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THE BRITISH LABOUR PARTY AND THE POLITICS OF EMU

by

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Prepared for the Biennial Conference of the European Community Studies Association, George Mason University
Fairfax, Virginia, May 22-24, 1991

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The British Labour Party has been the last major social-democratic party in western Europe to reconcile to the European Community (EC). Its resolve that Britain "negotiate positively" with her European partners, on the basis of the post-1992 Single Market, to achieve further economic cooperation and integration in the Community [1] is widely regarded as the key signature of its highly publicized and explicitly revisionist 1990 Policy Review. However, it has been not only to the dismay of the beleaguered left-wing of the party but also to the astonishment of many of its critics on the political Right, that Labour's embrace of a "single Europe" has included British accession to the Exchange Rate Mechanism (ERM) of the European Monetary System (EMS) and endorsement of the European Monetary Union (EMU) which the ERM foreshadows. Rehearsing the objections to monetary union which he believes should be obvious to a party of the Left, Thatcher-loyalist Brian Walden suggests that Labour has talked itself "into a monetarist minefield."[2] Effectively "an attempt to force German monetary discipline on the European Community," the ERM could be subtitled "a mechanism for making sure that a Labour government cannot carry out its favorite policies and that the British trade unions are brought to their cake and milk." Obliging each member to keep the exchange rate of

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1. Labour Party National Executive Committee, statement on the issues of the EC summit conference in Rome, December 1990, *Tribune*, December 14, 1990, pp. 8-9, p. 8.
2. Brian Walden, "Labour talks itself into a monetarist minefield", *Sunday Times*, July 2, 1989.

its currency within narrow bands of fluctuation, ERM creates "an inbuilt sanction forcing British governments towards deflation . . . The government could not finance its programs by borrowing, but would have to increase taxes" for which there could be no compensating hikes in pay. Echoing the position of the Socialist Campaign Group of Labour MPs, the last refuge of the old anti-Common Market Left, Walden argues that "the only faint hope that joining the ERM could in any way benefit the interest groups which the Labour party exists to defend, is if the entire purpose of the ERM and monetary union changed": "wouldn't it be lovely if its priorities were rapid growth, full employment and social equality?"--a "dream" Walden likens to the prayer that pigs might fly.

For dominant Europeanist tendency in the Labour party the tactical association which Walden implies with the Thatcherite-wing of the Conservative Party is proof positive that Labour's "anti-European" left is hidebound, in thrall to "a vision of sovereignty left over from the forties."[3] The Labour Party National Executive Committee notes that "even before exchange rate mechanism entry [in November 1990], it was clear that monetary 'sovereignty' was closely constrained by the relationship between the pound and the Deutschmark." Consequently to fail, at this point, to push for closer and more effective monetary cooperation would merely "abdicate European monetary policy to the *Bundesbank* whose responsibility is purely national."[4] This is a common and, it

3. Phil Kelly, "The end of a vision of sovereignty left over from the forties", *Tribune*, July 20, 1990, pp. 6-7, p.6.
4. Labour Party National Executive Committee *op cit.*, p. 6.

would seem, telling argument. At each stage in the development of its pro-EC policy Party leaders have insisted that Community policy, however inadequate, responds to a logic of economic interdependence which a Labour government can resist only at the cost of consigning Britain, in a "two-tier Europe," to a marginal, but nonetheless dependent position. Yet despite its self-conscious realism, it is hard to escape the impression that in arriving at its current pro-EMU policy, the party's leadership has "suspended its critical faculties on Europe."[5] It is almost certainly case, given both the trend in wage settlements in Britain and the priorities which the Kinnock shadow cabinet has itself assigned to ERM membership, that participation in the evolving monetary arrangements of the Community means "confrontation between a Labour government and the unions."[6] Indeed, the leadership billed its call for entry to the ERM "at the earliest possible opportunity" as a token of its anti-inflationary resolve--this in the context of a revised program that includes a commitment to negotiate "public sector pay within clearly-defined public sector budget limits," not to intervene if unions in the private sector "choose to price their members out of jobs," and to enforce statutory proscriptions of mass picketing, political strikes and secondary disputes.[7]

Why has Labour chosen this path? At the very outset we can acknowledge the obvious temptation to exploit divisions on the

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5. Michael Hindley, "Beyond a two-tier Europe," *Tribune*, December 14, 1990, p. 5.
6. Brian Bowles, "EMS membership means confrontation with the unions", *Socialist Campaign Group News*, July 1990, p. 7.
7. "Labour would join ERM at 'earliest opportunity'", and "Labour puts on a prettier face", *The Independent*, May 16, 1990, p. 8, p. 20.

issue of monetary union within the Conservative government. Margaret Thatcher's rearguard defense of sterling as the symbol of British sovereignty ("How can I possibly go to the Queen and tell her that her head is no longer to appear on out banknotes")[8] and the anti-Brussels invective of the supporting "Up Your Delors!" British tabloids,[9] precipitated an open split with colleagues in her cabinet and party. By repeatedly outbidding the government on monetary coordination and other aspects of the Euro-federalist agenda, Kinnock maximized the embarrassment of a largely pro-ERM Conservative leadership and no doubt contributed to the pressures that led to British membership in October of last year and the prime minister's resignation the following month. Yet given its far-reaching implications for a future Labour government, and prominence in the new policy profile of the party, clearly there is more to the embrace of EMU than the calculation of short-term partisan advantage.

As Ian Aitkin observes, in *The Guardian*, Labour's embrace of the ERM to fills "a hole at the heart of Labour policy" once occupied by incomes policy.[10] Whereas previously Labour, in conjunction with the unions, had committed itself to containing inflationary pressures within the framework of "economic planning

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8. *The New York Times*, November 4, 1990, E3.
9. Following the prime minister, who made the EC Commission president into a symbol of a federalist conspiracy against the dignity and authority of "the crown in parliament," Rupert Murdoch's mass circulation *Sun* (November 2, 1990), under a front-page banner headline, invited "true-blue Brits" to "tell froggie Common Market chief Jacques Delors exactly what you think of him and his fellow countrymen" and where he could "stuff his ECU [European Currency Unit]."
10. Ian Aitkin, "Hole in the heart of Labour policy" *The Guardian*, December 4, 1989.

and industrial democracy" involving a "comprehensive" assessment of "the share of the national income going to profits, to earnings from employment, to rents, to social benefits and to other incomes,"[11] today it rests the credibility of its "anti-inflationary stance" on a rate for sterling within the ERM that keeps pressure on companies not concede inflationary wage claims.[12] In effect, it substitutes for incomes policy the heightened threat of unemployment. Thus we might begin an investigation of Labour's conversion to monetary union by reviewing its disappointments with incomes policy, a tack which I follow. While this may seem to involve raking over the embers of an argument exhausted in the seventies (the tireless discussion of social-democratic "corporatism"), I suggest that in reconsidering the Labour's experience with incomes policy, and in particular the "Social Contract" between the trade unions and the last Labour government (1974-79), there are two common misperceptions which, as underlying assumptions, continue to distort discussion of Labour's European conversion. The first is the simplistic analysis, to which not only Aitkin and other centrist commentators but also left critics of Labour's record subscribe. This attributes the instability of incomes policy to the militant traditions and disorganized structure of British trade unionism. Seen in this light, Labour's endorsement of EMU reflects the desire to attenuate what many contributors, invited and uninvited, to the Policy Review

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11. TUC-Labour Party Liaison Committee, *Economic Planning and Industrial Democracy. The Framework for Full Employment*, Report to the 1982 TUC Congress and Labour Party Conference, London 1982.
12. Hamish McRae, "A less laboured view of the ERM", and Nicholas Timmins, "Labour would join ERM at 'earliest opportunity'," *The Independent*, May 16, 1990.

perceive as crux of Labour's electoral dilemma, a traditional and dependent relationship to the trade unions. It is a view, however, which typically abstracts the anti-inflationary restraint of wages from its broader policy context, and consequently underestimates the extent to which the dynamic of a political negotiation of incomes generates *employer* resistance to incomes policy. The second misperception, common to those who are more appreciative of the role which anti-inflationary government-union accords have played in strategic thinking of the Labour Left, has been to see incomes policy as an instrument of a "nationalist" economic policy, a tactic of the "siege economy." While there are partisans of "democratic planning" who undoubtedly indulged in autarchic fantasy, the charge of "national egoism" (now, it seems, levelled indiscriminately at critics of the Single Market), nonetheless, misrepresents the logic of the "Alternative Economic Strategy" which had committed Labour to international and European cooperation of a form and substance very different to that embodied in the "1992" program. Consequently it obscures the depth of crisis that engulfs the Labour Left and which has persuaded former anti-Marketeers to embrace the priorities and politics of EMU.

From the "Snake" to EMU

Monetary cooperation within the European Community has had two persistent and interrelated themes: the need to insure against "exchange rate risks" which can seriously threaten cross-border trade and investment, and the concern to constrain monetary policy to pursue price stability. The initial challenge was to control the consequences of a free-floating U.S. Dollar.[13] During the period through to the late 1960s of secure and stable U.S. monetary leadership, the commitment of each country to maintain a fixed exchange rate between its own currency and the Dollar within narrow margins was sufficient to ensure stability of external exchange rates among the European currencies. The question of monetary coordination in Europe scarcely arose: it is a subject to which the original text of the 1957 Treaty of Rome makes only the briefest reference. By the early 1970s, however, the Dollar increasingly was a source of exchange-rate *instability*. As serious internal economic difficulties developed in the United States, the Dollar-based international payments system dislocated. The policies, often inflationary, which were used to stave off recession in the United States, prompted the removal of gold-backing for the Dollar in 1971, and after 1973 the decision to let the Dollar "float" on foreign exchange markets with other currencies.

The first limited steps towards effective monetary co-operation in the EC were in the attempt to defend the Community's internal trade against the resulting, Dollar-induced, disruptions. Internationally, the common response of traders to the evident decline in U.S. competitiveness was to shift to the Deutschmark. The strength of the German economy and its consistently low level of inflation recommends the Mark as an alternative store of value. When there is a loss of confidence in the Dollar, wealth-holders

13. John Grahl and Paul Teague, *1992: The Big Market*, London, Lawrence and Wishart, 1990, pp. 101-111; Layla Almarzooqi, "The Development of the European Monetary System", unpublished paper, Boston University.

around the world--big companies, banks and wealthy individuals--tend to sell Dollars and buy Deutschmarks to protect themselves against the loss in the Dollar's value and to profit from the appreciation of the Mark. As a result, the Dollar and the Deutschmark tend to fluctuate in opposite directions, which can be massively disruptive of internal European economic relations. A decline in the Dollar can suddenly reduce the profitability Germany's exports to her neighbors because of exchange rate movements which have nothing to do with relative costs or productivity of German industry. Since trade between Germany and other EC members is a large fraction of total internal trade of the Community, the instability of the Dollar and the resulting portfolio flows do affect trade not just between the USA and the EC but also within EC itself

In 1972 the Common Market "six", plus membership candidates Britain, Ireland and Denmark, agreed to stabilize exchange rates among their own currencies by moving *together* against the Dollar. While the resulting currency "snake" helped to reduce the exchange rate risk in internal EC trade, it nonetheless placed an enormous stress of EC economies because of its impact on the EC's external trade. As the Dollar fell sporadically against the Deutschmark, the Dollar-price of EC exports rose, threatening their competitiveness on world markets. Notwithstanding the additional stress of the world economy slump that followed in the wake of the 1973 oil crisis, it was a challenge which, as Grahl and Teague observe, Germany, itself, was able to meet through "a vast process of restructuring."

> Rapid technical innovation held down costs and maintained German competitiveness for complex products, particularly factory equipment and other capital goods; meanwhile German companies used the strong Deutschmark to finance enormous foreign investments, moving labor-intensive production processes to countries with lower wage costs, which now included even the United States.

Germany's neighbors, however, were markedly less successful in responding the pressure rising exchange rates. Many of them repeatedly suspended their participation in the snake, devaluing their currencies against the Deutschmark in order to maintain their Dollar-competitiveness of their exports.

In the case of Britain, while it withdrew sterling from the snake in 1972, it nonetheless sought, in the "spirit" of the snake, to shadow the Deutschmark, but at tremendous cost. Rather than successively devalue the pound to improve the competitiveness of British exports and relax the balance-of-payments constraint on growth, the Labour government of the late seventies gave greater weight to the need to stabilize trade with Germany and the Community, contain inflation, and bolster the exchange value of sterling to protect Britain's traditional international service and overseas investment interests. This was a preference reinforced by the orthodox, "fight inflation first," priorities of the International Monetary Fund (IMF), to which the government, in face of a serious balance-of-payments crisis, had turned in 1976. Britain, in effect, resorted to the "crude expedient" of rationing imports and controlling inflation by "cutting living standards so people had less money to spend on everything."[14] The continuing

14. Francis Cripps and Frances Morrell, "The abandonment of full employment", in Ken Coates ed., *What Went Wrong: Explaining the Fall of the Labour Government*, Nottingham, Spokesman, p. 101.

de-industrialization caused by this policy--by 1978 industrial output in Britain had barely recovered its 1973 level and unemployment had doubled--further depressed the relative weight and performance of the UK economy, adding to underlying pressure on sterling. In the early 1980s, under the Conservatives, devaluation option was avoided only at the cost of a still more rigorous monetarism. While the government prided itself on renewed "confidence" in the pound, under the crush of imports cheapened by a strengthened currency and of record-high domestic interest rates, industrial production was returned to the level of mid-1960s and unemployment tripled.[15]

What rendered the snake particularly onerous, and especially for Britain, given the obsessive commitment to a "strong" pound, was that each country had the responsibility of maintaining its own currency in fixed parity with those of the other participants. In practice, "this meant that they had to adjust their own policies (interest rates, government spending and tax rates) in order to maintain parity with the Deutschmark, while Germany itself was so strong that no corresponding constraint was imposed on German policy."[16] Significantly, European monetary cooperation was relaunched in 1977 by a former Labour Chancellor of the Exchequer, Roy Jenkins, following planning and discussion which he initiated as the new President of the European Commission.[17]

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15. Ken Coutts, Roger Tarling, Terry Ward and Frank Wilkinson, "The economics consequences of Mrs. Thatcher", *Cambridge Journal of Economics*, 5, 1981.
16. Grahl and Teague, p. 108.
17. First Jean Monnet Lecture, *Europe's Present Challenge and Future Opportunity*, Florence, European University Institute, October 27, 1977.

The centerpiece of the European Monetary System, which came into operation in March 1979, is the Exchange Rate Mechanism which, in contrast to the mechanics of the snake, places some part of the burden of defending exchange-rate parities on the membership as a whole. Parities are specified in terms of the European Currency Unit (ECU), a basket of member states' currencies which is used as the Community's unit of account. This multilateral system makes a general concertation of all parties formally necessary for parity changes. If, for example, the French Franc is devalued relative to the ECU, then some other currencies will have to be revalued since the ECU itself contains a fixed number of French Francs, an adjustment that will require preliminary discussion and agreement. At the same time, the defense of parities involves collective responsibility: when two currencies reach their limit of permitted fluctuation, there is an obligation for the strong currency country to lend to the central bank under pressure so it can prop up its currency. There is also a rule, that any country whose currency "diverges" beyond a certain limits from its ECU-parity (i.e. begins to significantly change its weighted value against the other currencies) will take corrective action--easing its monetary policy if its currency is appreciating, tightening monetary policy if its currency is depreciating against the ECU. The important implication is that rather than being obliged, regardless of the costs, to move against the Dollar in line with the D-mark, Germany's partners can expect the Bundesbank to take action either to counteract the movement of the Dollar or to strengthen their own currencies--for instance, by lowering interest rates or by buying Francs, Lira and so on.

While the ERM by these means might appear to lighten the burden on the weaker economies of maintaining exchange rate stability, by the same token it also--an important implication--increases the pressure on governments to pursue a firm anti-inflationary measures. The multi-lateral exchange rate system has the effect of making domestic inflation more costly for policy makers.[18] Between the realignments of *nominal* rates of exchange, there can be substantial variation in the *real* rate of exchange resulting from inflation differentials with the rest of the world. In this situation, with the possibilities for devaluation constrained by the need to concert with partners in the system, inflation will result in the loss of international competitiveness and an outflow of capital. EMS practice, moreover, is to limit the eventual amount of devaluation to an amount less than inflation adding the pressure on governments to take stern counter measures.[19] In theory, these might include the imposition of direct regulatory controls on capital flows, but within the context of the Community, and certainly the Single Market, the only short term responses that appear legitimate are deflationary, beginning with higher interest rates.

By the late 1980s, the momentum generated by the 1992 program persuaded the EC Commission that it was possible to make progress

18. Francesco Giavazzi and Alberto Giovannini, *Limiting Exchange Rate Flexibility: The European Monetary System*, Cambridge, Mass., MIT Press, 1989, pp. 104-110.
19. Jeroen Kremers, "Gaining Policy Credibility for a Disinflation: Ireland's experience in the EMS", *IMF Staff Papers* 37, March 1990, pp. 116-145.

on the difficult issue of full monetary union. In the spring of 1989 a committee chaired by EC Commission President Jacques Delors made detailed proposals to this end. The official literature on 1992 repeatedly presents monetary union or a tight monetary alliance as the inevitable and logical solution of the problems of exchange rate stability which would arise with the liberalization of capital movements. Thus the "Cecchini Report" on *The Benefits of a Single Market*, found that:

> a European home market is likely to increase exchange rate fluctuations: intensification of intra-EC trade and liberalization of trans-border capital movements--indispensable as they are for achieving the gains of market integration--may well heighten monetary instability. Success in creating the internal market thus condemns the Community to strengthen the European monetary system and build the institutional framework needed to guarantee intra-EC exchange rate stability.[20]

The Delors Committee, comprised central bank governors and academics, proposed a three-stage elaboration of the EMS, building upon what the Committee perceives as the system's greatest success: the imposition of an "exchange rate constraint" that has helped high inflation countries "in gearing their policies, notably monetary policy, to the objective of price stability."[21]

Stressing the need to improve institutions for policy coordination, for "binding procedures" to constrain national policy authorities and for more credible commitments to price stability, the "Delors Report" proposes, at the outset, to strengthen the

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20. Poalo Cecchini, *The European Challenge: the Benefits of a Single Market*, Aldershot, Wildwood House, 1988, p. 106.
21. European Communities, Committee for the Study of Economic and Monetary Union, *Report on Economic and Monetary Union in the European Community*, Brussels, Commission of European Communities, 1989, p. 12 (paragraph 4; there are different versions of the Delors Report with different pagination, but the paragraph numbering is the same throughout).

existing Central Bankers' Committee. This involves an attempt to work out agreed, although not identical, monetary guidelines for members countries, all of whom would join the ERM. The exchange bands would remain as they are but there would be a consistent attempt to minimize realignments. The realignment of exchange rates would increasingly become "the adjustment mechanism of last resort to be used in 'exceptional circumstances'."[22] By increasing the presumptions against devaluation, the hardened EMS ensures that the weaker countries must adjust to payments deficits by adopting restrictive domestic monetary and fiscal policies. With British accession to the ERM in October 1990 and the decisions of the December 1990 Madrid summit, this first stage appears to be in process.

Stage two sets in place a comprehensive system of tutelage over national and monetary and fiscal policy. The supply of money and credit as well as other instruments of monetary policy, including interest rates will subject to broad directives from a new European System of Central Banks (ESCB) under which there will be a pooling of official reserves. The ESCB, "committed to the objective of price stability," will formulate "the general thrust of monetary policy" and cooperate with the Council of Economic and Finance Ministers in determining exchange rate policy.[23] National fiscal policy will be supervised by the Council of Ministers. The Council will lay down "precise rules--although not

22. Tony Cutler, Colin Haslam, John Williams, Karel Williams, *1992: The Struggle for Europe*, New York, Berg, 1989, p. 73.
23. European Communities, Committee for the Study of Economic and Monetary Union, pp. 24-26 (paragraphs 30-32).

yet binding--rules relating to the size of annual budget deficits and their financing."

In the final stage exchange rates are to be "irrevocably locked" while the preferred solution of a single European currency is reached, and the institutional constraints on national policy further tightened. The ESCB (acting after the model of the US Federal Reserve) will acquire and manage all currency reserves and decide on exchange market intervention in third currencies, while the Council will impose binding rules on budget deficits and the ways in which they are financed.

Nationalism, Supranationalism and Opposition to the EMS

Notwithstanding its sponsorship by Roy Jenkins, then a ranking Labour politician, from its inception Labour opposed British membership of the ERM. In 1978, the party conference explicitly rejected "any moves toward economic and monetary union and any other encroachment on the rights of self-government of member states."[24] The 1980 conference, a victory for the old "anti-Market" Left, made it official policy that the next Labour Government Britain would not only reject monetary union but would "disengage Britain from the EEC institutions,"[25] a policy sustained in the 1983 election manifesto which affirmed that "withdrawal from the Community if the right policy for Britain."[26]

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24. *Report of the Labour Party Conference, 1978*, London, Labour Party, 1978.
25. *Report of the Labour Party Conference, 1980*, London, Labour Party, 1980, p. 126.
26. "The New Hope for Britain", London, Labour Party, 1983.

The basis for Labour's objection to supranational entanglement in Europe had altered little from the position which the party had taken in response to the formation of the first unit of today's European Community--the Coal and Steel Community (ECSC).[27] In a comprehensive statement on "European Unity," Labour's National Executive Committee in 1950 had emphasized that the party's attitude would be "determined by the principles of democratic socialism and by the interests of the British people as members of the Commonwealth and of the world community . . . The Labour Party could never accept any commitments which limited its own, or others freedom to pursue democratic socialism, and to apply the economic controls necessary to achieve it."[28] Labour would not hand over to a supranational authority decisions it deemed vital to a Socialist program; such matters as the scope of socialization, the means of maintaining full employment or the distribution of wealth. Promising that the next Labour government would obtain powers to nationalize industries, control capital and introduce industrial democracy "within days," at the 1980 Conference the left-wing leader Tony Benn insisted, to loud cheers, that a Labour government would, as a corollary, restore all powers from Brussels to Westminster "within weeks."[29]

Many EC-converts on the Left--among them the *Tribune* group in the party which had led in organizing the "no" vote in 1975

27. Featherstone, pp. 41-69.
28. "'European Unity: Statement by the National Executive Committee of the Labour Party, May 1950", London, Labour Party, 1950.
29. Peter Jenkins, *Mrs Thatcher's Revolution: the Ending of the Socialist Era*, Cambridge Mass., Harvard University Press, 1988, p. 117.

referendum on Common Market membership--now argue that the attitude to integration underlying this "traditional anti-European stance", was "plainly chauvinist." Adopting a position "almost as anachronistic as Thatcher's," the anti-EC Left, they suggest, "have a lot in common" with the Right, "when it comes to raising the flag and putting--or hoping to put--Britain first." [30] This is the same argument that is heard from Commission President, and French Socialist, Jacques Delors, who tends to tar all critics of his integrationist initiatives with the same brush. Left or Right, they are the "national egoists," those who, oblivious to the realities of economic interdependence, remain in thrall to "the fiction . . . of full sovereignty, and thus of the absolute efficacy of national policies."[31] This dismissal of opposition to the EC as essentially nationalist, however, is rather too easy. As Kevin Featherstone notes in a review of *Socialist Parties and European Integration*, it admits no "distinction between support for integration in *principle* and support for the *form* pursued by the EC" (emphasis added). Thus, we are asked to accept, without question, the liberal-economic values with which the term "integration" is effectively suffused in the pro-EC literature. This is hardly appropriate to a critical appreciation of a left perspective on the Community. Featherstone agues that "the real

30. David Held, "The decline of the nation state", in Stuart Hall and Martin Jacques ed., *New Times: the Changing Face of Politics in the 1980s*, London, Lawrence & Wishart, 1989, p. 191; Colin Hughes and Patrick Winter, *Labour Rebuilt: The New Model Party*, London, Fourth Estate, 1990, p. 184.
31. *Financial Times*, October 18, 1989, p. 18.

concern is with a 'Common Marketism', not with supranationality."[32]

Nationalism, as defined by Stanley Hoffman, "a doctrine or ideology that gives to the nation in world affairs absolute value and top priority in world affairs,"[33] might be considered a staple of revisionist social democracy inasmuch as its rhetoric has long since substituted appeal to the interests of "the nation" for a consciousness of class. But in itself this indicates little with regard to "Europe." Excepting the positively anti-nationalist and pacifist federalism of the immediate postwar years, the "pro-European" argument has always been that "the nation" can survive and prosper only within the shelter and fraternity of a broader community. As Michael Heseltine, pressing his credentials as the British's Conservative Party's pro-European option, remarked "the big players in Europe do not recognize the suggestion that they have sacrificed nationality, patriotism or power." [34] "Europe" is an instrumental, not an absolute, value.

In this regard, it can be argued that what distinguished Thatcher's defense of an independent role for sterling was not the "absolute value" or "priority" it assigned to the nation, but rather that its vision of "Britain as Britain" was not harnessed to any alternative economic strategy. Tony Cutler and other left critics of the Single Market emphasize that Thatcher, not only had no quarrel with the economic text of the 1992 program, but

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32. Featherstone, pp, 12-13.
33. Stanley Hoffman, "Obstinate or obsolete? The fate of the national state and the case of western Europe", *Daedalus*, 95, Summer 1966, p. 868.
34. *The Independent*, November 2, 1990, p. 1.

applauded it as a vindication of her free market gospel. She based her opposition to what, by every other calculation, is a logical implication of the Single Market, monetary union, on an equation of regulation and institution building with collectivism. Removing non-tariff trade barriers (NTBs) she regarded as a worthwhile free enterprise project, locking the national currencies and building a European bank she rejected as an unnecessary collectivist project. But this Cutler insists is an untenable distinction. With the appreciation and depreciation of currencies itself a critical trade barrier (the leading NTB), a single market requires a tight monetary alliance or monetary union which has to be managed in some way by new a Community-wide authority. Thus Thatcher's position on Europe's supra-national institutions and regulation is "blankly negative." She did not envisage the sovereignty she defended being used for any positive purpose: sovereignty merely was "that which allows the British people to express their newly-discovered hostility to collectivism by voting again for Mrs Thatcher." [35]

This, perhaps, is not entirely fair. The monetarist case for the Thatcherite position is that exchange rate risk "can be reduced to a minimum by pre-announced monetary policy irrespective of the exchange rate regime."[36] If national rates of monetary expansion determine price levels and, consequently, general exchange rate trends, fluctuations around these trends will not be abolished by pegging rates. Indeed, pegging exchange rates offers some relief, at least over the short-term, from the costs of an "irresponsible"

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35. Cutler et al., p. 145.
36. Geoffrey Wood, "The European monetary system--past developments, future prospects and economic rationale", in Roy Jenkins ed., *Britain and the EEC*, London, Macmillan, 1983, p.141.

monetary policy. In a system of floating exchange rates, attempts by domestic policy makers to generate "surprise inflation" in order to increase employment, show up very rapidly in currency depreciation. While this improves the relative price advantage of domestic goods, sluggishness, which can generally be expected, in adjusting to higher import prices may mean that over time both inflation and the trade balance will deteriorate--precisely the kind of discipline lauded by Thatcher.[37]

Presumably, however, such objection is met, at least in part, under Delors' plan which envisages in the final stage of monetary union the ESCB and the Council of Ministers having a positive capacity to enforce both monetary and fiscal restraint. This authority would certainly infringe very considerably on the powers of national government: Samuel Brittan finds that "some of the suggested restrictions could leave national governments with less fiscal discretion than regional authorities in the US or Germany."[38] But again, despite the populist rhetoric, it is not clear that the Thatcherite objection is based on the issue of national sovereignty. Where they offer an alternative to a floating exchange system, Thatcher's supporters are hardly more indulgent toward nationalist sentiment. The Bruges Group, formed in solidarity with Thatcher's declaration at Bruges against "bureaucratic" visions of European political union,[39] opts for

37. Woolley *op cit*.
38. Samuel Brittan, "The case for EMS despite Delors", *Financial Times*, April 20, 1989, p. 27.
39 Margaret Thatcher, *op cit*.

"monetary unification by market forces."[40] Rather than Delors's vision of "a cartel of central banks and monetary authorities and, ultimately, a European public monopoly," which implies "centralization, harmonization and bureaucratization" and, perhaps more to the point, a continued capacity to engage in the discretionary manipulation of monetary aggregates, the Group argues for the monetary integration which arises "spontaneously" from the liberalization of capital movements and integrated financial markets.[41] The principle of mutual recognition, which has been accepted for norms, should be accepted for currencies as well, creating a "common market for currencies" in which, faced with an increasing rejection of their national currencies, countries with a high degree of monetary instability will be forced to change their policy.[42] The consistent principle in this suggestion, which was adopted by the Thatcher Treasury, is not the defense of "national" monetary authority--if Mrs Thatcher would have found it impossible to tell the Queen that "her head is no longer to appear on our banknotes," how could she have explained to Her Majesty her subjects' preferential use of a currency whose specie bears the likeness of Gustav Scheideman? Rather it is faith in the superior outcome of "countless consumers making a free choice" [43]--the disciplines of a competitive market.

The anti-EMU position of the Labour Party may not have been free of national egocentricity. Certainly the left-wing opposition

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40. Roland Vaubel, Francisco Cabrillo, Antonio Martino, Pascal Salin, *A Citizen's Charter for European Monetary Union*, London, The Bruges Group, Occasional Paper 5, 1989, p. 19.
41. Ibid, pp. 22, 32, 19.
42. Ibid, pp. 32, 19.
43. Ibid, p. 29.

to the EEC was not free of a tactical association with the chauvinism of little islander and Volkish currents. In the February 1974 election Enoch Powell, the tribune of the anti-immigrant right, advised all anti-Marketeers to vote for Labour. However, unlike the positions taken by Thatcher--or Powell who, in his early conversion to economic libertarianism, was very much her forerunner on the Tory front benches--behind Labour's anti-integrationist stance there clearly was an "alternative economic strategy," the AES. It was the partisans of the AES who in 1978 won the commitment of the Party to "rewrite the Treaty of Rome so as to curtail the powers of the Commission, and give express recognition to the rights of member states to pursue their own economic, industrial and regional policies,"[44] and at the 1980 party conference successfully argued for British withdrawal. This, however, was not a case built, as Delors implies of non-EC options, on "the fiction . . . of the absolute efficacy of national policies." [45] On the contrary, authors of the strategy argued that it was the EC which took inadequate account of the international constraints on the British and European economies and of the need for international policy coordination.

EMU and The Alternative Economic Strategy

Labour's original opposition to Britain's membership of the EC focussed on the price which Britain pays for the Common Agricultural Policy (CAP) in higher food prices and net

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44. *Report of the Labour Party Conference, 1978*, London, Labour Party, 1978.
45. *Financial Times*, October 18, 1989, p. 18.

contributions to the Community budget. But it was the absence of the promised "dynamic" impact on Britain's trade performance, industrial investment and efficiency that sealed the case for withdrawal. Rather than an export boom, Britain's "drive into Europe" triggered a tide of European imports. A 55 per cent reduction in the per capita balance in manufactures between 1960 and 1972, was followed post entry, from 1973 to the end of decade, by a further 77 per cent loss thanks in large measure to growing deficits with Britain's European partners, and this despite the boon of North Sea oil and the depression of domestic demand.[46]

For the architects of the AES the crucial point, however, was not whether Britain would have fared better had she remained aloof from the Community, but rather, as observed by the Cambridge Economic Policy Group (CEPG), that "processes" were taking place which could not "*be allowed to continue.*" [47] The issue which Labour needed to decide was whether continued Community would assist or hinder the clearly radical changes in policy and institutional arrangement that would be needed to stem Britain's relative decline and de-industrialization.

Ostensibly, under the original terms of the Treaty of Rome, a member state experiencing the stagflationary consequences of a chronic trade deficit has every reason to anticipate support from its Community partners for extraordinary measures to restructure

46. Cambridge Economic Policy Group (CEPG), *Cambridge Economic Policy Review*, no. 1, April 1980, pp. 28-33; see also Robert Grant, "The impact of EEC membership upon UK industrial performance2, in Roy Jenkins ed., *Britain and the EEC*, London, Macmillan, 1983.
47. CEPG *op cit.*, p. 33.

its economy. Article 2 of the Treaty of Rome contains a general statement of the Community's intention:

> It shall be the aim of the Community, by establishing a Common Market and progressively approximating the economic policies of Member States, to promote through-out the Community a harmonious development of economic activities, a continuous and balanced expansion, and increased stability, an accelerated raising of the standard of living and closer relations between Member States.

As the CEPG remarked, "if this is the primary aim of the Community, it is most emphatically not what it is achieving as far as Britain is concerned."[48] Nonetheless, CEPG conceded that it was possible to imagine an amended set of financial and trading relationships consistent with the *general* terms of the Treaty which would on balance support rather than obstruct alternative full-employment policies. These would need to accommodate a number of basic objectives: [49]

> First, the securing of macro-economic conditions for reasonably stable expansion. These would include a return to Keynesian demand management, exchange rates for national currencies which would make exports reasonably profitable, and overall limits on import penetration to relieve the balance of payments constraints on the expansion of domestic demand.

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48. Ibid, p. 33.
49. See CEPG, *Britain's Economic Crisis*, Nottingham, Spokesman, 1975; Francis Cripps and Terry Ward, "Government policies, European recession and problems of recovery", *Cambridge Journal of Economics*, 7, 1983; Geoff Hodgson, *Socialist Economic Strategy*, London, Labour Party, 1979; John Eatwell, *Whatever Happened to Britain?*, London, BBC, 1982, pp. 143-164.

Second, an industrial policy which, in the context of broad agreement over the distributional consequences, would attempt to weaken the pressure of profit-and-loss and other balance sheet criteria and replace them by pressures related to the new objectives implied by reindustrialization. These would include the promotion of exports and import substitution to mitigate the severity of import restrictions needed in the medium-to-long term, and the rapid development of domestic capacity to manufacture advanced equipment and components without which industrial expansion might suffer in the context of a limited capacity to import.

Three, control of financial institutions to regulate currency switching by residents and non-residents so as to ensure that domestic funds are not be used to speculate against government policy, and to influence lending and investment by intermediaries so as to secure finance for industry and the public debt at controlled interest rates.

While a considerable body of law built on the Treaty of Rome would need to be rescinded and changed, and these "alternative" arrangements would, of course, have ruled out European economic and monetary integration in the *form* conceived in the 1980s, under the terms of original Treaty the matter, from a strictly legal point of view, was not entirely unambiguous.

The Treaty of Rome contains several articles concerning the action to deal with balance of payments problems. This part of the Treaty starts with the request that:

> Each Member State shall pursue the economic policy necessary to ensure the equilibrium of its overall balance of payments and to maintain confidence in its currency, while ensuring a high level of employment and the stability of the level of prices. (Article 104).

Again this is an objective which, under current arrangements, few member states succeed in fulfilling. Article 108 envisages measures of mutual assistance and, ultimately, safeguard action by a state in difficulty, all under the authorization of the European Commission and Council of Ministers. To this extent the Community would appear to have an *obligation* to initiate remedial action. Finally, Article 109 allows unilateral action by a member state where a sudden balance-of-payments crisis occurs and the Council fails to make immediate decisions, although such action can be suspended or abolished by the Council.

But obviously the real issue is more political and legal. Within the Community Britain and other balance-of-payments-constrained member states are in an unequal alliance with the world's premier exporter and a leading international creditor which in consequence of its position remains relatively indifferent to the employment aspects of trade, monetary adjustment and liquidity creation. Given the ultra-cautious attitude of Germany and its general presumption against policy instruments that might serve to correct the widening regional and social imbalances accompanying expansion,[50] the CEPG considered the prospect of beneficial policy changes "remote."[51] On the other hand the group did not believe that a decision by Britain to impose import restrictions would itself spell an end to efforts to coordinate policy with her European partners. The other EC members could in effect expel Britain from the Community and take counter-measures. At a minimum, under GATT, they could apply their Common External Tariff (a modest 7 per cent or less on most manufactures) against UK exports. But such a course would not be without cost to the Community. Without Britain's large budget contribution it would face major difficulties in disposing of its food surpluses and financing the CAP. Evidently there would be "plenty to discuss before measures of retaliation could be taken." [52] But there was also a larger strategic calculation: the possibly that a challenge to the restrictive rules and practices of the Community--and not least the CAP--would enhance the prospects for negotiations embracing the United States.

Coordinated reflation within the Community would use the high degree of interdependence in western Europe to advantage. Countries involved in reflating would to a large extent compensate each other's losses in trade by expanding the size of markets. Nonetheless there would be a growing trade imbalance with the rest of the world (especially marked in the case of Britain which has a

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50. See Karl Lankowski, "Modell Deutschland and the international regionalization of the West German state", in Andrei Markovits ed., *The Political Economy of West Germany*, New York, Preager, 1982.
51. CEPG, *Cambridge Economic Policy Review*, no. 5, April 1979, p. 30.
52. CEPG, *Cambridge Economic Policy Review*, no. 6, April 1980, p. 34.

large non-EC import trade), together with dependence on the international banking system to finance the deficits which reflation implies. Consequently some internationally-agreed means would need to be found to manage Europe's share of the internal and external market so that it is compatible with recovery and to ensure that the expansion (from which the rest of the world stands to benefit) is securely funded. Given its ability to block reform of the present payments arrangements and international lending practices, the campaign for reflation would have to be carried to the USA.

In the Carter years the Americans appeared sympathetic, expressing some impatience with Germans' unyielding preoccupation with monetary "stability" and orthodox counsel of higher taxes, lower wage settlements and cuts in government spending. Reacting to the relatively novel of finding itself constrained by growing trade imbalance, by the late 1970s the United States was the loudest (within the limited community of the leading industrial economies--the "G7") in protesting the deflationary bias of an international payments system that restricts access to liquidity and provides no mechanism to force adjustment on surplus countries. At western economic summits following the 1974-75 recession the Americans endorsed the so-called "locomotive" strategy for world economic recovery which, in recognition of their burgeoning surpluses, called on the Germans and the Japanese to lead a general reflation. After two years bitter wrangling, in 1978 both Germany and Japan agreed to boost their economies with new tax-cut packages. But these were clearly reluctant, and in scale modest, concessions. Despite the huffing and puffing, the locomotives never left the station.

In 1981-82 the U.S itself opted for deflation pulling the world economy into recession. Taking advantage of their exceptional drawing capacity on international financial markets, the Americans led the subsequent recovery but on terms that did nothing to relax the constraints on their trade partners which the growing tendency of Germany and Japan toward surplus continued to represent. The blow delivered to the Labour Left in Britain was especially acute since it was at this decidedly unfavorable juncture that the French Socialist Party (PS) launched its own left-Keynesian venture with which partisans of the AES readily identified.

The *Projet Socialiste*, the program of the Left-unity government which took office in Paris in May 1981, pursued broadly the same objectives as Labour's AES: domestic expansion, financed in part through a more egalitarian (consumption-oriented) distribution of incomes, and a heavily interventionist industrial policy turning on government-union participation in the investment choices of the private sector. The Socialists, however, had gambled on forecasts of world growth in 1982. When 1982 brought recession instead, their policies produced balance of payments difficulties (notably with Germany), rising inflation, and speculative runs against the franc. Even in the absence of the sharp downturn in the world economy, it is probable that the Socialist government would have been forced to devalue the franc as part of a reflationary strategy. Unfortunately, it resisted devaluation until forced into it, and thus undermined financial confidence.[53] Part of the problem was that as a full member of the EMS, France had to negotiate devaluations with the European Monetary Committee, and in 1982 the price demanded by the Committee, and most forcefully by the West Germans, was the reversal of the government's expansionary policy and the effective abandonment of its programmatic commitments.[54]

Seen against the background of a deteriorating balance of payments, the Socialists's policy U-turn (from "socialist" reflation to "socialist" austerity) was widely regarded as a "sobering lesson for advocates of 'alternative' strategies," proof of the increasing difficulty, if not impossibility, of directing the course of an "interdependent economy." [55] Indeed, for many on the Labour Left, the debacle in France was final proof that the days of national economic were over. The changing structure of the world economy--the growing dependence on international trade, the globalization of financial markets with massive flows of capital in and out of countries, and the growth of multinationals--has rendered obsolete the *dirigisme* by which national governments have sought to command a chosen mix of employment, growth and inflation.[56] Yet it important to recognize that while the

53. Jim Tomlinson, *Can Governments Manage the Economy*, Fabian Tract 524, London, Fabian Society, 1988, pp. 10-11; see also Denis McShane, *French Lesson for Labour*, Fabian Tract 512, London Fabian Society, 1986.
54. David Cameron, "The Colors of the Rose: On the Ambiguous Record of French Socialism", Working Paper #12, Cambridge, Mass., Harvard University Center for European Studies, 1988, pp. 35-37.
55. Vincent Wright, "Socialism and the interdependent economy: industrial policy-making under the Mitterand presidency", *Government and Opposition*, 19:3, Summer 1984, p. 303.
56. See for example, Michael Stewart, *Controlling the Economic Future*, Brighton, Wheatsheaf, 1983; also a collection of essays

unfortunate Mitterand-Reagan conjuncture prompted a reassessment a Labour's European policy, the outcome, at least initially, remained consistent with the basic objectives of the AES, and explicitly rejected the model of market-led integration that was to triumph in the 1992 program, and the EMS as constituted. Thus, despite its alleged chauvinism, the Labour Left was able to drop its anti-EC stance with, as the *Tribune* acknowledges, "no great debate."[57]

If the United States, notwithstanding its mounting trade deficit, could not be relied upon to help force adjustment upon Germany, if, as was the case under Reagan, it was positively hostile to progressive reform of international trade and monetary arrangements, then a long march through the institutions of the European Community ("reform from within") appeared the only practical alternative. Should a more unified and democratic Community succeed in rendering German fiscal and monetary policies responsive to the employment needs of her European neighbors, the campaign for reflation and international monetary reform could be carried back across the Atlantic. If this was the objective, then partisans of the AES were prepared to concede that the "crystallizing" of European markets into a regional bloc would advance rather, than as they had feared, hinder a global management of trade consistent with sustained expansion.[58]

Already in 1982, Stuart Holland MP a leading propagandist and agitator for the AES, on behalf of the Labour Party, had

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originally appealing in *Marxism Today* and published, as a conscious contribution to "new thinking" within the Labour Party, in Stuart Hall and Martin Jacques eds., *New Times*, London, Lawrence and Wishart, 1989, pp. 205-244.
57. *Tribune*, July 20, 1990, p. 6.
58. See Francis Cripps and Terry Ward *op cit.*, pp. 93-95.

participated in the "Out of Crisis" project prepared by socialists from nine European countries. Citing the dangers of Reaganism, the project called for a coordinated response to the recessionary crisis from left-wing parties across Europe.[59] At the same time, in the pages of the *New Socialist*, Francis Cripps and Terry Ward of the CEPG, pressing reconsideration of the Party's European policy, drew attention to the benefits of a radically reformed and greatly reinforced European Monetary System which would "seek to regulate European financial markets in support of reflation."[60] Governments in Europe would "cooperate with each other to provide mutual support in the even of speculative pressure building up against a country attempting domestic expansion and to keep capital movements in check."[61]

Early in 1984 Neil Kinnock declared a more pro-European line--accepting that Britain once in, could no longer agonize about quitting the Community. Labour signed the "Common Appeal" of the Confederation of EC Socialist Parties for the June European elections,[62] stressing its strong support for the manifesto's call for reflationary measures to create new jobs. Labour, however, continued to record its differences over supranational innovations, including the EMS.[63] As late March 1987, Kinnock, in a speech to a European trade union conference on industrial

59. Stuart Holland, "Out of Crisis--International Economic Recovery", in J. Curran ed., *The Future of the Left*, London, Polity/New Socialist, 1984.
60. Reported in *The Economist*, "Would Labour really leave?", October 9, 1982.
61. Francis Cripps and Terry Ward, *op cit.*, p. 93.
62. "Confederation of the Socialist Parties of the European Community: Manifesto", Luxembourg, CSPEC, March 1984.
63. Featherstone *op cit.*, p. 65.

policy, was proposing as an alternative to the EMS a system of managed trade. Noting that nations which pursued expansionist policy would be "mugged" as the Mitterand government had been in the early 1980s, unless a European strategy could protect them from a flood of imports, Kinnock argued that,

> Those nations that are willing to expand and thus to create jobs at home and consequently the rest of Europe, should be encouraged by the knowledge that their expansion will not collapse in financial crisis. If the countries knew that they had powers agreed with their trading partners to prevent trade deficits rising to crisis levels, then they could expand without fear

EC partners should reach an agreement on the maximum level of deficit which a country could expect to finance without provoking an internal fiscal crisis. Once that level had been reached, generalized import controls could be triggered.[64]

By 1989, however, Kinnock had appeared to reverse course. Undoubtedly a number of factors encouraged the party leadership to re-assess its policy on the EMS. The passage in 1986 of the Single European Act, implicating Britain in the creation of a single market for capital as well as goods and labor, substantially raised the potential political and economic costs of attempting to radically reform monetary arrangements. At the same time, there were the almost daily reports of divisions in the Thatcher cabinet over whether to join the exchange rate mechanism of the EMS, and of Edward Heath, or Michael Heseltine, or some other Tory politician attacking the prime minister for her "insular" and "distorted" vision. The result was to powerfully link the controversy over the ERM to the question of Conservative competence to govern, an issue

64. "Kinnock warns EEC of trade 'muggers'", *The Guardian*, March 1989.

which the Leader of the Opposition could hardly fail to exploit. The Cabinet rift over European monetary cooperation, on top of intensifying pressure on sterling, ripped the government apart in the fall of 1989. The Chancellor, Nigel Lawson, demanded that Thatcher sack her personal economic advisor, Sir Alan Walters, because Sir Alan's insistent description of the ERM as "half-baked" were swaying the markets. When Thatcher refused, and Lawson resigned, Kinnock's team, which had previously despaired because the Tories seemed immune to mounting economic difficulties, suddenly saw their standing jump 15 points in the opinion polls. Nearly half the population were willing to vote Labour.[65] The opportunity to outbid the Tories on the ERM must have appeared invaluable.

But there were also profound changes occurring in the general policy orientation of the Labour Party itself. While Kinnock had been holding forth the prospect of a "Social Europe" in which, at the Community level, the Left could realize its "alternative" agenda (redistributive reflation with balanced trade, industrial and regional policy, an enlarged social wage, economic democracy),[66] the practical and immediate commitments for a future Labour government were moving steadily rightward.[67]

New Jobs for Britain, published by Labour in March 1987, made it clear that Labour's plans for increased public spending took second place to incentives to private capitalists to invest.[68]

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65. Colin Hughes and Patrick Wintour, *Labour Rebuilt: The New Model Party*, London, Fourth Estate, 1990, p. 187.
66. See the discussion of Kinnock "vision of Europe" in Cutler *et al.*, op cit., pp. 145-151.
67. See Cliff and Gluckstein *op cit.*, pp. 356-361.
68. *New Jobs for Britain*, London, Labour Party, 1987.

To advance economic success Labour, according to Kinnock, was committed a new "national consensus."[69]

> We need a workforce that wants to be on the winning side, but we also need those who can manage--and manage to make it all work . . . the days of 'Them' and 'Us' are gone now. We are all in this together, and it is only together that Britain will make its way in the world.[70]

To underscore its commitment to "those who can manage," Labour signalled both its willingness to embrace some of the Tory anti-union laws and, crucially, to pursue price stability at the cost of employment. In 1983 the aim of Labour's economic strategy was "to reduce unemployment *to below a million within five years* of taking office." The 1987 manifesto promised only to reduce unemployment *by one million* over two years. Since unemployment at the time was approaching four million, the target was to cut it to a little under three million! Keeping inflation down became the top priority, and this was increasingly evident the leadership's shifting position on the ERM.

When Labour first endorsed the ERM in its "Final Report of Labour's Policy Review for the 1990s" published in October 1989, there appeared to be an important qualification, a devaluation built into the policy because the emphasis was on joining at a low sterling rate against the D-mark, trading growth for higher inflation.[71] Labour would join "at a rate and on conditions which ensured that British goods become and remain competitive." However, in the slimmed-down version of the policy review issued in May 1990, and intended to provide a broad agenda for a Labour

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69. Neil Kinnock, *Making Our Way*, 1984, p. 56.
70. *Daily Mirror*, October 19, 1986.
71. Hamish McRae, "A less laboured view of the ERM", *The Independent*, May 16, 1990, p. 23.

government,[72] this "escape clause" is modified with what the press reviews readily identified as "a new and more specific qualification which shifts significantly in the direction of ERM enthusiasts in the City and incidentally steals a few more Tory clothes at the same time".[73] The paragraph now read: "the rate at which we enter the ERM will of course be judged at the time on the basis not only of avoiding competitive disadvantage for our industries but also of maintaining an anti-inflationary stance." While conceding that the phrase about avoiding competitive disadvantage might have encouraged continued skepticism, Hamish McRae notes in *The independent*, that new wording amounted to "a promise to shift the ERM entry rate for sterling upwards to a level which keeps pressure on companies not to concede inflationary wage claims." There is much in the revamped policy review to bolster this interpretation, including a solemn declaration to the effect that entry to the ERM creates a new framework for wages and other costs in the private sector: "management and trade unions will know that if their production costs rise faster than our European competitors, they will not be able to compete successfully in the single market"--a statement which implies that job losses would follow.[74] In any case, McRae observed, it should have been obvious that a new Labour government would not have had the chance to negotiate "terms and conditions", since impossible to talk in secrecy about such a market-sensitive matter for more than a day or two. It would have been a question of "announcing and joining

72. *Looking to the Future*, London, Labour Party, 1990.
73. McRae *op cit.*
74. Nicholas Timmons, "Labour would join ERM at 'earliest opportunity'", *The Independent*, May 16, 1990, p. 8.

within the hour on the Friday afternoon following the election."[75]

The Terrors of an Incomes Policy

The suggestion of the "new model" Labour Party that the ERM would guarantee that inflation was kept under control, Ian Aitkin [76] finds "profoundly unsatisfactory" in terms of "the search for a credible alternative economic policy," because,

> the reality is that membership of the ERM would commit a Labour government to maintain sterling's exchange value by means of similar deflationary policies to those pursued by the Thatcher government. It might not condemn a Labour Chancellor to use high interest rates alone, but it would certainly involve measures to stifle economic growth and therefore increase unemployment. The dole [unemployment] would become a de facto instrument of Labour policy, just as it has been a deliberate instrument of Thatcherite policy.

This, Aitkin suggests, "surely represents a long step back" from Labour's commitment to full employment (which is notably omitted from the current agenda); it implies "a defeat in the search for a way to achieve sustained growth without running into the buffers of inflation and/or trade deficit."

What Aitkin, together with those in the Labour party who continue to agitate for genuine "alternatives", [77] finds so "extraordinary" about this "dismal state of affairs" is that it is "entirely unnecessary. There is a perfectly will known and well understood method of sustaining economic growth while keeping inflation under control. It is known as incomes policy." Today,

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75. McRae, *op cit.*
76. Aitkin, *op cit.* (note 10).
77. See, for example, John Kelly, *Labour and the Unions*, London, Verso, 1987; and Peter Robinson, *Stagflation: Lessons from Other Places*, London, Campaign for Work, 1989.

however, "the case for incomes policy is not only unfashionable, it borders on the unmentionable in top Labour and trade union circles." The very words are "literally banned from Labour Party documents and speeches." Aitkin argues that the reason for this is that while "successive incomes policies worked quite well" (the claims of "the Thatcher propaganda machine" notwithstanding), the unions, encouraged by the party's left wing to regard incomes policy "as a means of diddling the workers out of their fair share of capitalist spoils," set out to "wreck them one by one."

There is little question that the industrial strife and wage explosion of January-February 1979 ("the winter of discontent") delivered a final and fatal blow to the credibility of the last Labour government. The Conservatives, who explicitly repudiated a policy for wages, campaigned triumphantly on Labour's inability to achieve its promised "partnership" in industry and to control its trade union allies. But the idea Labour is today in thrall to the neo-liberal economy of the Single Market because of the narrow and inopportune economism of the unions would itself appear to arise from a restricted and economistic view of the Labour record.

For the partisans of the AES, who continued to argue the necessity of a "planned growth of incomes," the failure of incomes policy could be understood only the context of the general economic strategy of which it is part. The Labour government-TUC "Social Contract" wage norm negotiations were abandoned by the unions in the winter of 1979 because the major structural reforms upon which it had been predicated--major public investment, extensive state holding, planning agreements, industrial democracy--had not been implemented. Typically, this was seen as yet another instance of "betrayal" by an unaccountable parliamentary leadership.[78] The impulse behind the campaign in the early 1980s for Labour party "democracy", was the determination of left-wing constituency and trade union activists to prevent a re-run of the Wilson-Callaghan government and "ensure a Labour government which carries out the policies of the labour movement."[79] The victory of the Left, which inscribed the AES into the party's 1983 manifesto, however, proved hollow. The problems of an alternative strategy, clearly, were not of an order that could be resolved through the reselection of MPs or an enhanced policy-making role for party conference and the NEC. But if blaming the parliamentary leadership was too simplistic, this is certainly true of the analyses which target the unions, and these would include those left-wing critiques which, indeed, regard incomes policy as "a means of diddling workers." They share the same curious inability to seriously attend to the express opposition of *employers* to the political negotiation of wages.

Viewed from "the hard Left" there appeared to be no question in the 1970s of capital (on an extensive scale) opposing attempts to engage the trade unions in negotiated wage restraint. According to Leo Panitch, a student of the "Social Contract",[80] any development that has incomes policy as its "frontispiece" is necessarily a "powerful vehicle for reinforcing class

78. See, for example, Ken Coates ed., *What Went Wrong: Explaining the Fall of the Labour Government*, Nottingham, Spokesman Books, 1979.
79. *Morning Star*, January 26, 1981.
80. Leo Panitch, *Social Democracy and Industrial Militancy*, Cambridge, Cambridge University Press, 1976.

dominance."[81] If incomes policies prove unstable it is because they meet the opposition of union rank-and-file determined to resist the introduction of "capitalist growth criteria into union wage policy" [82] and to preserve a collective organization that is independent and accountable.[83] Thus it is "no coincidence that those societies most commonly listed as corporatist--Austria, Norway, Sweden and the Netherlands--contain the most highly centralized [trade union] federations in the western world," their centralization characterized by the "purposive atrophy of union locals, and underrepresentation of oppositional elements at the central level, as well as by the state's use of its coercive powers to prohibit unofficial strikes and to provide a statutory framework for collective bargaining and income policy with severe penalties for its breach." [84]. In Britain the Social Contract failed to hold because the highly decentralized, craft structure of British trade unionism and the peculiar strength of its shop floor organization denied union leaders, compromised at the negotiating table, the ability to deliver their membership.

But this is wrong; wrong with regard to the ideal "corporatist" union which judging from Panitch's examples does leave a genuine measure of autonomy to lower organizational levels

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81. Leo Panitch, "The development of corporatism in liberal democracies", *Comparative Political Studies*, 10:1, April 1977, pp. 74, 91
82. "Recent theorizations of corporatism: reflections on a growth industry", *British Journal of Sociology*, 31:2, June 1980, p. 174.
83. "Trade unions and the capitalist state", *New Left Review*, 125, 1981, pp. 27-28.
84. "The development of corporatism", p. 83.

[85] and, more to the point, wrong with regard to the Social Contract.

No credible incomes policy is advanced simply on the basis of restrictive wage norms. In addition to standard objections with regard to the inevitable and increasing distortion of wage differentials, on such a basis a policy is unlikely, even within the short term, to restrain upward pressure on prices. If it succeeds in removing money wages from the inflationary spiral, then subject to the consequences of all other upward pressures on prices, real wages will fall cutting into demand and, barring some fortuitous, compensating impetus to productivity or movement in terms of trade, reducing growth. This in turn, unless so severe as to induce economic contraction, is likely to exacerbate the overall inflationary climate. While inflation invariably accompanies growth, it is at the point--which all the more advanced industrialized economies were beginning to reach in the late 1950s--when per capita growth begins to decelerate, intensifying the struggle for income shares, that the upward trend in prices becomes destabilizing. Given the response, not only of workers but of all other groups, to the impact of depressed demand on productivity growth and consequently real incomes, there is a distinct possibility of wage and price inflation continuing during the slow-down at rates similar to those reached at the peak of economic performance (the case in the late 1970s).[86] There is, in other words, the possibility of stagflation. Thus the greater part of

85. Klaus Armingeon, *Neo-Korporatistische Einkommenspolitik*, Frankfurt a.M., Haag and Herschen, 1983.
86. John Cornwall, *The Conditions for Economic Recovery*, New York, M. E. Sharpe, 1979, pp. 129-130, 16-18.

any credible incomes policy is the positive measures intended to stimulate the growth of productivity and raise per capita output--to increase divisible national income. In practice, this necessity to supplement wage norms linking pay to productivity with interventions to accelerate productivity growth leads to more or less elaborate attempts to implicate both unions and employers in concerted efforts to identify and reduce inefficiencies in production, work-place organization and investment.

More simply, from the point of view of the unions, these elements of an "alternative strategy" are the only surety that their renunciation of strike power, and the wage increases subsequently foregone by their members, will translate into renewed investment and employment growth.

However, for Panitch, as for other Marxist commentators, Labour's promise of reflation and structural reform, were merely designed to disguise the real and continued asymmetry of interest and influence implicit in the state's wage policy. While allowing that unions might receive certain compensations, and that some of these may even be "progressive" (with regard, for example, to union recognition, health and safety and other qualitative issues), his assumption is that these were more than compensated for by the co-optation of the union leadership and the emeshing of labor's strike power in a web of statutory legislation and juridified arbitration.[87]

The broader pretensions of incomes policy, in other words, constitute a more or less elaborate deceit that has but one

87. "Trade unions and the capitalist state", pp. 36-37.

purpose: to assist in integrating trade unions with the state executive bureaucracy in the interest of protecting business and capital accumulation at a time of falling profits and increased international competition by restraining wage and other social demands. They are a "vehicle for engineering, legitimating (in the 'national interest') and administering the increase in exploitation necessary to sustain capital."[88]

While Sweden and the Netherlands may be taken as major examples of postwar economic planing being "secondary of at least facilitary to the early establishment of incomes policy as the central focus of economic policy," Britain under Labour, according to Panitch, provided "a prime example of tripartite economic planning structures being developed in the first place with the primary aimed inducing the trade unions to cooperate in the incomes policy."[89] Thus the *Industrial Strategy*, which was to have been the framework for a Labour policy on incomes, as legislated, was toothless. As Jack Jones, the principal union architect of the Social Contract, acknowledged, the Industry Act of 1975 relied "only on the deliberations of sector working parties, on polite talks with industrialists and trade associations" (quoted Panitch 1981, 39). Planning agreements, the central feature of the Strategy, were entirely voluntary, and financial aid was not made contingent on participation.

The problem with this analysis is that, quite evidently, this is not how British industrialists and investors themselves viewed

88. Ibid, p. 39.
89. "The development of corporatism in liberal democracies," pp. 76-77.

the implications of Labour's Industrial Strategy. In its original form, they were faced with an extensive *dirigiste* prescription for what the policy makers identified as cumulative failure of British management and investment. In a case, which according to Stuart Holland, had gone "like a knife through butter" when first presented to the Labour leadership, Tony Benn, taking over at the Department of Trade and Industry, urged planning agreements and a promised expansion of government share-holding as the means of holding industry socially accountable for the "2 million a day" which it received in government funds.[90] This proposal to link government credit and assistance to a company's willingness to compromise its market strategies in favor of urgent "social" priorities, was knocked down only after vociferous business opposition, manifest as early as Labour's 1973 manifesto. Supported by a barrage of criticisms and warnings in the media (directed, in a significant play on rivalries within the Labour leadership, at "Bennery"), the Confederation of British Industry (CBI) threatened to pull out of the NEDC and break-off all working relations with the government if companies were in any way forced into investment commitments. The director-general of the CBI, Campbell Adamson, recalls that members discussed, in addition to "an investment strike" and "not paying various taxes," a "list of

90 Stuart Holland insists that while the Labour right was later to disown the policy, the Industrial Strategy commanded broad support in its early stages. Harold Wilson, together with noted right-wingers Roy Jenkins and Anthony Crosland were among the first to embrace its themes of boardroom accountability for public funds and expanded state holdings. Tom Forester, "Neutralizing the industrial strategy," in Ken Coates ed., *What Went Wrong*, Nottingham, Spokesman, 1979, p. 77.

things which in themselves would not have been legal."[91] Even in the scaled-down version of the 1975 Industry Act, with all the sticks (as opposed to carrots) removed, the discussion of the proposed planning agreements were effectively boycotted by employers.[92] The handful of manufacturers who, in anticipation of greater government assistance, were at least prepared to talk about talks found themselves (after a series of protest defections) out-maneuvered with the leadership of CBI and committed to calling for a return to "free collective bargaining" within the context of a restrictive monetary regime."[93] In the first of a series of comprehensive policy programs published in 1976, the CBI made it clear that "We would prefer a consistent monetary policy appropriate to the fight against inflation, even at the cost of relatively high interest rates," [94] a position that effectively squashed the possibility of a political accommodation with the unions. This was at a time when, as Panitch acknowledges, Jones's

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91 Quoted in P. Whitehead, *Writing on the Wall*, London, 1985, p. 131. One of the more embarrassing episodes which the Thatcher government attempted to suppress in preventing the publication of Peter Wright's memoir was the efforts of a group of businessmen in 1974 (convinced that Labour's return "could spell the end of all the freedoms we know and cherish") to press MI5 for what they hoped would be "a carbon copy of the Zinoviev letter, which had done so much to destroy the first Ramsay MacDonald Government in 1928" (Peter Wright, *Spycatcher*, New York, 1987. 367-370). Although Harold Wilson, the Labour leader, apparently was apprised on the plot, one can only speculate as to its effect on policy. But at the very least the episode (and the quite widespread rumors of other possible extra-parliamentary actions by the Right) was indicative of a sense of crisis infecting business circles to which the announcement of Labour's Strategy undoubtedly contributed.

92. "Scaled down version", *The Guardian*, November 15, 1975, p. 14.

93. Wyn Grant, "Representing capital", in R. King ed., *Capital and Politics*, London, Routledge and Kegan Paul, 1983.

94. CBI, *The Road to Recovery*, London, 1976, p. 22.

contract was effecting a "draconian reduction of real wages," [95] that is, at a time, when it might have been thought that the unions were doing all that could be expected of them to encourage business cooperation.

What was the threat to capital posed by national-level bargaining between the state and unions, and between unions and employer associations? A British businessman was very likely to reply--unhelpfully it might seem--"socialism." In the late 1970s Michael Useem found that the "specter of labor challenge and the 'socialist threat'" was more than a stock item of Conservative Party rhetoric, it "pervaded . . . personal interviews with company executives in London."[96]

Evidently capitalists fail to recognize what Panitch insists is the "capitalist dynamic entailed in the growth of corporatist structures." They are misled by the same tendency he observes on the reformist Left: the "tendency to extrapolate the struggle over the incorporation of working class organizations into the capitalist state [via incomes policy], into a struggle within capitalist forms, if not to transform the state, then to enhance considerably working class power."[97]

The Social Contract was not without its compensations for the unions. Among other things, it gave them the 1975 Employment Protection Act, the 1974 and 1976 Trade Union and Labour Relations Acts, food subsidies, increased public expenditure, and increased

95. "Trade unions and the capitalist state", p. 38.
96. Michael Useem, "Business and politics in the United States and the United Kingdom--origins of the heightened political activity of large corporations during the 1970s and early 1980s", *Theory and Society*, 12:3, 1983, p. 294.
97. Panitch, "Trade unions and the capitalist state", p. 28.

participation by union leaders on quasi-government bodies such as ACAS (the arbitration service), the National Enterprise Board, the Health and Safety Commission and the Manpower Services Commission.[98] One can regard these measures as very limited and, in some cases perhaps, even as token reforms bought at the price (at least for a period) of real wage cuts. Alternatively one can see limitless possibilities for further concessions. If labor gains a say in work-place safety why not a veto power over working conditions? Why not over the pace of work? Why not over the introduction of technology? Or, since jobs depend on it, why not over the location of industry--a veto power over runaway industries? Indeed in Britain the Labour party's promise of "a radical extension of industrial democracy" seemed to embrace all of these possibilities. Among its other recommendations, the Labour government's *Committee of Inquiry on Industrial Democracy* (the Bullock Committee) reported in favor of parity control of larger companies [99] which, notwithstanding the extensive and qualifying small print, raised a storm of protest and dark prophecy ("the end capitalism as we know it") from industry and the press.

Although not taken up by the Labour government, the Bullock Report's recommendations, as Panitch has belatedly recognized, became "the rallying point for the conversion to Thatcherism by British industrialists regardless of its destructive implications

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98. Andrew Cox, "Corporatism as reductionism: the analytic limits of the corporatist thesis", *Government and Opposition*, 1, 1981, pp. 80-81.
99. Department of Trade, *Report of the Committee of Inquiry on Industrial Democracy*, London, HMSO, 1977.

for manufacturing industry."[100] Interviews with CBI leaders suggest to Colin Leys that in the mid-1970s "a majority of manufacturing executives had come to feel that the survival of capitalism was drastically reduced, control of capital would pass out of the owners' hands and profits from manufacturing would progressively disappear. Consequently short-term business interests, and even the long-term interest of individuals or firms had to be sacrificed. Even those who were unconvinced of the Thatcherite project saw no realistic political alternative."[101]

Dissecting the rise of monetarism, Edward Nell argues that "it is important to see what is quite evident to many business leaders"--once it concedes the right of labor (or, indeed, any other interest) to challenge its authority and prerogatives, there follows "an interminable and essentially undecidable dispute over the exact division of powers and responsibilities." There is "no obvious stopping point."[102]

EMU: The Exhaustion of Social Compromise

There were partisans of the AES who clearly understood the limits of social compromise. They never proposed the strategy just as a technical policy for overcoming decline.[103] On the contrary, they sought to deliberately exploit the "contradictions

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100. Leo Panitch, *Working Class Politics in Crisis*, London, Verso, 1986, p. 8.
101. Colin Leys, "The formation of British capital," *New Left Review*, 160, November-December 1985, p. 17.
102. Edward Nell, "Conclusion--cowboy capitalism: the last roundup," in Nell ed., *Free Market Conservatism*, London, George Allen and Unwin, 1984, p. 235.
103. Andrew Gamble, *Britain in Decline*, Boston, Beacon Press, 1982, pp. 195-196.

of the system," in the expectation that the inevitable class polarization would create new bases for working-class and popular support that could carry the government through. But this was hardly the calculation of the Strategy's academic authors, or even of the "Bennite" wing the party leadership, who remained wholly committed to constitutionalism and "the parliamentary road." Rather, inasmuch as reactions of capital were seriously considered, their basis for optimism remained Keynes's simplifying political assumption that the instabilities generated by mass unemployment would persuade "practical men" of the necessity of "a somewhat comprehensive socialization of investment."[104] To this extent, notwithstanding that its policies had been decisively defeated in the 1970s, the Bennite Left could feel a surge of confidence in the early 1980s as Thatcher engineered a "return to the thirties." The miscalculation involved, in part, a misreading of the interests at stake for capital in, as Thatcher would have it, "defeating socialism," but also the tendency of the Left to fall victim to its own inflammatory rhetoric: Thatcher three million unemployed were hardly in a comparable position to their forebearers in the Depression thanks, in considerable measure, to the social achievements of successive Labour governments. Despite polls indicating public concern, and the ghetto riots of the early 1980s, the authorities never had occasion to perceive the jobless as a serious source, or cause, for disorder.

Certainly, as recession eased in the mid-1980s, there was little reason for business leaders to reconsider an Labour's offer

104. John Maynard Keynes, *The General Theory*, New York, Harcourt, Brace and World, 1936, pp. 377-384.

of "social partnership." It was only briefly that such a possibility could be entertained at the European level. In November 1985 Jacques Delors succeeded in re-instituting a "social dialog" between European industry and labor representatives. Business, however, has consistently rejected meaningful EC policy concertation. While the unions favored the development of binding collective agreements and the translation of consensus positions into Community law, the employers insist that the joint agreements be confined to establishing guidelines for enterprise-level negotiation within the context of established national laws and procedures. They have no wish to see the social dialog evolve into a European-level collective bargaining.[105] Set in this context, Labour's embrace of European monetary integration would appear to represent a profound exhaustion of social-democratic policy.

To be sure, Labour continues to qualify its pronouncements on EMU in ways that might still suggest an ambition to alter the direction of monetary integration. As guarantee of "democratic accountability, it proposes subordinating the prospective European Central Bank (ECB) to the Council of Economic and Finance Ministers (ECOFIN). The Council would have "the task of providing strategic guidance to the process of monetary coordination" and its deliberations would be opened to "public scrutiny" [106] But this is not a likely outcome. The Germans will not accept a central bank that is not at least as independent as the Bundesbank, and at the same time they are demanding specific budgetary sanctions to enforce EC monetary and fiscal directives. Suggested sanctions

105. *Social and Labour Bulletin*, 1, 1989, pp. 33-34.
106. "Labour goes for Europe", *Tribune*, December 14, 1990, p.4.

include cutting EC budget payments to an errant government, suspending its EC voting rights, asking the ECB to refuse to buy that government's debt or request commercial banks to write down such debt. The German position apparently enjoys the broad support of Italy, France, Spain, Belgium and the Netherlands.[107]

Clearly, the EMS is not evolving in ways that would provide a future Labour government with much room for maneuver on its traditional commitments. Rather, as Brian Walden suggests, it appears set to offer a Labour party that "wants to avoid having to redeem its pledges" the "perfect excuse."[108] .

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107. "EC ministers tackle discipline for Emu," *Financial Times*, February 25, 1991.
108. Brian Walden *op cit.*