

The UK was far from unaffected by the European banking and sovereign debt crisis that has persisted since 2008. The previous government had been forced to take on a substantial participation in the UK's biggest banking group (the Royal Bank of Scotland), it had to nationalize the regional mortgage lender, Northern Rock, and it took on shares of the large Lloyds banking group. The British economy went into recession in 2009, and it has only just come into a stagnating growth position of 0.2% quarter on quarter, hampered by various adverse externalities, including the government's public sector spending restraints and a harsh winter suppressing consumer demand. The public enthusiasm for retribution against the investment bankers who have been blamed for the crisis drives the political parties to find a way of appearing to have curtailed the excesses and risk-taking of investment banks and bankers, while not throttling the growth that the financial services industry has delivered to the UK since the mid-1980s.

While the British economy has suffered from contractions and low growth levels, the British government found itself with an estimated \$200 billion deficit by 2010, and that year's general election was fought over the competing visions for how to bring this structural deficit down and into sensible check. But this worrying domestic picture has

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been tempered by the crisis that has unfolded across the rest of Europe, threatening to engulf the eurozone. The crisis might still do so, if the financial contagion spreads to Spain and Italy, as it is currently threatening.¹⁰ For Euroskeptic Conservative politicians their opposition to the single currency was founded on a desire to retain sovereign control over British fiscal instruments, and also to remain as independent as possible from the damaging effects of other European nations finding themselves in financial distress. With the benefit of hindsight, these skeptical views now look eminently sensible. The wisdom of these views has spread to other parts of the EU, and there is a minority view in Germany that the German economy would benefit from reverting to the Deutschmark and creating its own economic financial area with eastern European countries.

The British government became exposed to the ongoing Irish banking and sovereign debt crisis through its banks, which were over-exposed to Irish debt, and via holdings in the Irish banking sector. Between them, British, French and German banks have a \$510 billion exposure in Ireland, compared to a \$620 billion exposure in Spain, which has three times the population. British public authorities and individuals had been burned by the collapse of the Icelandic banking sector in September 2008, and the Irish banking sector was seen as a potentially far more serious occurrence of this phenomenon. This fear was initially suspended by the Irish government's guarantee for deposits in Irish banks (in 2008), which threatened to over-run the Irish government's finances by 2010. Startlingly, in 2010 each and every Irish citizen was supporting the banks to the tune of \$145,000 – at least three times the annual average salary of Irish workers. The Irish government's debt to GDP ratio in 2010 was 139%, the Greek government's was 144%, and such concerning figures have had their resonance in the UK (76% debt to earnings),¹¹ where the government has decided to change the emphasis of its economic strategy by encouraging manufacturing to take a more prominent role in the British economy, something that goes against thirty years of Conservative orthodoxy and the belief in the trickle-down economics of the financial services industry. London will remain an important hub for international commerce, and the government is right to be concerned about not doing anything that will strangle the number of deals being booked in London, while also trying to satisfy the British public's desire to extract higher taxation out of the City of London.

As the eurozone struggles, and German focus remains on manufacturing, the British government will become more remote from the Continent (and efforts to harmonize economic activity). Prime Minister Cameron has already signaled that he is far more interested in strengthening Britain's economic ties to India, Brazil and improving relations with China than he is advancing the course of European integration. A more selective approach to Europe has been in the Conservative DNA for several generations; the recent domestic and international economic crisis has allowed for full expression of this well-established instinct across many policy areas. This is a trend that will continue until at least 2015, and if the Conservatives call a snap general election in the next year, until 2017. It is highly unlikely that the Conservative Party will be out of government until at least 2018, and therefore Europeans and Americans alike can plan for a period of stable policy preferences from the UK.

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¹ Daily Telegraph (May 5, 2011) Local Elections 2011, Daily Telegraph: London
<http://www.telegraph.co.uk/news/politics/local-elections/>

² Liberal Democrat commentary around The Orange Book can be found at:
<http://www.liberator.org.uk/media/lib-0904.pdf>

³ David Laws (November 22, 2010) 22 days in May (Biteback Books: London).

⁴ This would have seen the introduction of the “alternative vote” system to Parliamentary elections, something the Liberal Democrats strongly supported.

⁵ James Chapman (April 6, 2011) “Why do people hate you daddy?” Even Nick Clegg’s son asks him why he’s so unpopular (Daily Mail: London)

⁶ Yougov (July 24, 2011), <http://today.yougov.co.uk/sites/today.yougov.co.uk/files/yg-archives-pol-st-results-22-240711.pdf>

⁷ Ministry of Defence (October 2010) The Strategic Defence and Security Review (The Stationery Office: London).

⁸ Cabinet Office (May 2011) Building the Big Society (Cabinet Office: London)
<http://www.cabinetoffice.gov.uk/news/building-big-society>

⁹ Daily Telegraph (November 2, 2010) Anglo-French Defence Agreement (Daily Telegraph: London)

¹⁰ Graeme Wearden (June 13, 2011) Investors fear Greek default (The Guardian: London)
<http://www.guardian.co.uk/business/2011/jun/13/investors-fear-greek-debt-default>

¹¹ Office for National Statistics, <http://www.statistics.gov.uk/cci/nugget.asp?id=277>