UK prime minister warns of euro zone break-up

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UK Prime Minister David Cameron used a speech to business leaders in Manchester to set out his government's prescription for the euro zone on the eve of the G8 summit. Warning that the euro was at a "crossroads," he said the euro zone would either have to "make up" or "break up."

Greece is "on the brink, the survival of the euro in question," Cameron said in his bluntest remarks to date. Either Europe establishes an "effective firewall, well capitalised and regulated banks, a system of fiscal burden-sharing, and supportive monetary policy across the euro zone, or we are in uncharted territory which carries huge risks for everybody," he said.

Earlier, Chancellor George Osborne said the government was "making the necessary contingency plans" in the event of a Greek exit from the euro zone. Their remarks were, in part, aimed at pressuring Germany to "share the burden" of the euro zone crisis by adopting a reflationary strategy.

The remorseless logic of a single currency, Cameron lectured, was that when "one part of the country struggles, other parts step forward to help."

Some have pointed to the irony of the fact that the Conservative Party leader, who heads a country outside the euro zone and a profoundly "euro-sceptic" party, is now a prime advocate of fiscal and political union for the euro zone. The apparent anomaly is explained by the fact that his remarks are not motivated by any concern for the economic catastrophe being visited on the people of Greece and southern Europe, but by the desire to protect the interests of the City of London.

The UK has seen £190 billion pounds wiped off share values in the past two months. Earlier in the week, Mervyn King, governor of the Bank of England, said Europe was "tearing itself apart" and thereby posing the single biggest risk to the UK economy.

"We are navigating through turbulent waters, with the risk of a storm heading our way from the continent," he said. The UK is already officially in a double-dip recession, and the Bank of England has further slashed its growth forecasts for this year.

The central bank as well as the government has admitted that it is drawing up contingency plans for a Greek exit from the euro.

The *Guardian* reported that in the event of exit, Greece "would need to close down its borders and its banks to stop funds flooding out of the country." The newspaper continued: "The hope is that a departure from the euro zone would happen over a weekend, allowing each of the UK's major banks to deploy hundreds of people to switch over computer systems to allow them to handle the Greek drachma again."

Currency brokers are reportedly already installing new panels on their electronic screens so as to facilitate trade in the drachma.

Separately, it was confirmed that Britain's National Security Council has discussed the potential consequences of a break-up of the euro, including civil strife across the continent.

Cameron provoked criticism for choosing to make such a public pronouncement on the euro zone's possible fate ahead of the G8 summit, as well as for his claim that, regardless of what happened in Europe, "I am prepared to do whatever is necessary to protect this country and secure our economy and financial system."

This assertion is hollow. But, once again, it is motivated by domestic considerations—namely, a defence of the government's own austerity measures.

The task for the highly indebted countries in the euro zone is to "cut their spending, increase their revenues and undergo structural reform to become competitive," Cameron said. The British government's £83 billion in

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spending cuts so far were proof that "it can be done," he continued.

Rejecting the "dangerous voices" calling for some form of stimulus programme, he said, "deficit reduction and growth are not alternatives," and claims otherwise were "a cop-out." In the UK, a "responsible fiscal policy" was being combined with measures to boost competitiveness, including lowering corporation taxes, establishing enterprise zones, and the "reform" of welfare and labour market protections.

His statement was seen by some as an implicit rebuke to France's new president, François Hollande, who has called for a "growth pact" for Europe, as well as similar calls by the Labour Party in Britain. But Cameron has backed Hollande's call for Germany to agree additional funds to shore up Europe's banks. And there is little of substance to differentiate the UK prime minister's policy from that of Labour.

Former Labour Chancellor Alistair Darling recently compared the fiscal pact now being imposed in Europe to the Treaty of Versailles enacted against Germany at the end of the First World War. This had the danger of locking countries "into a downward spiral" he said.

Darling similarly identified as a key problem the fact that too many European banks were "not cleared out in the way we and the Americans did in 2008"—a reference to the trillions in tax-payer funds used to bail out the banks in the US and the UK.

An op-ed piece in the *Guardian* co-authored by Labour's Ed Balls and Peter Mandelson last week was trailed as the party's alternative economic policy. In it, however, they echoed Cameron's insistence that the risk was that "Europe gets locked into a false choice between growth and deficit reduction."

The "right combination of both" was required: "Tough medium-term action… get public finances back into shape," along with a strategy to increase "the continent's productivity and skills base."

Like Cameron, the pair supported strengthening the European firewall so as to provide "sovereign liquidity" and recapitalise "the European banking system."

They called for "serious" capital to be injected into the European Investment Bank to provide infrastructure investment. The success of this would, in turn, depend on "structural reforms" to make countries more competitive.

An indication of what this looks like in practice was provided by the announcement that auto manufacturer General Motors (GM) is to invest £125 million at the Vauxhall plant in Ellesmere Port, Cheshire. Cameron had cited the decision as proof that the government's policy was working.

GM is to split production of the new Astra between the Ellesmere Port site and its plant in Poland. Its Opel factory in Bochum, Germany, however, is to close, with the loss of more than 3,000 jobs.

The decision was also praised by Labour as a great success story for the UK economy, although the party highlighted the key role played by Britain's trade unions in facilitating the agreement.

Ellesmere Port already had the second lowest unit production costs in Europe. The new pay and conditions agreement involves a four-year wage deal that includes a two-year freeze from 2013 and what is described as "unprecedented" levels of flexibility.

Traditional closures in summer are to be scrapped, enabling production 51 weeks a year, around the clock. The two-shift system is to move to three, with the agreement that a minimum of 160,000 vehicles will be produced annually, 20,000 more than previously.

According to the *Daily Mail*, "Currently, German workers at Bochum produce just 30 cars an hour over three shifts. By contrast, Ellesmere Port workers produce 47 cars an hour on just two shifts—and will boost that even more when they move to round the clock working of three shifts."

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