

The lira, the pound and the unravelling of Europe

The currency chaos in Europe shows how economic factors are accelerating the post-Cold War disintegration of Europe

It has been a week of big changes on Europe's currency markets. After a month of feverish speculation about a possible realignment of currencies within the Exchange Rate Mechanism (ERM)—with some even talking about the total collapse of the system—the relations among different currencies started to shift last week.

The problems began in some of the outlying European economies which, while not officially members of the European Monetary System (EMS), have attempted to peg their currencies to the deutschmark. Last Tuesday Finland gave up the fight on holding the value of its currency and announced that it would be allowed to float free, which it duly did—downwards. Once one country had broken ranks, the foreign exchange markets intensified the pressure on other weak European currencies. Sweden responded to speculators selling the Swedish krona by raising a key short term interest rate from 16 to 24 per cent. When that did not stem the outflow, the interest rate was raised further the next day to an extraordinary 75 per cent.

The effect of the Finnish and Swedish moves was to shift attention again to the weaker ERM currencies—the pound and the Italian lira—which continued to bump along at their lowest permitted levels within the ERM bands. Four days later, after European central banks had tried to stabilise the currency markets by selling billions of marks and buying sterling and lira, the EC finance ministers were forced to make a U-turn over ERM realignment. They agreed to Bundesbank pressure for a seven per cent devaluation of the lira. The pound, now the weakest currency in Europe, has replaced the lira as the currency under most pressure on foreign exchange markets.

The Bundesbank cut its interest rates, not so much as a result of political pressure, as out of fear about financial and political stability in Europe. But its attempts to offset the pressures on the weaker ERM states in advance of the French Maastricht referendum this Sunday have had only a limited impact in stabilising the money markets. It seems only a matter of time before John Major and Norman Lamont, despite their protestations to the contrary, will have to accept some form of sterling devaluation.

What is the significance of this volatility on the European currency markets? Why is it happening now? And why have politicians across Europe, and especially in Britain, been so vocal in declaring their commitment to maintaining existing exchange rate levels?

A country's exchange rate measures the value of its currency in terms of the currencies of other countries. Many commentators blame speculators on the money markets for creating the pressures to realign currencies. But the activities of speculators are subordinate to, and are ultimately guided by, more fundamental factors. The appropriate level of a nation's currency is determined by the relative strength and productivity of its economy. An economy which is weaker, more stagnant and less productive than others will tend to find itself uncompetitive on world markets. As a result it will amass a growing trade deficit—importing more and more goods and exporting less and less. This is what has happened in Britain.

In the short term a country can borrow money to make up for a trade gap. Offering higher interest rates to attract foreign loans can make this easier. This is a key reason why British interest rates are so high. But over time, as the national debt expands, so borrowing from abroad will tend to become more difficult. Lenders will look for borrowers who are better placed to repay their debts. Eventually the currency will have to fall so as to bring the exchange rate back into line with the lower level of competitiveness and help narrow the trade deficit. The persistence of an overvalued currency—one pound, for example, being the equivalent of a relatively large quantity of marks or dollars—simply makes it more difficult for that country's producers to compete on the world market. Their goods are relatively more expensive than goods produced elsewhere and foreign imports are relatively cheap. That is why so many British industrialists have come out in favour of sterling devaluation recently.

Devaluation is a necessary survival measure but it cannot solve the problem. Because devaluation does not deal with the root cause of declining competitiveness, which lies in the tendency of profit rates to fall, the downward pressure on the currency simply builds up anew.

This fundamental relationship between a nation's exchange rate and the well-being of its economy is only superficially understood by the ruling class. Rather than see exchange rate pressure as the product of an uncompetitive economy, the bourgeoisie identifies a stable exchange rate as contributing to a strong economy. An effect or symptom is presented as a cause. Hence a government which is unable to create a strong productive economic base, retreats to a policy of trying to defend the exchange rate through higher interest rates or central bank intervention in the currency markets. This is ►

the rationale for John Major's fantasy that a high exchange rate for sterling will somehow create a strong economy. That is why a relatively fixed exchange rate system like the ERM is attractive to the weaker European countries.

Britain looks back nostalgically to a time when its relative economic strength put it at the centre of another fixed exchange rate system—the pre-First World War Gold Standard. The problem today is that in order to offset the downward pressure on sterling caused by British uncompetitiveness, the Tories need help from other governments intervening in the money markets. Such cooperation depends both on a climate of relative economic prosperity and the corresponding political will on the part of the stronger economies to make some sacrifices in the broader interests of currency stability. Lacking these two factors the money markets are in turmoil.

The immediate catalyst for the recent instability on the currency markets has been fears of a 'No' vote in the French referendum on Maastricht. The worry is that this will derail the moves towards European economic and political union and destroy the ERM. This will unleash a free-for-all

in exchange rates; the money markets are anticipating this by getting out of the weaker currencies before they devalue. This process itself puts downward pressure on the currencies of the weaker economies like Britain's.

As we argued last week in *the next step* whatever the outcome of the French referendum on Sunday the dream of a united Europe is over. The end of the Cold War has started the unravelling of all the major post-Second World War political institutions, including the European Community. The trend towards the breakdown of the ERM and the currency market volatility this has engendered is a symptom of this political unravelling of Europe, each nation tending to go its own way.

This political trend has been accelerated by the onset of worldwide economic slump which exacerbates national rivalry and conflict. The ERM is on its last legs; when it goes down so will the exchange rates of the weaker European economies. The increasingly desperate attempts by Major and Lamont to talk up sterling and the British economy will be exposed as so much hot air in the face of the steady and uncontrollable decline of British capitalism.

The Bishu massacre and the New World Order

The response to the massacre of ANC supporters by Ciskei troops last week reveals the ideological content of the New World Order

The Bishu massacre was the result of a trap for the ANC, carefully laid by the South African regime. What took place was a cold-blooded, premeditated slaughter of unarmed protesters. It was revealed this week that the man who gave the order to fire was not a Ciskei soldier but a South African defence chief.

Yet, far from putting South Africa or even the Ciskei regime in the dock, the ensuing debate has been entirely about how much responsibility the ANC bears for the massacre. Was not holding a march a 'provocation'? Was not the presence of Communist Party leader Chris Hani a sure sign that the marchers were bent on violence? Was not the ANC's refusal to enter into negotiations with Pretoria and its call for 'mass action' bound to lead to bloodshed? South African army sources even put about the story that the march was a cover for an assassination attempt on Ciskei leader Brigadier Gqozo.

The result of this debate is that the ANC itself has had to justify its right to fight for justice. Given its strategy of appearing 'reasonable' and 'respectable' the leadership of the ANC has capitulated to the pressure from Pretoria, as well as other Western capitals, and agreed to reenter negotiations with the apartheid regime.

The Bishu debate has blurred the distinction between victim and perpetrator, between the oppressed and the oppressor. Those who organised 'mass action' have been held to be as responsible for the massacre as those who pulled the triggers. Indeed they are more responsible since the march organisers set

in motion the train of events that led to the slaughter while the army just responded to it.

The Bishu debate is part of a broader ideological offensive launched by the right, which has turned round previously accepted ideas as to what causes oppression and poverty. In the USA, for example, the key argument in the debate that followed the Los Angeles riot was that black criminality, not racism, was the problem and that black people were responsible for their own disadvantage. Famines and disasters in the third world are now regarded as the responsibility of 'Marxist' or other 'undemocratic' regimes.

This new ideological offensive has made acceptable what was previously beyond the pale. The Sharpeville and Soweto massacres in South Africa caused outrage, brought international opprobrium on the apartheid regime and led to the moral isolation of South Africa. The Bishu massacre, by contrast, is regarded as a fact of life given the turmoil and level of violence in South Africa. The massacre has isolated the ANC instead of Pretoria.

There has been a similar transformation of attitudes to Western militarism. During the Vietnam War there was widespread protest in the West at the US destruction of the country and outrage at atrocities like those committed at My Lai. Last year the fact that a quarter of million Iraqis were slaughtered in the Gulf War was regarded as of little consequence. Indeed the *Times* celebrated the fact that 'miraculously small numbers of casualties' were sustained in the war—refusing even to count those killed on the Iraqi side as casualties. As John Pilger points out in his new

book *Distant Voices*, more Shiites were killed by the Western forces in a single month during the Gulf war than have died at the hands of Saddam Hussein through his rule in Iraq. Yet there is widespread support, especially from liberals, for Western intervention to 'protect' Shiites from Saddam's army.

This transformation of outlook is what we mean by the 'moral rearmament of imperialism'. People's moral universe has been turned upside down in the past few years. Whether in Iraq, Bosnia or South Africa, the West has become the force for good and for change while anti-imperialist forces have become the menace that needs sorting out.

The moral rearmament of imperialism reveals the real content of the New World Order. The New World Order is not a geopolitical entity. Unlike in the years of the Cold War, geopolitically the world is unstable and the Western 'alliance' fractured. However, the New World Order is a moral and ideological triumph for the West. The criminalisation of anti-imperialism—and indeed of any kind of resistance—and the new moral authority attained by the West are what underpins the New World Order.

In this new ideological climate it becomes even more important that we take a stand against imperialism and militarism. But the meaning of both anti-imperialism and anti-militarism is different today from what it was during the years of the Cold War. It is important now not simply to oppose Western military intervention or warmongering, but to challenge the ideological assumptions that underlie the New World Order and give rise to the new culture of militarism.

This means challenging the assumption of Western moral superiority which allows the fate of people in the

Balkans or Somalia to be decided in London or Washington. It means fighting the racism and the anti-immigrant hostility which has become the cutting edge of the politics of the New World Order and which shows how imperialism strikes at home. It means taking a stand against patriotism and national chauvinism—revealed for example in the Maastricht debate—which allows the ruling elites to win popular support for their warmongering abroad. It means exposing the rewriting of history which allows the authorities to trivialise the Holocaust or whitewash British atrocities in Malaya or Kenya and hence pave the way for new atrocities. And it means demystifying the right's moral agenda in defence of 'national heritage', 'family values' and 'law and order' which seeks to create a more reactionary domestic climate which and give Western powers a freer hand to act abroad.

These themes will be at the centre of our 'Hot Wars and Holocausts' conference in November. They are also central to our 'Manifesto against Militarism' which will be launched at the conference. The aim of the manifesto is lay bare the ideological content of the New World Order and to alert people to the dangerous consequences of the new trends in post-Cold War politics—trends that could pave the way for new hot wars. The manifesto is also a rallying call to build a new movement in opposition to the culture of militarism. It is the first practical step in building a new anti-imperialist opposition.

Tackling the rise of militarism is the key issue for the RCP in the coming period. The Bishu massacre showed that the unthinkable is becoming acceptable. Unless we challenge the political assumptions that allow Western powers to get away, literally, with murder Bishu will seem minor compared to the unthinkable that is to come.

The rise and rise of the one-party state

The advent of the party conference season reveals that, less than six months after the Tories' shock general election victory, the official opposition has collapsed.

The recent appeal by Labour leader John Smith for the recall of parliament to debate developments in Yugoslavia, Iraq, Somalia and the domestic economy scarcely made the front pages. John Major was not slow to remind Smith of what has come to be regarded as his 'mission statement' as leader of the opposition, that there was 'no particular merit in seeking to make controversy out of a difficult situation'.

While Major casually brushed off the opposition appeal, the *Sunday Telegraph* put it rather less kindly: 'Chuck it Smith. You're the leader of the Opposition, not a marriage guidance counsellor'. The British government is sinking deeper into the mire of slump at home and instability abroad. But the absence of an effective challenge from any of the traditional sources of opposition in society is the most striking feature of the political scene.

Opinion polls show that, despite the failure of the promised economic recovery, Labour has failed to regain public support at the Tories' expense. Last week's ICM poll showed Labour and the Tories level at 38 per cent.

It is worth recalling that, in the view of many commentators both inside and outside the Labour camp, both before and after the election, replacing Neil Kinnock by John Smith was all that was required to revive Labour's fortunes. Well, Kinnock has bolted, Smith has been hastily installed and Labour is no better off.

The main effect of Labour's new leadership team of Smith and Margaret Beckett is to make many people nostalgic for Kinnock and Hattersley. Whereas the old guard had become familiar and Hattersley, at least, could produce a soundbite, the new team seems uneasy and amateurish, like old-fashioned schoolteachers or over-dressed contestants for a gameshow.

Kinnock presided over the monolithic unity of a party purged of internal debate in the desperate quest to ingratiate itself with middle class public opinion. Smith by contrast presides over mounting chaos. Bryan Gould, Smith's main rival for the leadership, has advanced a coherent policy of currency devaluation and support for a British referendum on Maastricht in response to current controversies. Both positions command growing support ►

in the Labour Party. The only trouble is that neither is official party policy.

While Labour appears more divided than the Tories on economic policy and Europe, Smith is grappling with the old problem of conjuring up 'a big idea'. In his personal quest for 'a vision' around which to focus the Labour revival he has come up with the notion that the party 'must be seen to support self-reliance, and to reward hard work and pride in achievement'. This is a vision which could have been expounded by any Tory leader this century.

Smith's three priorities for policy-making in the next year are to be 'constitutional issues, the environment and Europe'. Major will be pleased to learn that Labour will not be seeking to 'make controversy' out of the 'difficult situation' in which three million people find themselves out of work and public spending cuts condemn millions more to mounting hardship and poverty.

Meanwhile Tony Blair, the rising star in the Labour firmament, has also discovered a big idea—'community'. In fact one of Labour's first leaders, Ramsay MacDonald, constantly emphasised the ascendancy of community over class—right up to the time he joined the Tories in the national government of 1931. But he never hit upon Blair's ingenious scheme for overcoming the party's declining membership (now little more than the Liberal Democrats). Never mind the politics—cut the subscription rate! No doubt there are millions of people inspired by the concepts of community and citizenship, who are only deterred from joining up with Smith and Blair by having to pay £18 a year.

The degeneration of resistance to the government goes far beyond the Labour Party. It seems that in the 1992 conference season all the old opposition movements are determined to caricature themselves.

The TUC humiliated itself before the British establishment by inviting the leader of the CBI to lecture the unions. Not surprisingly he told them that workers

had to work harder for even less.

The union leaders could not even pull off their own attempted internal coup and get rid of Norman Willis, who has turned the whole movement into a joke. He remains at the head of the TUC, determined to bring back the electricians on terms which make scabbing, poaching and sweetheart deals appear legitimate trade union tactics.

Meeting in a Harrogate conference centre that seemed to have been designed for the party when it was an alliance and twice the size, the Liberal Democrats look as though history has passed them by rather than a party set to break the mould. Without the big names of the past, they look like the bunch of daft, middle class eccentrics of the Liberal assemblies of the seventies. Their great debate is about how closely to cooperate with the wreckage of the Labour Party (and the Greens): not so much an oppositional alliance as a retirement home.

Between David Icke's breakdown last year and Sara Parkin's resignation this year the Green Party has imploded. It won 2.3 million votes in the European elections in 1989 and 170 000 in April. Its membership has plummeted from 20 000 to less than 8000. While many of the prejudices of the Greens have permeated society, strengthening pessimistic and conservative trends, as a political movement it has proved incoherent and transient.

Further left, the Socialist Workers Party has fastened upon the revival of interest in the radical American black leader Malcolm X around the new Spike Lee film as the national focus for its work. The relevance of Malcolm X, assassinated in 1965 by his former colleagues in the Black Muslim movement, to the problems facing people in Britain today, black or white, is not immediately apparent.

The conjuncture of a major crisis of British capitalist society and the disintegration of established opposition organisations underlines the urgency of building a new movement on a comprehensively anti-capitalist basis.

The RCP and Maastricht

The Danish and French referendums on Maastricht have led to calls for a similar vote in Britain. How should the RCP respond?

We are not opposed to a referendum as such—we support any activity that provides a focus for political debate. However we do not take sides in the debate over the Maastricht treaty. The debate over Maastricht is essentially an argument between different sections of the ruling class as how best to manage capitalist interests in the coming period. In Britain the 'Europe debate' has taken place throughout the post-war period.

It has been a discussion about how to manage Britain's decline—should it ally itself with Europe (and hence Germany) or should it try to stand on its own and rely only on its old relations with the USA?

Both views are equally reactionary, and we call for an abstention in any vote. However we should use the debate to argue for an entirely different outlook, challenging the chauvinist assumptions of both sides, and arguing instead for an internationalist outlook which starts with the interests of ordinary people, whether in Britain or abroad, rather than those of the bosses or the speculators.