Solidarity Federation
EMU Steps Out
Summer 1998

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dermining any attempt by European organised labour to fight off deregulation. In short, a disgraceful act of betrayal.

emu-wars?

However, the implications of European economics go much further than the effects on Europe. The creation of three super-state trading blocks, based on the US, German and Japanese economies, are beginning to struggle with each other for economic supremacy. If past experience is anything to go by, this economic struggle will, at some point, turn into a struggle of the more physical kind; a terrifying prospect. Indeed, a prospect that takes the issue of emu well beyond the petty squabble about British sovereignty, which is all our party politicians seem to have managed to produce on our TV screens. This emu is a big one. It is no white elephant, and it is of concern to us all. Watch the growing pains carefully.

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After the war, the threat of Soviet power led countries to accept US dominance, as they relied on the support of its massive military arsenal. It is very doubtful that emu would be going ahead if the Soviet army remained camped on Germany's doorstep. Now the Soviet threat has gone, we are seeing a return to the normal state of play under capitalism of competing economies vying for economic dominance.

emu — not the people's friend

Europe's bid for world leader status will have severe repercussions for Europe's working class, already paying the price of emu in the form of a fresh wave of mass unemployment.

Uneven economic development will remain, ensuring the continued existence of national economies within the broader Euro currency zone. However, in the past, weaker European economies could maintain competitiveness through devaluation of their currencies, whereas in future this will not be possible. Instead, weaker economies will have to resort to trying to extract more value from workers by making them work harder for less.

This will not be possible if Europe's labour markets remain restricted through regulation. As emu proceeds, the pressure to deregulate Europe's labour market will grow, leading to falling wages and ever-increasing cuts to welfare spending.

trade union wrongs

This perspective sheds some light on the British trade unions' backing of emu. It highlights the fact that they have accepted as irreversible the deregulation of the British labour market. It also shows that they are hoping to gain from the competitive advantage the unregulated British economy would gain, in the short term, over a regulated Europe. In so doing, they are ungument is that to do so would mean accepting that capitalism is itself fatally flawed. For, as we have seen, under capitalism, a fixed exchange system is the only one that offers the desired stability; but competition ensures that, at some point, a challenger will emerge, throwing the currency markets into chaos.

beyond "free" markets

There are two ways to bring this process to an end and ensure long term economic stability. Either establish a worldwide economy, based on a single global currency, or bring capitalism to an end and replace it with a system based on co-operation. Needless to say, neither will ever be accepted by social democratic commentators, which is why the world still awaits a social democratic solution to the current currency chaos.

the real emu-agenda

Returning to emu, we can now see it as the start of a bid by Europe, led by Germany, to become the world's dominant economic and political power and make the Euro the world's trading currency. It has been apparent for sometime that the German economy is too small to begin to challenge US dominance, and that, to be successful, it would have to broaden its economic base. This is what is now occurring through emu and this is why Germany is willing to risk its post war stability to ensure emu succeeds.

That there should be a challenge to US dominance at this time is no coincidence. German unification alarmed the rest of Europe, fearful that an already dominant Germany would become even more dominant. France, in particular, has pushed for emu as a way of exercising broader European control of German political and economic decision making. An even more important factor is the collapse of the Soviet Empire.

Emu is all set for take-off. Will it spread its wings and fly, or crash-land predictably? More importantly, what dark secrets lurk behind emu's innocent façade?

Despite widespread scepticism that the project was doomed to fail, it is now certain that the European single currency, the Euro, will be launched next January.

The fact that European monetary union (emu) has got this far, is itself a tribute to the combined political will of European leaders.

The politicians' road to emu has been a tortuous one. The struggle to meet the arbitrary conversion criteria has caused mass unemployment. At the same time, the whole convergence process descended to the level of farce, most notably when the German government attempted to re-value its gold reserve, only for the move to be blocked by the Bundesbank. At the final hour, most countries only met the conversion criteria by resorting to a large dollop of highly imaginative creative accounting.

Undeterred, the leaders of 11 European countries have driven the whole project forward, often against the wishes of their own electorate. However, when politicians go to such lengths and are prepared to take such risks with their own careers and reputations, a healthy dose of scepticism is called for. We have to question just what they are up to — just why are European leaders prepared to push so hard?

Unfortunately, we cannot hope to find the answer in what passes for the debate in Britain. The debate here has been dominated by crude nationalism. Emu has been portrayed as little more than an attempt by "Johnny foreigner" to rob Britain of her sovereignty. This nasty racist approach has been encouraged by a Labour Party fearful of losing support by appearing unpatriotic.

It is no surprise that the level of debate in Britain has been so moronic. Behind the 'free market' thinking, which sadly now underpins all the mainstream parties' policies, all are deeply divided on the issue of emu. Being undecided, they are unable to take part in any real debate. The result has been a descent into little more than a squabble among academics and various factions among Britain's elites — a squabble often motivated more by petty self-interest rather than logic. Thus, we have seen senior mandarins within the Foreign office, fearful of becoming isolated from Europe, pushing for Britain to join, while the bank of England, fearful of being reduced to merely a branch of the new European central bank, have been campaigning against entry.

The failure of free market ideas to give a clear lead is an important point. In principle, free market orthodoxy favours the setting up of broad currency zones such as that intended under the Euro. This not only reduces the cost of exchanging money, it also tends to lead to lower interest and inflation rates. The issue that has divided the free market camp, is not whether there are gains to be had from emu (there is broad agreement that there are), but the key point of difference is whether emu is feasible within the European union.

Free market orthodoxy argues that, for a currency zone to work, there have to be a number of social and economic conditions present. For example, there should be no cultural, linguistic or legal barriers to hinder labour mobility across frontiers. On this, and almost all the other conditions, the EU fails to qualify as a candidate for a new currency zone.

This has led to a war of words breaking out amongst economists within the academic world over the viability of emu. Amidst all this petty squabbling, the real issue of what is on offer from emu has been largely lost. This is a pity, because on closer inspection of what free market orthodoxy claims can be gained from emu, it quickly becomes clear that it is risky, the sums do not add up, and emu should not go ahead.

With the market forces back in operation, it is then only a question of European and US governments bringing in regulation for currency order to be restored. This reflects Hutton's social market view that, although the free market system is flawed, it remains the only option for economic organisation, and that it can be made to function through state regulation.

Hutton's belief that restoring market forces will lead to currency stability is wishful thinking. The reality is the exact opposite. Capitalist economic stability can only be maintained when market forces are excluded from the process of currency exchange by a fixed rate system. Here, currencies remain stable for long periods of time, allowing less room for speculative activity. For 18 years, between 1949–67, the value of the pound against the dollar remained unchanged.

However, for a fixed exchange system to function it has to be underpinned by a single dominant economy, ensuring the presence of a dominant currency, against which all other currencies are fixed — as during much of the post-war period. But under capitalism, economic supremacy is not indefinite — at some point a competitor will emerge to challenge the dominant economy, leading to the breakdown of the fixed exchange system, and an increase in speculative activity as currency speculators make money, by "betting" on currencies losing their value. The example here is the late 1960's onwards, as the German and Japanese economies increasingly came to challenge US economic dominance.

Currency speculation is only a symptom of the real cause of instability; the market-led flexible exchange rate system. When a flexible exchange rate system is in operation, speculative activity cannot be regulated. The power of currency speculators is too great. Order will only be restored when a dominant economy once again emerges and a fixed exchange rate system can once again operate.

The reason why social democratic commentators, whether free market or otherwise, have difficulty in accepting this arand the long battle for economic supremacy with Britain and Germany won. By 1950, the US economy accounts for 47.8% of total world production. Everyone wants dollars, both to purchase better quality and cheaper US goods, and as a safe haven for their currency reserves. The dollar becomes the world's trading currency, as enshrined in the Bretton Woods agreement (the dollar was given a fixed gold value, with the world's currencies in turn being fixed to the dollar). A system of fixed exchange rates is established.

However, as modern technology rebuilds the war-torn German and Japanese economies, the US economic and technological dominance begins to falter, leaving it with a major dilemma. In order to compete, US goods must be made cheaper by devaluing the dollar, but devaluation risks the dollar's world currency status. A compromise is sought. The dollar is to be gradually devalued, in an attempt to retain market confidence, ensuring retention of world dollar-dominance. But slow devaluation, by its very nature, implied the ending of the fixed exchange system.

Finally, in 1971, the dollar's link to gold is suspended, in effect floating the dollar on the world's currency markets, and bringing a flexible, market based exchange rate system.

free market stability and other myths

It is here that we part company with Hutton and with social democracy in general. Hutton's argument is that the US attempt to engineer a "soft landing" for the dollar, through gradual devaluation, succeeded. This apparently threw the currency market out of equilibrium, resulting in too many dollars being in circulation, giving the US an unfair advantage. He argues that the introduction of the Euro will restore competition, bringing market forces back into play, and so breaking the dollar's near-monopoly position.

healthy wealthy emu?

According to market theory, the main prize to be had from emu is low inflation and interest rates. However, viewing these supposed gains from the perspective of the prime instigator of emu, Germany, it immediately becomes clear that there is no logic in its favour. Germany has enjoyed both low inflation and low interest rates for many years.

Far from gaining economic stability, entering emu with unstable economies, such as Spain and Italy, is in fact putting Germany's cherished post war prosperity at risk. For what reason? To reap the saving gained from doing away with the cost of exchanging money? The European Commission estimates these savings will amount to no more than 0.5% of Gross Domestic Product (GDP). Is it really feasible that Germany's leaders are abandoning their precious mark to gain 0.5% of GDP? Let's be serious. The truth is that the answer as to why Germany is pushing ahead with emu cannot be found within the narrow confines of free market economics.

So, we need to look beyond Britain's free market preoccupations for a moment, and examine the issue with a somewhat broader economic and political outlook. However, this does present a problem. Free market ideas now exercise such a stranglehold on Britain's political life, it has become hard to discern even a squeak of an alternative view. One of the few examples of such commentators is William Hutton, editor of "The Observer", who has been mounting a rear guard action against free market orthodoxy. Through his paper, Hutton has not only railed against Britain's jingoistic approach to the single currency debate, he has also presented a much more plausible argument as to why the Euro is going ahead from a social market perspective.

Hutton's thesis is that emu is being introduced in order to establish a European super-state, powerful enough to challenge the political and economic power of the USA. He argues that a challenge to the US's "world leader" status is needed because the political power currently wielded by the US no longer bears any relation to its economic strength. Furthermore, the US uses this disproportionate political power to make up for its economic failings — to the cost of European and world stability.

emu-boxing the $

Thus, US political power is maintained by the status of the dollar as the world's trading currency. The US uses the dollar strength both as a lever to exercise political power over dollar-dependent nations and to insulate its economy from the rigours of the free market. This enables the US to devalue the dollar at will, making US goods cheap, free from the fear of speculative attack and the need to raise interest rates. In effect, the US is using cheap money to export unemployment to Europe, while ignoring its structural trade deficit by simply printing dollars to pay for expensive imports.

Hutton goes on to argue that these two advantages are the reason the US blocks any moves to introduce regulation of the world's volatile currency markets. Regulation would mean pegging the value of the dollar, making US exports expensive, which would mean the spectre of US recession. Equally, regulation would restrict the ability of US financiers to move capital around the world, thus threatening their dominance of the financial markets.

Following this logic, the introduction of the Euro will provide a competitor to the dollar, bringing to an end the many advantages the US gains by the dollars near-monopoly position as the world's trading currency. Countries who are currently forced to accept US "leadership" through their dollar-dependency, would be able to switch their foreign currency reserves away from dollars into Euro's, as well as starting to

trade in Euro's. This would lead to dollars being exchanged for the Euro, imposing market discipline on the US economy and opening it up to speculative attack. The result? Regulation of the currency market suddenly becomes in the US interest, which then ends the economic instability caused by speculation.

Euro-dominance

Thus, in Hutton's view there is much to be gained from emu. The Euro will reduce US political power to a level into line with its declining economic power, bringing stability to the world currency markets in the process. Conversely, European political power will increase proportionately with its growing economic power, enabling Europe to pursue its own independent global strategy, leading to the opening up of the world's markets to European exports. In short, emu will turn Europe into a new economic and political superpower capable of competing with the US.

Heady stuff indeed. If Hutton is right, not only will emu restore worldwide economic stability, it will ensure an economic boom that will allow Europe to maintain its social market base, which is now under threat as a result of the long European recession. From this viewpoint, it is easy to understand why Germany is willing to sacrifice its mark to ensure a wider European currency zone is established. However, a look at Hutton's ideas from a revolutionary perspective exposes flaws in his thinking, and also offers us some more real reasons for emu going ahead.

emu-roots

Short history lesson — are you reading attentively? The US emerges from the Second World War with its economy intact