

Britain: Why Blair has delayed again on the euro

Julie Hyland, Chris Marsden
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The Blair government has again postponed a decision on abandoning the pound and adopting the European single currency, the euro.

On June 9, Chancellor Gordon Brown told parliament that the time was not yet ripe to do so. A bill outlining the terms of a referendum on the issue will be drafted later this year, but the actual vote is unlikely to be taken before the next general election.

The government's announcement was extraordinary, given that its election in 1997 was in no small part due to a belief in ruling circles that Labour would provide an alternative to the Conservatives who were deeply split on the question of European integration and prove successful in placing Britain "at the heart of Europe". Dominant sections of big business were supportive of monetary union in order to take advantage of what was shaping up as the largest single market in the world.

Such hopes in Labour's abilities have proved to be misplaced. During six years in office, the government has done nothing substantive to take forward plans for monetary unity. Instead Prime Minister Tony Blair and his chancellor, Gordon Brown, have insisted that the timing of Britain's adopting the euro will be decided on the basis of five economic tests that are outside of the control of government, covering everything from the convergence of interest rates and the housing market, to the impact on jobs and the City of London.

According to Brown, only one of these had been met—the impact of membership on the financial City of London—meaning that no decision could be arrived at yet.

Such efforts to excuse the government's political failure to make a firm commitment to adopt the euro by reference to a set of economic criteria is a fraud.

Even if one were to accept that the criteria decided on by Brown are indeed the most important economic considerations, this begs the question of why the government has not been actively pursuing policies designed to facilitate greater convergence between the British and European economies. There is of course an objective basis for European integration, but it has only gone as far as it has because governments—most notably France and Germany—set out to realise this project through political means. What is absent from all Brown and Blair statements is an explanation as to why no such political will has been evinced by Labour.

It should be noted in this respect that teams of economic analysts had spent months compiling reports on the pros and cons of British membership that eventually ran to 18-volumes and 1,738 pages. Yet the fruits of these Herculean labours were distributed amongst MPs just two hours before Brown addressed parliament—hardly indicating that MPs were taking their stand on the five criteria. The government's chief concern appears to have been to prevent any detailed discussion on the issue, lest it expose the political fault-lines within its own ranks.

The five economic tests are concerned solely with the possible impact of sterling's entry to the eurozone. Nowhere do they acknowledge the costs of not adopting the euro, although these are mounting.

As part of the effort to position Britain as a cheap labour platform for

transnational corporations seeking access to Europe's markets, successive governments have been forced to keep open the possibility of sterling's eventual membership in the single currency. As a result, Britain became the favoured overseas investment platform for US and Japanese firms seeking access to Europe coupled with a low-paid but educated workforce. This advantage is rapidly being eaten away by the combination of an overvalued pound and the challenge posed by the imminent inclusion of many former Eastern European states into the European Union that offer new and even more lucrative areas of exploitation.

Niall Fitzgerald, chairman of Unilever, complained that many businesses "may already be wondering whether they have been misled. Potential new investors may even now be switching their attention to the eurozone or European Union accession countries.

"The fact is that every day outside the eurozone means lost jobs, lost investment and lost influence. And British business, which does most of its overseas trade in the eurozone and faces the everyday reality of currency risk in its main markets, is losing patience".

Many firms are doing far more than wondering. Recent figures from the European Commission show that though the UK remains the leading country for overseas investment its share of foreign investment from outside Europe fell from 48 percent of the total in 1998, before the euro was launched, to 25 percent in 2001. Firms such as Matsushita, for example, have shed jobs in the UK and relocated them to the Czech Republic. Roger Putnam, chairman of Ford UK, warned, "Any unnecessary delay in adopting the euro is detrimental to UK manufacturing and the many companies that need a stable and competitive landscape."

The government attempted to deflect such concerns with an upbeat presentation of the chancellor's assessment. It was not simply more of the same, they argued, but a shift in gear. The government, it boasted, was now "preparing to decide" and would be launching the "patriotic" case for membership. Blair and Brown fronted a series of joint press conferences designed to underline their unity on the issue, and Brown appeared before a pro-euro lobby group for the first time.

But their charm offensive was undermined by the fact that their preparation still includes no timetable for entry or target dates for any of the key stages, such as an eventual referendum on the issue. The *Financial Times* could not conceal its disappointment, commenting on the chancellor's statement that "Just over six years after coming to power, New Labour has flunked its biggest test."

What accounts for the government's continued delay?

In part it reflects fears of a repetition of September 1992, so-called "black Wednesday", when the pound collapsed spectacularly out of the European Exchange Rate Mechanism, the euro's precursor, but only after depleting the Bank of England's reserves and effectively serving notice on the Conservative government of the time.

Brown has insisted that this time round such a catastrophic devaluation would not occur due to careful economic management on his part and the

greater “flexibility” of British workers his government had achieved—a reference to diminution of workers rights and lower wage rates in comparison with many western European countries.

He even claimed that the issue is not so much when Britain is ready to join Europe, but when Europe will be is ready for Britain! Whilst congratulating the current efforts of several European government’s to press ahead with “structural economic reforms”—the dismantling of pension rights in France, for example, that has prompted a mass strike movement—he urged that they must go still further if the eurozone is finally to be deemed a fit home for the UK.

Secondly, the government will have made the naked political calculation that it cannot win a referendum at this time, given that it has done nothing to challenge the anti-European chauvinism so insidiously cultivated by the tabloid press, with the assistance of the Tories and substantial sections of what passes for the left of the Labour Party and the trade unions. And to do so would pit Blair against those whom he politically relies on to create the illusion of popular support for his government, above all that most dedicated europhobe Rupert Murdoch—publisher of the *Sun* and the *News of the World*—whose backing for Labour in 1997 was deemed crucial to ensure Blair’s election.

Thirdly, the government knows that this anti-European lineup expresses continued political divisions within ruling circles over the advisability of sterling’s membership in the eurozone.

British manufacturing trade is primarily in Europe, but Britain is also the second largest overseas investor in the world after the US and the biggest investor in the domestic US market. For those whose primary economic concerns and markets are non-European, euro membership has long been regarded either with indifference or outright hostility.

It is in these political divisions within the ruling class that the primary difficulties of the Blair government are to be found. The sum total of Blair’s political wisdom on the euro seems to have been the calculation that the passage of time would eventually create a more favourable situation for adopting the euro, in which its merits would appear incontestable and its opponents on the Tory right would be marginalised.

However, the opposite development has occurred. Not only have the divisions within the bourgeoisie deepened and become more antagonistic, but also the anti-European right has felt strengthened and able to place Blair ever further on a back foot.

The source of this development is to be found in the escalating conflict between the United States and Europe in the aftermath of the war against Iraq.

The debate on whether or not to adopt the euro takes place under conditions in which the US is pursuing a virtual war of attrition against its European competitors. Encouraged by the Bush administration, the dollar had fallen some 40 percent since its high point against the euro in October 2000, as it seeks to price out European exports in a strategy reminiscent of the “beggar they neighbour” policies of the 1930s.

For years the government has insisted that it is possible to reconcile support for euro membership with Britain’s role as the main ally of the US—with some justification. Not only was the US supportive of the project of European integration, but it viewed Britain’s participation favourably—considering it as a valuable ally on the inside and a counterweight to the Franco-German axis in Europe.

In recent times, however, conflict between the US and Europe has developed on all fronts—from trade, to currency following the launch of the euro, and finally in the openly political sphere in the runup to the Iraq war.

The coming to power of the Bush administration has proved to be the beginning of a sea change in relations between Europe and America. An aggressive and unilateralist faction of the American bourgeoisie, of an essentially criminal character, now determines foreign policy. Its aim is to establish America’s undisputed world hegemony and control of its major

resources and markets. Its essential weapon is the military advantage America enjoys over its European and Japanese rivals.

But this military offensive by itself is not enough. Despite its inferiority in terms of armaments and military manpower, should Europe prove able to act collectively it would represent a major economic rival to the US. Therefore, especially following the refusal of France, Germany and Russia to unreservedly back Washington’s war against Iraq, the Bush administration has concluded that it must now work deliberately to destabilise Europe and sabotage the project of European integration.

This has created a major crisis for Blair, who advocated that Britain act as a “bridge” across the Atlantic—guarding against a growth of anti-American sentiment in Europe while restraining the more dangerous unilateralist tendencies within America.

Blair still believes this to be the case. Writing in the *Financial Times* of June 8, Blair’s right hand man and former government minister Peter Mandelson explained why this balancing act was even more important in the wake of the attack on Baghdad.

By remaining outside the eurozone, Britain would see a “further diminution” of its influence within in Europe, he wrote. This would be critical as to the long term development of relations between the EU and America, he continued, as it would mean Britain being unable to effectively present its case that the continent should develop as a “partner, not a rival, of the US”, and would hamper efforts to ensure the Europe’s military pretensions remained firmly within the context of NATO.

His claims reveal just how far removed from the existing reality of international relations the government is. As far as Washington is concerned the choice is not one of reconciliation but of taking sides. One can cite a whole number of instances in which leading personnel within the Bush administration have made clear America’s intention to punish those European countries who defy it and build alliances within Europe against them. The most famous statement was made by Defence Secretary Donald Rumsfeld who proclaimed a division between “old” and “new” Europe, by which he meant France and Germany on one side and pro-American regimes such as Britain, Spain, Portugal and east European states on the other.

The US functions as a European power, but one that is now actively hostile to European integration. And no matter what spin Blair puts on these developments he cannot wish away the inter-imperialist antagonisms this generates.

Though not yet official policy, sections of the Bush administration have spelt out that they are opposed to British entry into the euro and would regard it as tantamount to betrayal. Writing for *BBC online*, Steven Schifferes explained, “Almost everything in Washington these days is viewed through the prism of the Iraq war.

“For those neo-conservatives who were the strongest supporters of the war, and Tony Blair, there is little doubt that the UK should stay out of yet another project that tries to create a super-national state”.

For these people, he continued, the euro issue is seen as part of the dispute “between the US and ‘old Europe.’”

Similarly, Kevin Hassett, chief economist at the American Enterprise Institute, warned against British entry on the grounds that, “in broader terms, integrating their currencies might tie the UK too closely to the Franco-German project of creating an alternative power center to the United States, making it more difficult for Britain to play its traditional role of a bridge between Europe and America.”

Within Britain the Bush administration’s open hostility against the EU has emboldened the euro-sceptics to step up their campaign in the most virulent, chauvinistic terms. Led by Murdoch’s New International group, the right-wing press has equated any effort to integrate sterling into the euro as on a par with the UK surrendering to Nazi Germany during the Second World War. Had Britain seen off both Napoleon and Hitler only for Blair to acquiesce before France and Germany today, the *Sun* asked?

Whilst much of this nationalist diatribe is couched in terms of “sovereignty” and opposition to “unelected bureaucrats”, its real agenda is to break all connections with Europe in favour of an exclusive alliance with the US.

The Bush administration’s offensive has made all talk of bridge building superfluous, they argue. The UK’s real service to its more powerful transatlantic partner is not futile efforts to influence the EU in the “right” direction, but of actively seeking to dismantle it.

These events are witness not only to Blair’s failure to take Britain into Europe, but more significantly to the collapse of the project for European integration due to the growing conflict with America.

The price for this transatlantic competition will be taken out off the backs of the working class. Whatever form the EU eventually takes, it will seek to challenge its American rival by importing the latter’s economic and social policies on to the continent. It is no accident that during the debate in Britain the thrust of Blair and Brown’s statements was the insistence that Europe must destroy existing wage levels and benefits—policies now being actively pursued on the continent without waiting for Blair’s approval.

This offensive against the working class can not be opposed on the basis of political support for a retreat into national exclusivism, which is the myth held out by the Tory right to bamboozle the British population. Any government that refuses to implement these policies, whether in or out of the euro, would be punished by the world’s financial markets. And whatever differences they have on the euro, the Blair government and its critics are at one on the need to destroy the living standards of working people.

British workers must reject support for both the advocates of a capitalist Europe and the alliance of little Englander nationalists and pro-American warmongers. But they can not limit themselves to this. They must make the project of European integration their own, as part of sustained efforts to establish unity with workers across Europe in a struggle against imperialist militarism and the destruction of their hard won social gains.

The alternative to a capitalist Europe is one run in the interests of the working class. The integration of the continent, including creating a single currency, is objectively progressive. Economically it allows for the rational development of production in the most efficient manner. Socially and culturally it helps to remove artificial barriers between peoples who have too often been plunged into war. And in the present historical situation, it offers the chance to establish a political alternative to the aggressive militarism and economic vandalism of the US.

A unified Europe would have the economic and military might to challenge Washington and would provide a pole of attraction to all those around the world, including those within the US, seeking to prevent further crimes such as that against Iraq.

For the Bush administration to succeed in its efforts to divide Europe, therefore, would be disastrous for the whole of mankind. To prevent this the project of European unification must be taken out of the hands of Europe’s ruling elite’s, who have demonstrated their inability to oppose Washington and their total hostility to the interests of the working class.



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