

Not floating, but drowning

Floating the pound can no more solve Britain's fundamental economic problems than could the previous policy of pegging sterling to the deutschmark

Last Wednesday morning Norman Lamont was a chancellor who steadfastly backed the exchange rate mechanism (ERM), strenuously opposed devaluation and was determined to do 'whatever was necessary' to maintain sterling's parity with the deutschmark. By Wednesday evening Lamont was a chancellor who had never believed in the ERM, who had always recognised the need for more flexible exchange rates and who strenuously held that you could not buck the market.

The instant transformation of Britain's economic policy—and the barefaced way that Lamont, John Major, the entire cabinet and large sections of the British establishment now argue that they have been for the new policy all along—demonstrates that there never was any policy in the first place. The chaos of the past week shows that the British government has little control over economic developments. Rather than shape policy, it is forced to drift along with the tide of events, reacting to each problem as it comes along. This was as true of Britain's entry into the ERM two years ago as of its abrupt departure from the ERM last week.

Since Wednesday, many commentators have hailed the government's new economic direction as a recipe for recovery. Not simply Tory supporters but many government critics, such as *Guardian* economics editor Will Hutton, Cambridge academic Wynne Godley and other Keynesians, have welcomed devaluation and claim that it is only time before Britain pulls out of recession. Such arguments for recovery are wishful thinking. For the past two years Lamont has promised us that 'recovery is around the corner' and that the discipline of the ERM assured Britain of a low inflation/high growth future. This was clearly a fantasy, as even the government's most diehard supporters had come to realise by last week. The idea that leaving the ERM and floating the pound is Britain's economic panacea is equally absurd. You only have to look across the Atlantic to see that America's policy of slashing interest rates and letting the dollar drift has produced no turnaround in the US economy. Britain is in an even more precarious economic position, and even less likely to benefit from a low pound and interest rate cuts.

Britain's problems have little to do with the ERM or the value of the pound. Pressure on sterling is a symptom of the economic malaise, not its cause. Lamont's troubles stem from the fundamental weakness of the British economy and from its inability to compete on the world market. Falling profitability has meant a fall in investment

which has led to British industry relying on antiquated technology. That in turn has meant low productivity and frustrated Britain's ability to compete with its rivals.

Throughout the eighties, Britain maintained an illusion of economic expansion through artificial means. The extension of credit, the manipulation of financial instruments, the boom in share and property prices have all helped boost the 'paper' economy. While the manufacture of cars, ships and machine tools plummeted, Britain relied increasingly on the City providing insurance, laundering foreign money, and speculating on the money markets.

Dependent as it is on the provision of City services, Britain has needed to maintain a stable exchange rate to ensure confidence in the pound and hence in the financial sector. Further, because Britain has had to borrow money to make up for its trade deficit (the result of the collapse of manufacturing exports due to its inability to compete on the world market), it has needed a stable currency to attract lenders. These two factors were important considerations in pushing Britain to enter the ERM in the first place—the government hoped that by hitching the pound to the deutschmark, it could provide long-term stability for the pound. Even before formally entering the exchange rate mechanism, the chancellor of the day, Nigel Lawson, had pursued a policy of 'shadowing' the deutschmark, maintaining constant parity. By entering the ERM the Tories hoped not only to prop up the pound but to be able to cut interest rates which otherwise had to be maintained at a high level to attract foreign money into sterling. The Tories took sterling into the ERM at a relatively high exchange rate as part of their counter-inflation policy—a lower rate would mean cheaper imports and, given Britain's reliance on imported goods, would have adversely affected the inflation figures.

Britain's ERM membership, and the high parity for the pound within the exchange rate mechanism, were to a great extent, then, products of the need to paper over the gap between the collapse of the real economy and the world of credit and speculative-led growth. The dramatic events of last week revealed a realignment, not simply of sterling's exchange rate, but of part of the paper economy to the real economy. The fictitious economy that the Tories have created over the past decade suddenly began to crash about their ears on Wednesday, revealing the real weakness of Britain's position. The devaluation of the pound is a move towards its real worth as determined by Britain's productive capacity (or lack of it).

The relation between the real economy and the paper economy, incidentally, is why the widespread criticisms of money market speculators for sinking the pound are so ironic. Certainly many foreign exchange dealers made a financial killing last week at the expense of the pound. But it is only through financial speculation that Britain has been able to sustain the fiction of a strong economy over the past decade. Norman Lamont's bitter tirades against the Bundesbank are also richly ironic. Bonn has spent billions of deutschmarks trying to prop up the pound to maintain stability in the international economy—so important for a major exporting nation like Germany. By last week it was clear that the weakness of the pound was such that Germany's resources were being stretched in continuing to bail out Britain. Germany's national interests began taking precedence. Without German support, however, the collapse of the pound would have happened sooner.

It is the fundamental weakness in the British economy that makes a nonsense of the comparisons between the current crisis and previous sterling crises. Many commentators have drawn parallels with 1967—when prime minister Harold Wilson claimed that devaluation would not affect 'the pound in your pocket'—or 1976, when chancellor Denis Healey called in the International Monetary Fund and introduced Britain to monetarist austerity three years before Margaret Thatcher came to power. The lesson that many of today's commentators draw is that just as Britain dealt with previous sterling crises so it can deal with its current problems. This is to misunderstand the changed context in which today's crisis takes place.

The crises of 1967 and 1976 took place at a time when Britain still had a manufacturing base. Despite Britain's long-term decline, in the sixties and seventies Britain maintained a bigger slice of the world's manufacturing market than it does today. The recession

of the eighties, however, has decimated its productive industries. This time round, Britain has much less to fall back on. Britain, like much of the rest of the world, is not simply in recession but in the midst of a slump—a protracted period of economic decline with no possibility of sustained recovery. In Britain's case, the slump is compounded by the very weakness of Britain's real economy which has undermined the possibility of any coherent government economic policy.

The previous crises also took place in the context of a post-war order which not only provided international political stability, but gave Britain a political influence out of all proportion to its economic strength. This allowed for the international cooperation necessary for propping up the pound. The harsh world of the post-Cold War era makes for a very different political climate. The tensions in the New World Order have undermined international stability and weakened the possibility of cooperation. The currency chaos and the problems of European integration are themselves indications of the unravelling of the old order. The increasingly acrimonious exchanges between British and German officials clearly reveal the new mood. By attempting to scapegoat Germany the Tories are in danger of throwing away the one mechanism that has helped sustain its economy in recent years—support from its competitors.

The key strategy to deal with the economic crisis in the coming period is likely to be a concerted assault on state spending. That means an austerity drive the like of which we have not seen before. Already the Tories have promised to trim £14 billion from public spending plans by November. The real figure is likely to be considerably higher. The artificial boosts to the British economy in the past few years have meant that the Tories have been able to hold back from really savaging working class living standards. They can hold back no longer.

The dangers of being anti-German

The upsurge of anti-German sentiment—in France around the Maastricht referendum and in Britain in response to the devaluation of the pound—is a dangerous trend in European politics.

The spirit of cooperation among the major European powers has been one of the establishment's most precious assets in the post-war period. The commitment to pursue a common approach to collective problems reaches its highest expression in the treaties and institutions of the European Community. From the oil crisis of the early seventies to the stock exchange collapse of the late eighties, the capacity of European governments to coordinate economic and financial

policy has played a major part in slowing the onset of recession and in containing its potentially destabilising consequences.

Yet in the course of a few weeks of political campaigning in France, and a few days of financial turbulence in Britain, senior political figures in both countries seem prepared to throw away the benefits of 40 years of carefully orchestrated harmony in outbursts of anti-German spleen. Judging by their equally intemperate responses, some

politicians in Germany seem only too willing to reciprocate. From all sides politicians with longer memories and more diplomatic sense look on in despair.

In France the very intensity of the debate around Maastricht and the closeness of the contest pushed adversaries into raising the stakes. Germans widely noted the irony that both *Oui* and *Non* camps were inclined to justify their case by appealing to anti-German prejudice. Those in favour of Maastricht emphasised that closer European integration was necessary as a counterweight to growing German preeminence. Opponents warned of the danger of France becoming subordinated to a reunited Germany as the franc was increasingly forced to pay homage to the mighty deutschmark. The far right and the Stalinist left competed in the crudeness of their anti-German chauvinism.

François Mitterrand, and the other main party leaders, seized on the narrow majority in favour of Maastricht as a vindication of their strategy and an endorsement of the historic process of European convergence. But there can be no doubting the damage done to the Franco-German entente that lies at the heart of the treaty of Rome, never mind the treaty of Maastricht. The malign forces of national chauvinism have received a major boost from the referendum debate and, at a time of mounting economic and political insecurity throughout Europe, they are unlikely to return to the quiescence of the last 40 years.

Meanwhile in Britain the same forces of slump, national decline and the demise of the post-war order combined to enforce the devaluation of the pound and the collapse of the government's economic policy. Humiliated in the market place, John Major and Norman Lamont desperately cast around for a scapegoat and found one in the Bundesbank. Major let it be known that at the height of last Wednesday's crisis he had personally spoken to chancellor Helmut Kohl and expressed his fury over 'unhelpful' statements on the need for a realignment of the pound being made by senior Bundesbank officials, including its president Helmut Schlesinger. Lamont publicly blamed German monetary policy for many of the tensions within the ERM and emphasised the need for a more stable environment.

Stung by British criticisms, Kohl dismissed Lamont's remarks as 'inappropriate for a minister'. German finance minister Theo Waigel declared that he accepted 'neither the style nor the substance of the attacks'. While British columnists seized yet another opportunity to re-fight the Second World War (or at least the 1966 World Cup final) and opinion polls registered large majorities endorsing the view that the crisis was Germany's fault, more seasoned politicians moved to cool the chauvinist ardour. 'By trying to blame Germany for his own mistakes', wrote Denis Healey on Saturday, 'Major risks bringing down the whole fabric of European cooperation' (*Guardian*, 19 September).

However the continuing controversy over Maastricht in the aftermath of the French referendum result, and its consequences in Germany and Britain, has

kept the dispute simmering. When Major bowed to internal Conservative party pressures and announced a delay in bringing the Maastricht treaty before parliament, a German foreign ministry official publicly questioned how seriously the British prime minister took his country's role in the presidency of the EC. While former prime minister and Euro-enthusiast Edward Heath condemned Major's prevarication, the Euro-sceptics proclaimed Maastricht a dead letter and turned up the volume of anti-German rhetoric.

The public slanging match between prominent European politicians reveals a tension between those keen to whip up nationalist fervour, as a means of generating sorely needed popular support, and those committed to the institutions of supra-national cooperation which have served Europe's elites so well for so long. While these conflicts will undoubtedly continue, the dynamic away from European integration and towards a Europe polarised between Germany and the rest has undoubtedly accelerated in the course of recent events.

The growth of popular anti-German sentiment in Britain increases the danger of a convergence between right-wing chauvinism and radical anti-fascist campaigns which continually seek to appeal to folk memories of patriotic antipathy to Nazi Germany. The tabloid press and right-wing Tories use such sentiments to rally support for Major and Lamont against the Bundesbank. Meanwhile some radical activists reduce anti-racist action to chasing a few skinheads around Waterloo station or picketing the home of a far-right historian or requesting the authorities to close down a right-wing bookshop—all on the grounds that these represent an intrusion of alien German Nazism into decent British society.

Anybody who has grown up in post-war Britain in a popular culture saturated by nostalgia for the Second World War knows that anti-German chauvinism is very close to the surface of British society. While such prejudices have been long submerged in the cause of European cooperation, they can be readily revived to rally the British people to stand up against the Germans, the French, not to mention immigrants, refugees, black people, the Irish—indeed, anybody labelled an enemy of the establishment. Far from being a sentiment that can be mobilised for anti-racist purposes, British 'anti-fascism' is more readily recruitable to the Euro-sceptics' campaign to uphold British interests against Germany, or any other potential rival of the capitalist class.

After 40 years of relative stability in Europe, the rise of anti-German chauvinism is a dangerous trend for respectable politicians to unleash. While it jeopardises the European establishment's cooperative arrangements and institutions, it is also a menace to the European working class. As the confusion of the French referendum campaign revealed, the influence of national chauvinism deprives the working class of a distinctive voice. In Britain, anti-German nationalism can only paralyse the working class, destroy its initiative and once again pave the way towards war. That is why we must fight it all the way.

The demise of party politics

The inability of governments to pursue coherent policy objectives has transformed the nature of politics today

Virtually no commentator or newspaper has failed to observe the sheer ineptitude of the official opposition in the face of the greatest crisis a British government has faced in a generation. Labour's frontbench team of John Smith, Margaret Beckett and Gordon Brown—the dream ticket who would supposedly remedy the ills of the Kinnock era and savage a lacklustre Tory team—has been spectacular only in its incompetence. Labour's most notable performer has been Bryan Gould; unfortunately for Labour his policy of opposition to Maastricht and support for devaluation is the exact opposite of the party's official line. The fact that this seems to have mattered little and that Gould has continued to front for Labour over the past week speaks volumes about the state of opposition politics.

The transformation of politics, however, goes far beyond the decline of the opposition. The whole meaning of politics has changed. We live in a world in which governments have little impact on economic or political developments. The idea of policy-making, in the sense of pursuing carefully-worked out objectives, has little validity. Governments are forced to drift along and react to events as they occur. Policy-making—as the sterling crisis has revealed—means simply reversing that which has failed and hoping for the best.

The lack of coherent policy has transformed the relationship between government and opposition, and between the political elite and the electorate. The absence of any policy alternatives means that those in power no longer have to worry about a political opposition. The fact that it is acceptable for the government to move from one direction to its opposite overnight undermines the very idea of a clash of policy options. Every politician—government

or opposition—goes along with the drift of events. 'You are destroying the idea of this programme', protested Channel 4 presenter Vincent Hanna when Bryan Gould could find no point of disagreement with Edwina Currie during Sunday night's debate on the French referendum. The idea of political debate no longer has meaning.

The lack of coherent political debate has strengthened the power of the civil service and the bureaucracies which effect government programmes. It has also made politics into a much more arbitrary, individuated affair. All over Europe political parties are deeply split. This was particularly evident during the French referendum when both the right wing parties and the Socialists split down the middle over Maastricht. In Britain, both Tory and Labour are deeply divided over the issue of Europe. Even the cabinet is riven by differences and Major is finding it increasingly difficult to hold a common line. The collapse of political parties means that individuals within the same party often hold widely different views while individuals from different parties often find themselves supporting the same cause. The impact has been to make individuals more important than the parties they represent, disaggregating politics yet further.

The arbitrary nature of contemporary politics was underlined by the fact that the British politician who gained most kudos over the past week was Bill Cash. Cash is an eccentric Tory backbencher who in any other era would be considered the Wolfie Smith of the Conservative Party. The fact that he can gain so much prominence—and even win a place on the platform of the main 'Non' rally in the French referendum campaign—is a vivid illustration of the arbitrariness and irrelevance of politics at the official level today.

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Americas, Asia, Central and Southern Africa (airmail) £37 ★ Australasia and Japan (airmail) £40 ★ Outside Europe-All destinations (surface mail) £44.
Correspondence to The Editor, *the next step*, BM RCP, London WC1N 3XX. Phone (071) 375 1485. Fax (071) 377 0346
ISSN 014 350 X 25 September 1992 Registered as a newspaper at the Post Office.