British Experience: Monetarism hiding behind Europe

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The contention that the relationship of Britain to European integration is peculiar summons common wisdom. Britain has time and time been characterised as an 'awkward' (George, 1994) or 'semi-detached' (Bulmer, 1992) partner. The paper contends that the question of Economic and Monetary Union (EMU) reflects an impasse for the British ruling class. Major's 'wait and see' policy was as much part of this impasse as is Blair's decision to defer entry and make it conditional upon Britain's economic interests - however such interests might be 'defined' and viewed in time.

What, however, is to be understood by the contention that Britain is 'hiding behind Europe'? Despite its 'awkwardness', Britain has in fact signed and ratified the Maastricht Treaty. Its opt-out from monetary union relate only to Stage Three of monetary union; not to Stages 1 and 2. Britain, then, has a legal obligation, enforceable by the European Court of Justice, towards meeting, better: to be seen to be trying to meet, the convergence criteria of monetry union (cf. Howe, 1996). The vacillations over Europe could not be better expressed by Britain's forceful campaign to retain its sovereignty over monetary policy and its - two-third - membership in EMU. While its opt-out allows Britain not to participate in the making of European monetary policy through membership in, for example, the European Central Bank (ECB), membership in Stages 1 and 2 confers on Britain the obligation to meet EMU requirements. In sum, EMU sets the institutional and political framework for monetary, fiscal and economic policy in Britain.

The paper assesses the political raison d'être of Britain's position. The uncertainty of Britian's relations with Europe will be explained by four interconnected issues: the miserable experience of monetarism under the Thatcher governments; the failure to reverse Britain's economic decline; the particular character of the British economic structure in relation to its main rivals on the world market; and the perceived 'threat' to Britain by Germany's economic and political muscle especially especially since German unification. Britain, so the argument, is the most internationalised economy, probably in the world. The conclusion is in two parts. The first part looks at Britain's legal obligations under EMU and the second assesses Labour's employment policies.

EMU and Dissary

The construction of 'Europe' over the last two decades seems to indicate that Britain was able to Europeanise its neo-liberal domestic policy agenda. The Single European Act devotailed with the politics of the Thatcher administrations of the 1980s. Thatcher, as Anderson (1997, p. 171) argues, collaborated 'in the interest of deregulating financial markets, in which British banks and insurance companies saw prospects of large gains'. Of course, monetary union was and remains a deeply contentious issue. Yet, EMU endorses, and puts on to a legal basis, the neo-liberal politics of tight money, labour market deregulation, and the liberalisation of capital and financial markets. EMU supports the scalling down of the welfare state. It imposes deregulatory pressure on existing protectivist and regulative functions of member states, leaving a politics of sound money as the sole 'regulator' that imposes adjustment to tight monetary conditions as if it were an automatic pilot. In short, as Gill (1992) reports, EMU was designed to lead to the obliteration of what was left of the Keynesian legacy. Grahl (1997, p. 129) makes a similar point when he argues that the 'Maastricht Treaty ... inscribed the monetarist project into the EU's agenda for the rest of the century and beyond'. What, then, do we make of Britain's akwardness towards Europe and EMU in particular; better: what do we make of its reluctance to endorse the neo-liberal construction of Europe?

There is no need here to review the history of Britain's relations to the development of the European enterprise. The question of whether to join the Common Market has split both major parties since the 1950s. In the first decade after Britains accession to the EC in 1973, European integration was characterised by 'Euro-sclerosis'. This allowed the British state to reconcile two conflicting agendas. On the one hand, it was able to seek the modernisation of its domestic economy within the framework of the Cold War and, on the other, it could claim to have contained the European question. However, the revitalisation of European integration during the 1980s shattered this honeymoon and sceptical assessments on Britain's role in an integrating Europe put at risk the cohesion of the then Thatcher governments. The debate over Europe became even more bitter against the background of the unification of Germany and especially since the pound's exit from the ERM in September 1992. The question of Europe destroyed Margaret Thatcher's government and than paralysed the Major government. It never recovered its moral authority after Black Wednesday. The crisis of 1992 effected also Labour's economic policy stance. For both parties, pro-Europeanism had become an electorial noose. Under the leadership of Kinnock and Smith, Labour adopted a pro-European stance. Labour endorsed the view that ERM membership would 'depress inflationary expectations by denying employers the option of a competitive devaluation if they succumbed to pay claims too easily' (Shaw, 1994, p. 98). Were employers not able to depress the growth of wages and achieve lower unit labour costs, they would 'price themselves out of markets with the result - as [the Labour Leader John] Smith pointed out - that "there would be unemployment, wouldn't there?"' (ibid.). This endorsement assessed the virtues of ERM membership in similar terms to those of the then Conservative government.

Under Blair as the leader of the opposition, Labour drifted in tadem with the Major government in a more Eurospectical direction. During the election campaign, it attacked the so-called move towards a 'European super-state', and it declared after the election that the new government would exercise Britain's right under the Maastricht Treaty not to take part in Stage 3 of EMU, and to defer the decision on full membership until 2002 at the earliest, subject to an approval in a referendum. Under the new Labour government, more amicable relations with other European states were sought. However, behind the rhetoric of a New Britain at the heart of a New Europe lurks the familiar uncertainty and reluctance towards Europe[1]. The government appeared irritated when Britain was excluded from the new informal 'Euro-X' council of countries participating in the Euro. This new council is designed to take responsibility for coordinating European macro-economic policy reducing Ecofin, the Council of European Finance Ministers, to a largly ceremonial body. Britain felt, and rightly so, excluded from the real centre of economic decision-making. On the other hand, Blair, during the Amsterdam IGC of 1997, claimed the role of a European leader for himself because, as he saw it, of his successful reconciliation between the German and the French governments over the issue of 'employment' within EMU. The IGC adopted, promted by Blair, the term 'employability' as the key concept of European labour market policy (Robinson, 1998). However, the Labour government soon run into difficulties over the proposals by the new SPD-led government in Germany to introduce, as the French government under Jospin had demanded for some time, a European employment pact to run in parallel with monetary union. Furthermore, the new German govervenment's call for the harmonisation of business tax rates across Europe has not found, to put it mildly, an enthusiastic

[1]See Rowley (1996) for a good summary of Labour's uneasy relationship with Europe.

endorsement in Britain. The tax proposals project Germany's regulative model on to a European plane, seeking to avoid competitive tax pressures that might entice tax bases to migrate to low tax countries. The German view is anathama to the British Labour government. It seeks, on the basis of comparatively lower tax-levels, to attract foreign direct investment. Britain, in the conception of both the Conservative party and the Labour party, is to participate in the common market as a competitive offshore island for global capital guaranteeing access to the European market and offering a low tax regime and a deregulated labour market as a competitive advantage. Proposals for tax regulation are, rightly, viewed as taking away at least some of these advantages and at imposing a regulative regime that the British economy might not be able to absorb without further competitive exposure of its relative weakness in relations to its 'partners', especially Germany. In sum, the honeymoon between New Labour and Europe, if indeed it ever existed, has fallen on hard times.

Of course, one of the first acts of the Labour government was to sign up to the European Social Charter that sets out minimal rights for European labour. This, however, has not in any way softened its emphasis on labour market deregulation as a mens of maintaining its competitive position on the world market. Blair's endorsement of a politics of 'employability', signals that much. As the conclusion will show, the Labour government's endorsement of workers' rights is not what it seems. It interpretes and seeks to implement these rights within a framework of neo-liberal labour market reforms. Labour espouses deregulated and flexible labour markets and stresses the 'democratic virtues' of choice and individual responsibility[2]. In short, under Blair Britain is governed 'in the spirit of Thatcher' (Ali, 1999). For Labour, as Ali reports, 'there is only one successful model in Europe and that is the British model. Death to tax and spend. Long live flexible labour markets'.

Monetarism and the Search for an Anchor

In the European context, Thatcher's Britain of the 1980s stands out both for the severity of its monetarist experiment and the failure of monetarism. In contrast to Britain, France under Mitterand in the early 1980s pursued what for reasons of brevity might be termed a programme of Keynesianism in one country. Against the background of the recession of the early 1980s, this

[2]See Holloway (1987) for an instructive assessment of deregulation within the framework of workers rights.

programme was soon abandoned and economic policy in France shifted decisively towards austerity that was anchored by the German Mark in the ERM. In short, France adopted an 'external' anchor for its domestic programme of tight money (*france fort*). In Britain, the programme of monetarism in one country was also discontinued in the early 1980s. In contrast to France, Britain did not commit the pound to the ERM. The making of monetarist policy was left without a firm anchor, leaving the British state without a basis for its continued quest to effect disinflation. Furthermore, during the 1980s, the so-called relative economic decline of the British economy was not reversed[3] and instead, for want of a better word, the 'parasitic' character of the British economy became more accentuated. Making money out of money became more important and emphasised than producing things.

After the disaster and subsequent abandonment of the Medium Term Financial Strategy in the early 1980s (see: Bonefeld, 1993), where it proved to be impossible even to identify the relevant variables, led alone to control them, of monetary policy, the Thatcher government was deeply divided over the conduct of monetary policy. The divide centred on whether Britain should lock the pound into the ERM or whether the pound should be allowed to find its own exchange rate. The then British Channcelor, Nigel Lawson, endorsed membership in the ERM as a means of putting the economy on auto-pilot. By fixing the exchange rate to that of a stronger and more stable economy, the British economy would be forced to adjust in order to remain competitive and government would be shielded from the consequences of such adjustment because it would be imposed on Britain ostensibly from the outside, from Europe. This would help to depoliticise the making of economic policy and thereby shield the government from the consequences of ERM-enforced economic and social adjustment and the likely electorial backlash such adjustment might cause (see: Bonefeld/Burnham, 1996).

Lawson lost the argument to Thatcher who argued that the exchange rate should be determined by market forces and that it

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[3] This is acknowledged by the pro-free market columnist Martin Wolf of the *Financial Times* (8.4.97): 'To have halted, or even slowed, the pace of relative decline is comforting. But delight must be tempered by awareness of the reason for this sucess. This is the deterioration in performance elsewhere, above all on the European continent'. In other words, the relative decline was not reversed, but was merely halted or slowed; and this not because of a stronger economic development in Britain but because of a slower economic development in the rest of Europe. On Britain's relative decline see: Coates (1994).

was the task of government to create the condititions, particularly labour market conditions, that would support employers in their attempt to reassert their right to manage, i.e. to increase labour productivity[4]. Yet Thatcher succumbed against the background of a severe economic downturn to ERM-membership in 1990[5]. After the pounds dramatic and humiliating exit from the ERM in 1992, a third attempt to achieve the aims of monetarism focused on the institutional reform for the conduct of monetary policy, especially central bank independence. Independence was granted to the Bank of England in 1997 under the new Labour government. Proposals for independence had already been made by Lawson in the 1980s (Lawson, 1992), and had been advanced by the Treasury under the last Major government (see: Bonefeld/Burnham, 1998). Independence for the Bank of England is of course a requirment of Stage 2 of EMU. However, the Labour Chancellor, Gordon Brown, did not advocate central bank independence as a European commitment. Instead, it was endorsed as a prudent step to insulate the making of monetary policy from mass democratic expectations and to place it, instead, into the hands of those with 'impartial' understanding of monetary requirements. Interest rate decisions were thus to be removed from the electorial battlefield.

Brown thus seems to have taken to heart the neo-liberal prescription to resolve the so-called crisis of 'ungovernability'. During the 1970s, neo-liberal commentators argued for the institutional reform of the 'political' because of the apparent economic costs of democracy. As Brittan (1976) saw it, 'excessive expectations are generated by the democratic aspects of the system' (p. 97). Further, 'the temptation to encourage false expectations among the electorate becomes overwhelming to politicians' (p. 105). The basic trouble, then, is '<u>the lack of a budget constraint among voters</u>' (p. 104). The depoliticisation of monetary policy under Gordon Brown recognises and reflects this concern.

The former Chancellor Norman Lamont expressed his delight at Brown's bold move and argued that this change should have been carried out by a Conservative government (*Financial Times*, 7.5.97). The new Labour Chancellor defended his decision on 'grounds of domestic policy and increased credibility with financial markets' (ibid.: 10). His defence echoes an earlier assessment of the former Chancellor Nigel Lawson: 'An

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[4]On Thatcher's position see: Wooley (1992).

[5]On this and subsequent developments: Bonefeld/Burnham (1996).

independent Bank was to some extent an alternative way of entrenching the commitment to stable prices ... An independent Bank would not, of course, have had the merit of ERM membership of replacing discretion by rules. But it would at least ... be seen to be locking a permanent anti-inflationary force into the system, as a counter-weight to the strong inflationary pressures which are always lurking' (Lawson, 1992: 868). Labour's speedy proposal for greater operational independence could not have happened, as David Smith (1997: 11) points out, without the reforms of Norman Lamont and Kenneth Clarke who formalised the Bank's explicit role in monitoring and forecasting inflation and offering advice on the setting of interest rates, made public after six weeks. In this respect, Blair's New Labour merely confirmed in practice that its programme of a 'Third Way' amounts to trodding down the Conservative path (cf. Ali, 1999).

Globalisation, Regionalisation and British Capital

The term used to describe contemporary global economic developments is globalisation. There is no need here to rehash the at times opaque nature of the debate on globalisation. Without doubt, we are witnessing the creation of what Marx called the world market society (Agnoli, 1999). This society, in contrast to the proponents of 'globalisation', is neither characterised by the creation of 'homogeneous' economic conditions nor does it amount to an escape of the 'economic' from the 'political'[6]. As Murray (1997, p. 28) puts it, 'far from representing a "globalising" trend in economic affairs, one smothing out contradictions between nation states, developments in trade are actually signalling a fiercer struggle between them'. There is, then, a re-ordering of political space through the regionalisation of the world economy around the sphere of influence of the USA, Japan, and Germany (Negri, 1996). The world market society, then, is founded on the creation of regional power blocs and, as such, develops in the direction of 'the <u>dis</u>integration of the world economy' (Murray, 1997, p. 18-9).

The difficulties of the British political class to commit itself to Europe, and that is the full-scale integration of its political economy into a regionalised economic power-bloc dominated by Germany, has much to do with the structure of the British economy. Britain, as Callinicos (1997, p. 43) puts it, 'is probably the most internationalised of the major capitalisms'. There is no doubt, as Rowthorn (1975) argued in the 1970s, that the global strength of British big capital has compounded the debility of

[6]For such a view see, for example, Omhae (1990). For an assessment of globalisation see Burnham (1997).

British capitalism. The global reach and operation of big British capital helps, as Gamble (1986, p. 109) suggested in the 1980s, to 'account for one of the great paradoxes of British decline - why an economy performing so poorly should nevetheless have produced more multinational companies than any other country apart from the United States'. There is no reason to suggest that Britain's global orientation has changed and that it has become more European in outlook. Indeed, as Jamieson argues forcefully from a Eurosceptical position, Britain's global reach and orientation have continued and strengthened particularly since the devaluation of the British pound after its expulsion from the ERM. While Britain's trade with Europe is important and significant, its trade and commerce with the rest of the world is much more emphasised in comparison with its Continental rivals who are much more integrated economically with each other (Jamieson, 1996).

The long debate and divisions over Europe reflect and address the specific character of Britain's integration into the world market. This character concerns not only the global role of the City and the importance of financial institutions within the structure of the British economy. Nor does it merely concern the potential threat to the City by an integrated Euro-bloc. It concerns also the high degree of capital concentration in British industry and the global role played by British transnational corporations. Britain has an exceptionally high rate of capital export and British capital, from its inception, was much more 'globally' oriented than its European competitors. For British capital, Britain is not just the home country but, also and importantly, the basis from which its global operations divorced from domestic market constraints are conducted. From this perspective it seems that Britain has less interest in the 'regionalisation' of the world economy and, instead, much to gain from a stable world-wide system for profit-making, a system in which the powers act in concert to order the affairs of the world (cf. Jamieson, 1996). 'Globalisation', in short, appears to be 'Britain's natural and logical style' (Murray, 1997, p. 77). Germany in contrast has been and remains in its political perspective, and economic orientation (Hufschmidt, 1994; 1998), a much more regionally focused power - better: it seeks to 'cover' its global aspiration through European institutions and to spread the costs of its world economic power position to its 'European partners'. Germany cultivates Europeaness[7]. Britain, in contrast,

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[7]The German Chancellor Schmidt warned in 1976 that 'West Germany's "unwanted and dangerous rise to second world power of the West in the consciousnesness of their governments" could lead to "a rivival of memories not only of Auschwitz and Hitler but also of Wilhelm II and Bismark...perhaps as much in the West as in the East"'. For West-Germany is

addresses its domestic concerns as global concerns and vice versa, without imperialist handicap.

The 'global' perspective of British capital also helps to account for Britain's strong endorsement of a European free trade area and its lack of enthusiasm for incorporation into a Europe that is circumscribed by German interest, regulatory power, and political design and aspirations. The exposure of the British economy to German interest rates during the membership of the pound in the ERM, showed with brutal force the sort of competitive pressure that monetary union might unleash on a weaker and, indeed, 'dependent' national economy. This point is emphasised by Burkitt and Bainbridge (1996, p. 177) who argue that in order, 'to ensure its survival as a prosperuous and self-governing nation, Britain must disengage from damaging integration trends, so that it can seize the tremendous opportunities open to it as an inherently co-operative, yet independent, country'. In other words, locking Britain into EMU would instal a deflationary force that in its effect would further weaken the viability of its economy and threaten the foundation of its global orientation. Within the European context, that is in relation to Germany, the British economy has already been exposed as a dependent economy: an economy that lacks the competitive edge and foundation to dictate terms. Some commentators, such as Ali (1999) suggest that 'British productivity is 20 per cent below that of ... France, not to speak of the Germany'. In a territorial Union that emphasises economic advantage, it will take a long time to repair - if indeed that is possible - initial economic 'backwardness'. Within Europe, then, Britain's relative decline is not expected to be reversed but, rather, to become more emphasised.

The debate, then, on Britain's membership in EMU reflects an impasse for the British ruling class. For Britain, the alternatives appear to be either full hearted participation in an increasingly integrated Europe or the 'development' of the UK to an 'offshore' island for global capital (cf. Jamieson, 1996; for assessment: Callinicos, 1997). Both political parties have vacillated around these alternatives choices. The first alternative would involve a

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was thus necessary '"so far as at all possible, to operate not nationally and indenpendently, but in the framework of the European Community and the [NATO] alliance. This attempt to cover [abdecken] our actions multilaterally will only partially succeed, because we will (necessarily and against our own will) beome a leadership factor in both systems"' (quoted in Callinicos, 1997, p. 29). Schmidt's endorsement of a multilaterally covered assertation of German political interest continues to be sought by the German political class, albeit in a much less disguised way. On this: Kirchner (1996). See also Connolly (1995).

painful process of adjustment to Germany's more competitive rates of labour productivity[8], an adjustment that, it is feared, will accelerate the relative decline of Britain and foster nationalist reactions and xenophobic rejetions to all all things non-British. The alternative development of Britain to an 'offshore' island appears also to have its drawbacks: it would strengthen British big capital to the detriment of a national economy whose foundation would debilitate further, make Britain less attractive as a destination for foreign direct investment because of non-participation in EMU, reduce the importance of the City in favour of Frankfurt as the new European centre of finance, and decrease further Britain's political influence over an integrating Europe. As a territorialised landing strip for global capital, Britain's national economy might well develop even further in the direction of a 'parasitic economy'. It might, therefore, not be 'a comfortable fate for sterling' to remain an independent currency that woobles 'between the dollar and the euro as a speculator's toy currency' (Riley, *Financial Times*, 5/6.12.98). In short, whichever alternative is pursued, the competitive strength of the British economy holds the key.

Germany and British vacillations over Europe

During the 1980s, Lawson's search for a stable exchange rate regime reflected his despair at the failure of monetarism in one country (see Lawson, 1992). When the boom of the 1980s came to an end, first signalled by the crash of 1987, and then by growing inflationary pressure and an increase in deficits by the late 1980s, Thatcher was adament that the serious economic downturn was the result of Lawson's apparently 'clandistene' shadowing of the German mark from 1987 to 1988. For the Eurosceptics, monetarism had not failed but, rather, it was Lawson's misguided exchange rate policy that was at fault (see, for example, Redwood, 1997). Growing differences over the conduct of economic policy focused in the increasingly bitter debate over whether or not Britain should join the ERM. This debate, ostensibly over the issue of national sovereignty, was about the failure of the British economy during the Thatcher period to catch up with its main competitors. During the pound's membership in the ERM, the fault lines of the British economy were clearly exposed and commentators assessed the impact of ERM-membership in terms similar to those suffered by the former GDR after monetary and

[8]On EMU as a means of forcing the adjustment of European labour productivity to German levels, see Carchedi (1997).

economic union with the FRG in July of 1990 (*Financial Times*, 12.3.91).

Britain entered the ERM at the start of the deep recession of the early 1990s. The then Chancellor, Norman Lamont, was quite clear on the 'benefits' of the deflationary discipline exerted by ERM-membership: 'Rising unemployment and business failures "were a price worth paying" for the defeat of inflation' (Smith, 1993, p. 188). ERM-membership was heralded a success and Lamont took the opportunity of emphasising the 'sea-change in attitudes to inflation' that had occurred in Britain since joining. The chancellor stressed that a regime change in monetary policy had occurred in as much as industry and labour would be taught once and for all that high pay awards 'translate directly into a loss of competitiveness and hence of market share, profits and jobs' (*Financial Times*, 20.5.92). The centre of gravity was the Deutschmark, with the pound kept within limits set by the German mark. This enabled the government to argue that Britain had to adapt to an environment in which inflation performance must match or even undercut that of Germany.

Lamont's assessment of ERM-membership was widely shared. The *Financial Times* proclaimed that 'sterling's years of living dangerously are over' (*Financial Times*, 29.4.91) and that the UK was 'about to enter a period when making things is more important than moving paper' (*Financial Times*, 8.2.91). However, these early assessments missed an important point. During the 1980s there had been a large scale shake out of labour (Crafts, 1994) and the Keynesian nexus between wages and public expenditure had been attacked (Rowthorn, 1992). There had not been, however, a decisive breakthrough in productivity, productive investment or a reduction in average wages relative to other European states (Deakin, 1992). The depth of the recession of the 1990s was to a great extent a response to the ballooning of debt on a global scale. [9] The boom of the 1980s rested on the continued accumulation of credit. The longer this was sustained without increased investment and thus a corresponding exploitation of social labour power, the deeper the attendant recession, 'the greater the accumulation of fictitious capital on which [the boom] rests, the greater the dangers of a catastrophic crisis and a devastating depression' (Clarke, 1992, p. 147).

The *sine qua non* of the pound's stability within the ERM was a reduction in unit labour costs and increased productivity. Failure to achieve these ends made it unlikely, as indeed was the case, that the

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[9] For an analysis of the relationship between global credit expansion and the British recession see Bonefeld, Brown, and Burnham (1995).

pound would survive inside the ERM without provoking serious political and social conflict. Unless unit labour costs in Britain improved to match the levels in Germany, pressure on the pound would increase because the pound's exchange rate would not be backed by productivity performance and the creation of assets against which to balance the money supply. Between 1985-92, GDP in Germany grew uninterrupted, with unemployment reaching only 4.6 % in 1992 and net output per worker running 25 % higher than in Britain. The underlying strength of the German industrial economy underpinned the Deutschmark. Britain had to accommodate to German unit labour costs and rates of inflation or lose jobs to German competition. The ERM operated like an automatic pilot of national and international reconstruction putting, in the absence of a real breakthrough in labour productivity, growing pressure on high inflation and low productivity member-states. As Peter Jay (1994, p. 183) summarises: 'Since interest rates cannot be substantially different in two economies linked by supposedly immutable exchange rates and capital movements, the EC economies outside the natural greater German economy (Germany, Austria, Holland, Belgium and Luxembourg) faced a choice between devaluing (or floating down) against the German mark and raising their interest rates to compete with German rates, thereby subjecting their already cyclically weak economies to further deflationary pressures.' As the costs of German unification rocketed, the Bundesbank sought to balance the fiscal expansionism of the federal government through a tight monetary policy, driving German interest rates up. The Deutschmark appreciated pushing its partner currencies to the lower end of the fluctuation margin. Pressure on the pound increased rendering a reduction in the rate of interest in Britain impossible at a time of deepening recession.

Towards the end of August 1992 the Deutschmark appreciated sharply against the dollar and the Bank of England lost $1bn in an attempt to prevent sterling falling below its ERM floor. As exchange rate volatility increased and dollar exports weakened, it became apparent that the pound's continued membership of the ERM depended on further interest rate rises, consigning the UK's manufacturing and construction industries to further decline and job loss and reinforcing financial pressures on personal debtors. Lamont's last throw of the dice occurred on the 3rd of September when he announced a foreign currency borrowing plan designed to strengthen sterling within the ERM - and finally scotch suggestions of devaluation. In a move dubbed by the *Financial Times* (4.9.92) as more 'often associated with the lax finances of banana republics', Lamont borrowed Ecu 10bn (£7.27bn), over half in Deutschmarks, as insurance in the event of a French 'No' vote in the September 20th referendum on Maastricht. Lamont's hopes were pinned on a significant German cut in interest rates. But on the 14th of September the Bundesbank announced a reduction of only 0.25% and the then Bundesbank President, Helmut Schlesinger, indicated that in his view a wider realignment was still required. This could only mean one thing to the dealers on the floors of the world's financial markets - that sterling's position within the ERM was under threat. Wednesday the 16th of September saw the Bank of England intervene in foreign currency markets on an unprecedented scale, losing £16bn in an attempt to maintain sterling at its ERM floor of DM2.77. As sterling continued to collapse - 'it was sold like water running out of a tap' (*Financial Times*, 19.9.92) - the financial markets knew the game was up - as indeed it was.

The humiliating ejection of the pound from the ERM reinforced the Eurosceptical rejection of British membership in the EU, and EMU in particular. Nationalism became elevated to a fantastic imaginery compensation for the real weakness of British capitalism (cf. Callinicos, 1997, p. 39). For the sceptics, as Callinicos reports, the debate on the alternative between a closer integration in the EU, on the one hand, and, on the other, the positing of the British economy as an offshore island pursuing free market policies and oriented on the world economy, and in particular the US and East Asia, rather than Europe, had been resolved in favour of a conception of Britain as a 'mega-Singapore' (ibid., p. 36).

The ejection of the pound from the ERM reinforced anti-German sentiments. Ridley, for example, advocated a return to the UK as holding the balance of power in Europe, rejecting the EU as a German racket. Major argued that the ending of the Cold War had made the integrative process redundant, hinting that it might be more profibable for Britain to invest in Asia. There was increasing unease over a new German regional hegemony in Europe that would render western European economies part of a German Großraum. However, as this paper has argued and as Gowan (1997, p. 93) emphasises, the 'anti-German rhetoric had less to do with German political dominance than with British political marginalisation at the end of the Cold War'. Membership in the ERM had exposed Britain's 'continuous lack of competitive strength and could subject large regions to deepening economic decline' (ibid., p. 102). Europe was seen as being built in the German image. European integration was no longer accepted as a means of containing German economic and new found political assertiveness. Instead, European integration around the economic and political might of Germany was seen to subject the rest of

Europe, including Britain, to German hegemony in its plentitude[10]. It was in this climate that Major sought to ratify the Maastricht Treaty in the House of Commons. His bargaining chip was the opt-out from Stage 3 of EMU and his major strategy seemed to have been to ratify a Treaty that he hoped would never see the light of day (see: Howe, 1996).

Conclusion: employability, global island, and EMU

Hiding behind Europe: Britain and EMU

The fact that the UK negotiated an opt-out from the European single currency[11] is widely assumed to mean that the monetary union obligations set out in the Maastricht Treaty are of little importance unless the UK opts to join the single currency (*Financial Times*, 30.11.98). As a result, there is a believe that monetary policy, including exchange rate policy, will remain a matter of political 'choice' for the UK. However, and importantly, Britain's opt-out clauses relate only to Stage 3 of monetary union. Britain's opt-out is embodied in the Protocol to the Treaty. The Protocol obliges the UK to take part in Stages 1 and 2 of monetary union. The Protocol says that the UK need not take part in Stage 3 unless it opts to do so. However, under Stage 3, the UK is treated as a member state with a derogation. The Treaty confers obligations on the conduct of Britain's monetary and exchange rate policies. Stage 2 of monetary union requires member states, amongst other things, to endeavour to avoid excessive budget deficits and restrict lending by central banks to governments and public sector bodies. It also envisages that member states avoid devaluation, and that independence will be granted to the central banks of member states. The Treaty envisages that those member countries that have a derogation from full monetary union will continue to strive to achieve the 'convergence criteria'. During their 'derogation', these member countries are excluded from voting rights in the operation of the ECB. At the same time, they are obliged to treat their exchange rate policy as a matter of common interest. The UK, in short, has to adjust its monetary policy to that of the Euro-bloc in order to maintain the parity of the pound to the Euro.

The precise scope of Britain's obligation within EMU is open to interpretation by the European Court of Justice, allowing legal

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[10]See, for example, William Cash (1991, p. 94) allusion to Prussian hegemonic power over the other German states under Bismark as a warning for things to come in Europe.
[11]This part draws on Howe (1996).

challgenges to the UK if it were to seek, or if it is seen to seek, competitive advantages through, for example, currency devaluation. The UK is obliged to ensure economic and monetary convergence. It has not opted out of the common objective of exchange rates convergence. Of course, the UK would not be operating in defiance of the Treaty if its attempt of achieving convergence would fail. What matters is that the Treaty obligations are framed in terms of policy intentions. Britain has to be seen to be trying to achieve the common objectives of monetary union.

Of course, there is no reason to doubt that the new Labour government pursues a tight monetary policy. It has adopted the budgetary constraints of its predecessor in office and is staunchly opposed to a politics of 're-distribution'. Its emphasis falls on 'low inflation' and the inflation target is set at 2.5%. For Labour, the basis of 'economic reform' is a sound monetary and fiscal policy. Independence was granted to the Bank of England precisely for that reason. The UK has pursued and continues to pursue the same neo-liberal policies of tight money that monetary union institutionalises on a European plane. Artis (1998) has commented that Britain's membership in the ERM in the early 1990s, did not amount to a restriction of the policy-making autonomy of the British government. This was so, he argues, because the policy-stance in the UK and that of the ERM converged. In other words, the domestic policy agenda of the then Major government was reflected in the deflationary discipline of the ERM. Under Blair the European politics of tight money, disinflation, and deregulation continue to characterise Britain's domestic policy agenda. When the decision was taken in Spring of 1998 about which member states qualifies for Stage 3, the UK was one of the few countries that had found it easy, that is without fugding its accounts, to qualify for membership in Stage 3. The UK opted to stay out for political reasons.

The trouble, then, for Britain is not that monetary union institutionalises a neo-liberal regime of tight money and deregulation. Rather, the trouble is that full membership in EMU would commit Britain full-heartedly to Europe exposing its competitive weakness vis-a-vis the German dominated Euro-bloc at the expense its global role. In other words, Britain has opted to be a secrete member of EMU, keeping up the appearance of independence and seeking to exploit any margin of competitive advantage that non-membership in Stage 3 confers on Britain. Appearances are, of course, all important.

Hiding behind Europe and Employment Policy

In general terms, EMU is more than just an exchange rate mechanism. It substitutes participating currencies with a single currency or, in other words, replaces several decision making authorities by a single one: the ECB. Participating countries lose control over monetary policy and are no longer able to use exchange rate devaluation for adjusting productivity growth to globally competitive levels. The ECB is charged with maintaining price stability across the EU. Macro-economic adjustment in member states will have to be based on greater labour flexibility and that is on the achievement of competitive labour unit costs. Adjustment, in other words, is expected from the European working class through higher labour productivity, wage restraint and acquiescence to 'neo-liberal' welfare reforms. Britain's derogation, then, implies that it will retain a certain degree of exchange rate freedom, allowing devaluation of the exchange rate within set limits to compensate the lack of labour productivity to internationally competitive levels. These limits are dictated by the Euro-bloc and the force of the dictate depends on Britain's relative unit labour costs in relation to its Continental rivals.

Furthermore, EMU is conceived as a disciplinary mechanism that encourages 'competition' on the basis of disinflation and increased labour productivity. The Maastricht Treaty adopts tough convergence criteria. The criteria for convergence towards EMU were strengthened by the Stability Pact which was negotiated in 1996 to overcome German objections to EMU. The German government was concerned that fiscal expansionism especially in the Southern European states would make the Euro weaker than the German mark. The Stability Pact toughened the convergence criteria and makes them permanent in EMU. It empowers the ECB and the Commission to police member states' fiscal policy and to enforce fines upon member governments in case of 'fiscal profligacy'. However, the Pact makes allowances to exempt by qualified majority vote countries running an excess deficit in case of compelling evidence of a severe economic downturn. Overall, then, EMU entails pressure to deregulate labour markets and to increase labour flexibility in production. The discipline exerted by EMU means that either wages have to shift downwards or that the unemployed have to move to areas where employment might be gained. For the architects of EMU, increased labour mobility is endorsed as the main adjustment mechanism (Emmerson, 1992). The politics of labour market deregulation was, of course, one of the major aims of the previous Conservative governments. The new Labour government has confirmed that it is no less dedicated to the deregulation and flexibilisation of labour markets. It has done so, however, under the cover of a semantic innovation: its labour market policy is neither called 'deregulation' nor employment policy. Instead, the Labour government endorses its labour market policy in terms of 'employability'.

'Employability' appears to set out to improve the employment prospects of the working class. The term has a posititive connotation, at first sight at least, in that it raises the issues of training, skill, and education. There is, of course, nothing wrong with a skilled, educated, and well trained labour force. However, the term 'employability' does not lack its sinister side and it is this sinister side that provides substance to the term 'employability'.

During the 1980s, the rate of unemployment not only in Britain, but on a global scale, remained high and this despite the long boom. The boom of the 1980s did not re-integrate the unemployed into the production relation[12]. Furthermore, and importantly, the unemployed did not seem to work in the classic conception of the reserve army of labour. There was, in particular, no recognisable wage-pressure exerted by the reserve army of labour on those workers whose skills were not only in demand but also in short supply. In Britain, during the 1980s, average wage levels increased. This increase disguised the dramatic fall in the income of the unskilled, the unemployed and of those whose skills were no longer required. There developed, then, a 'dual' labour market between highly paid and lowly paid workers. The Thatcherite labour market reforms, especially its anti-trade union policies, were designed to deregulate and flexibilise the labour market. However, the demarcation between 'labour market insiders' and 'labour market outsiders' means that those with skills were able to take 'advantage' of their position on the labour market leading to the regulation of the labour market on the basis of skill shortages.

The endorsement of 'employability' can thus be seen as an attempt to 'deregulate' the skilled based demarcation of the labour market that protected skilled workers, on the one hand, and created a vast amount of marginalised labour, on the other. The current British Chancellor, Mr. Brown, has argued that macro-economic stability and coordination are not the only essential conditions for employment growth. The other is flexible labour markets (see Robinson, 1998). Further deregulation of labour markets, then, is seen to hold the key for the success of Britain Plc. As Robinson (1998, p. 193) puts it, 'in the new labour market,

[12]This part draws on Bonefeld (1993).

governments could not guarantee employment growth, never mind full employment, but instead could only create the conditions in which labour would adapt continuously to the changing needs of business'. The new adaptability of the working class meant that the privileged insiders in the labour market would no longer be protected by the 'unskilled' outsiders, reducing job security, exerting wage-pressure, and making employment more flexible[13]. Whether labour market deregulation and the withdrawal of employment protection would cut unemployment is, of course, a different question. Capital, as the last three decades have shown, is unable to treat the unemployed as an exploitable resource. In other words, 'employability' will not reduce unemployment but increase the risk of unemployment and render work conditions more precarious. Employability makes unemployment invisible.

For the British political economy, the most disappointing feature of the past two decades of attempted price restraint has been the fact that wage inflation has persistently outstripped general inflation. Merely a portion of these greater labour costs was justified by improvements in productivity. In the face of Britain's relatively high unit labour costs and apprehensions over the ability of those workers in the skilled labour market to achieve wage increases, Britain's 'secrete' membership in EMU amounts, then, to an attempt of establishing the sort of counter-inflationary credibility that Lawson advocated during the 1980s. At the same time, the ability to compensate relatively low unit labour costs is - in parts - retained through exchange rate devaluation within the limits set by the Euro-bloc. In short, membership in Stage 2 provides an institutional anchor for Britain's tight monetary policy. At the same time, some degree of flexibility concerning the exchange rate is retained allowing the government to accomodate relatively low labour productivity to internationally competitive standards.

The viability of Britain's second-tier membership depends on the achievement of competitive unit labour costs to support the pound as a national currency whose international role is squeezed by the Euro, the Yen, and the Dollar. Keeping Britain outside Stage 3 might transform the British pound into a toy-currency for speculators (cf. Riley, *Financial Times* 5/6.12.98). Britain's membership in Europe

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[13]Labour's labour market philosophy draws in terms of its ideological justification from, for example, Reich (1992) who argued that globalisation requires maximum flexibility and work-force adaptability in order to reduce bottlenecks in labour markets and to allow governments to run the economy at full tilt.

and its simultaneuous transformation into an offshore island for global capital is fraud with difficulties and contradictions. The politics of making Britain a 'mega-Singapore' (cf. Callinicos, 1997) would run into serious difficulties with its European partners. EMU entails a politics of deregulation. It does, however, not entail a domestic policy of competitive free riding where member states seek competitive advantage through 'social dumping'. On the other hand, full scale membership might well mean a further decline of the competitive position of its political economy. Whatever the future development of the relationship between Britain and the EU, the achievement of relatively more competitive labour productivity holds the key. The Labour government's politics of 'employability' offers a view of how the productivity question might be tackled. Deregulated labour markets and a relatively low tax regime are espoused as offering a competitive advantage. No wonder, the 'victory of the German left ... appears to have created near panic in Downing Street' (Ali, 1999).

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